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US moves WTO accusing India of giving fresh export subsidies to textile industry

Amiti Sen, Economic Times

30 October 2012, New Delhi: The US has accused India of wrongfully giving fresh export subsidies to its textile industry instead of phasing them out as mandated by the World Trade Organisation. It has also complained to the multilateral body about the country ignoring its requests for bilateral discussions on the issue. Turkey, too, has expressed its unhappiness at the alleged rise in textile exports from India and its industry being pitted against subsidised Indian products. New Delhi, however, has rejected the allegations.

"India has not flouted any norms in textiles and is yet to have clarity on its obligations to phase out subsidies," a government official told ET. "However, it has no problems with bilateral discussions with any country and has made this clear at a recent meeting of the WTO committee on subsidies and countervailing measures in Geneva."

The subsidies and countervailing measures agreement of the WTO allows countries with per capita income below $1,000 (about 50,000) to give export subsidies until exports are lower than 3.25% of world trade in that particular commodity. India's share in the global market for textiles crossed the limit in 2007 and is almost 4% now. Since countries are given eight years to remove the subsidies, India has time until 2015 to do so.

The US is concerned about the additional sops that have been given to the textile sector recently as part of the government's efforts to help exporters fight the global slowdown. This includes incentives for exporting textiles under the focus product and focus market schemes where cash subsidies of 2%-3% of the export value is given for exports to particular destinations and for exporting identified products.

A special market-linked focus products scheme for the readymade garments sector for exporting to the EU and the US announced last year has also been extended till the end of the current fiscal. "Our textile exports, especially to the EU, have been hit hard due to the ongoing slowdown. We understand that we have to dismantle our export subsidies for the textile sector by 2015, but till that time we cannot ignore it as it employs million of workers," the official said.

The Indian textile industry is certainly not ready for withdrawal of support.

"The weak recovery in the EU and the US has reduced the purchasing power of the people in these markets leading to the shortfall in the overall demand. Moreover, exports were also getting hit due to inflation and high cost of fuel," said A Sakthivel, chairman of Apparel Export Promotion Council. Sakthivel added that the government needs to act to reduce the industry's vulnerability to external shocks. Exports of garments, the country's eighth largest exported item, fell 19.46% year-on-year to $3.41 billion in the first five months of the fiscal. Exports of cotton yarn, fabrics and made-ups declined 3% to $ 2.8 billion over the same period.

The export target for textile products, however, is at $40.50 billion for 2012-13, which is about 22% higher than the previous year.

Commerce department officials said India has to first reach a common understanding on issues related to its obligations under the WTO agreement. "We are open to discussions with WTO officials and interested members. But we do not want to be forced into taking hurried action," the official said.

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Interest subsidy to slash cost of garments industry

Sharleen D`Souza, Business Standard

Mumbai, 28 December 2012: The decision to extend two per cent interest subsidy to some labour-intensive industries, including textiles, garments and handicrafts, till March 2014 has brought cheer to the garments industry. It would help garment manufacturers reduce working capital expenditure and, consequently, production costs. India is losing ground in exporting apparel to high-margin Western destinations to new competitors such as Indonesia, Bangladesh, Vietnam, Turkey and Mexico, as the cost of manufacturing in India is very high.

“The decision to extend the two per cent interest subvention scheme for specific sectors up to March 31, 2014 is timely and would help boost exports. It would surely give a thrust to the apparel and textiles sector, reeling under the sluggishness in the US and European markets. The impacted markets, especially in Europe and America’, and the resultant weak demand have adversely impacted our exports,” said A Sakthivel, chairman of the Apparel Export Promotion Council. With the extension of interest subsidy, garment exporters would now be able to reduce prices of garments and compete with major exporting nations. Rahul Mehta, president of the Clothing Manufacturers Association of India, said the government’s move was a positive one.

While apparel exports fell 7.2 per cent to $989 million in August, for the April-August period, these plunged 12.16 per cent to $5.26 billion. The decline was, however, in line with the fall in overall exports, which fell 6.79 per cent to $143.6 billion in the April-September period. Apparel exports account for about half of India’s textile exports.

Sanjay Lalbhai, chairman and managing director of Arvind Ltd, a textile major, said, “We have a unit that produces garments. The interest subsidy would definitely help us. Also, since all our borrowings are in rupees, this would help us.” However, Mitesh Shah, vice-president of the company, said, “The interest subsidy would benefit only on the books; it wouldn’t help boost garment exports in any way.”

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Punke Signals Hurdles For WTO Package, Slams Food Security Proposal

Inside U.S. Trade, Vol. 31, No. 10

8 March 2013: Deputy U.S. Trade Representative Michael Punke yesterday (March 7) left little doubt that pulling together even a small package of trade concessions for the next World Trade Organization ministerial will be difficult, partly because negotiations on trade facilitation face many hurdles and partly because developing countries like India and China are advancing a controversial proposal on food security that, in the U.S. view, could undermine existing subsidy rules.

On trade facilitation, Punke said the increased engagement between negotiators in recent months "is resulting in more clarity, but it is also revealing more gaps than it is bridges." Some of the differences that are emerging are over "very frustrating issues that ought to be very easy," he said. For instance, he noted that he spent hours in a meeting last week over "whether countries should post copies of their existing customs forms on their existing web pages."

In response to a question, Punke said that despite these challenges, it is not time to break off that issue and try to conclude a deal with only a select group of WTO members, as the United States has done for services. "I think that is jumping ahead a very significant number of steps, and I still retain a significant amount of hope that we can achieve a trade facilitation agreement multilaterally," he said.

On food security, Punke blasted the proposal advanced by India and supported by China and other developing countries, arguing that it would weaken agricultural subsidy rules.

The Indian proposal would create a "brand-new loophole that would allow developing countries to subsidize agriculture to an unlimited degree if they say that the purpose of that subsidization is to create a stockpile in order to promote some broad goals, like poverty alleviation and rural development," he said at an event organized by the Washington International Trade Association.

The Indian proposal "potentially would create a massive new subsidization of global agricultural markets, and the notion that that would be a good idea at all is highly suspect," he added. The proposal would allow governments to stockpile food purchases from poor farmers at above market prices, and would then classify these purchases as "green box," minimally trade-distorting subsidies, which face no limits under WTO rules.

India has insisted that a version of this proposal be included in a final package, but the U.S. and European Union have essentially rejected that idea, Geneva sources say (Inside U.S. Trade, March 1).

Punke said that the U.S. has been "very open" to talking with India about how it may address its food security needs. At the same time, it has also been "very honest in saying that the version of the solution that they have put on the table is very unlikely to be something that gains consensus in Geneva," he said.

The deputy USTR made clear that it is especially difficult to find a mutually agreeable accommodation on this issue if India, China and other members supporting it do not provide more information and guidance.

"The difficulty with the India proposal right now ... is we do not yet even have a clear articulation from the Indians of what the problem is that they are trying to solve," he said. Members of the so-called G-33 group that supports the proposal have not adequately clarified "how they are using existing WTO rules in this area, and why those existing rules are not sufficient to address the problem," he said. Greater transparency is necessary to have a meaningful conversation, he said.

"Unfortunately, the situation right now ... is that we still don't even have some very basic information that we've asked for to inform the conversation at that very basic level," he said. "So we remain open to problem solving, but it is going to take a lot of work on the part of the Indians and the Chinese and other members of the G-33 that put this proposal forward to do something that they haven't always been very good at, and that is to provide information."

More fundamentally, however, Punke argued that there is simply not enough time to work out this difficult issue in time for the December ministerial, which will take place in Bali, Indonesia. "[T]he notion that we would be capable of grappling with an issue that big, that goes in such a central way to the core of balances in the world today on agricultural issues, by Bali, which is only a few months away, to us is highly unlikely," Punke emphasized.

Trade facilitation is widely viewed in Geneva as the centerpiece for any Bali package and Punke described it as the "big ticket item" that has the greatest chance of being finalized by that summit.

At the same time, Punke acknowledged that trade facilitation cannot move as a standalone item in Bali, and said the "most promising" additional item is a Brazilian proposal on tariff-rate quota (TRQ) administration. "We are hopeful that that may be the type of carefully calibrated, technically not-too-difficult issue that we could pull together in the context of the Bali ministerial," he said.

In essence, the proposal would place disciplines on the administration of TRQs to ensure they are managed in a way that does not hinder trade (Inside U.S. Trade, Jan. 25).

Punke said he has "urged a significant degree of careful calibration in putting ideas forward, because a starting point of a small package is the concept that it is small." For instance, he noted that major U.S. priorities, including cuts on industrial goods, agricultural market access, and multilateral services liberalization, will simply not be achieved at the upcoming ministerial, or anytime soon in a multilateral WTO setting.

WTO members must recognize that there are going to be areas "where they are disappointed" that more does not come together in Indonesia, he said.

If countries want to table new proposals, Punke stressed that they need to do so quickly. "It is vital that anybody who has a proposal in the Bali context gets it out quickly, and I think the further into the calendar we go, the more inherent prejudice there will be against proposals because all of these things, even the ones that on their face appear relatively straightforward, take a lot of time to deal with," he said.

Punke also seemed to downplay the likelihood of a potential G-20 proposal on export subsidies, which has been discussed as a possible element for a Bali package, could make it into a final deal. This issue is of particular interest to developing countries like Argentina and Brazil, and Geneva sources have said those two countries are both developing ideas that could be tabled as a formal proposal for the ministerial package (Inside U.S. Trade, March 1).

Discussion of export subsidy disciplines "has always been conceptualized as part of a very broad discussion and a very broad array of tradeoffs, and I think agriculture ... is one of those issues where it is very difficult to pluck out of that original context and simply plop down in a new context," he said.

There are other proposals that are still in play for the ministerial, including a "monitoring mechanism" favored by developing countries that would examine the effectiveness of existing "special and differential treatment" mechanisms put in place by developed countries, he said. There are also a range of issues discussed at the 2003 WTO ministerial in Cancun that are being examined to see if agreements could be reached, Punke said.

In response to another question, Punke said there is an "awful lot of sentiment" in Geneva that there is no reason the talks to expand the 1996 Information Technology Agreement cannot conclude this year, although he shied away from setting precise deadlines. "The question will come down to the political will of all those participating to bring that result about. There is good momentum in that regard," he said.

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WTO Farm Trade Talks Enter New Stretch

Bridges Weekly Trade News Digest, Volume 17, Number 11

27 March 2013: The race to make progress on farm trade negotiations ahead of the year-end WTO ministerial conference entered a new stretch today, as the chair announced the start of ambassador-level talks on issues that members believe could be agreed at the December meeting in Bali, Indonesia.

A proposal to ease farm subsidy rules on food stockholding purchases in developing countries will take centre stage, trade sources said, following several weeks of technical talks among delegates on how such schemes currently function in practice. The proposal was first tabled by the G-33 group of developing countries with large populations of smallholder farmers.

However, negotiators were also believed to be putting the finishing touches on a new proposal on export subsidies and related measures, led by the G-20 developing country coalition that favours reform of developed country agriculture. Trade sources said that technical talks on the submission were continuing within the group this afternoon, ahead of Thursday meeting among heads of delegation that is due to approve the final version.

Food stockholding: members ready to begin talking

The chair of the farm trade talks, New Zealand ambassador John Adank, told negotiators today that a new phase of talks would now start matching “knowledge about the existing policies with different elements of the proposal.” The ambassador-level meetings would therefore raise both technical and political questions, he said.

“The substantive discussion of the proposal is only beginning,” warned the chair, who told officials that WTO members were “not yet close to agreement.”

Trade sources told Bridges that the chair was expected to report back on any progress in the consultations at the next meeting of the Trade Negotiations Committee (TNC), scheduled for two weeks’ time. The TNC is tasked with the overall Doha discussions.

A number of developed countries have expressed concerns that the proposal could effectively allow countries to provide unlimited amounts of market price support to be included in the WTO’s “green box” - where farm subsidies are exempt from any cap or ceiling on the grounds that they cause no more than minimal trade distortion.

Some of those speaking at Wednesday morning’s negotiating meeting favoured first examining whether existing rules would still allow WTO members to achieve their food security goals.

Developing countries have also said they are worried that the G-33 proposal could potentially undermine their own poor producers if subsidised food stockpiles end up being released onto world markets, or if their own exporters are no longer able to sell to countries operating the schemes. Some G-33 members are amongst those voicing concerns about how any new proposal should be crafted.

However, another G-33 trade official told Bridges they were still keen to see other groups table counter-proposals.

“Solutions could be from either side - from anybody,” said the source.

Export competition: new proposal imminent

With the new G-20 proposal still being finalised, details remained sketchy as Bridges went to press. However, sources familiar with the submission said that it was aimed at galvanising further action without over-reaching the limits of what is achievable in the current political context.

The new proposal was therefore aimed at a “standstill and reduction, while pending the implementation of modalities on export competition,” said one official, in a reference to the cuts to export subsidies and similar measures outlined in the draft Doha deal.

Along with the Cairns Group of agricultural exporters, the G-20 have continued to emphasise their desire to see progress in 2013 on export competition, in the wake of a decision by trade ministers to eliminate export subsidies and disciplines-related measures at the global trade body’s conference in Hong Kong over seven years ago.

The EU - which has historically made heavy use of export subsidies - has indicated it is unwilling to eliminate this form of trade-distorting support in the absence of wider progress in the WTO’s Doha Round. The US, which has used tools such as export credits and subsidised food aid to similar effect, is also opposed, trade sources said.

The move follows the release last week of a WTO study looking at the use of export competition measures, itself prompted by a proposal for new analysis on the topic that was put forward by the G-20 last October. The study is available online as document number TN/AG/S/27, along with another new study on export prohibitions and restrictions, available as TN/AG/S/28.

Members are also still expected to discuss a separate G-20 proposal on easing the administration of import quotas, trade sources said, although it was unclear when these discussions would take place. Japan, Korea, and the Dominican Republic expressed concerns about the G-20 proposal at the Wednesday morning meeting.

A small package or a big one?

Some trade officials expressed concern that progress on a possible Bali deal on trade facilitation - widely seen as the motor for the recently reinvigorated talks - was not moving fast enough to galvanise action in other areas, including agriculture.

“There’s huge divergence among members,” the source said, who cautioned that a more comprehensive package might actually be easier to achieve than the relatively low-ambition topics currently under discussion.

“A small package is much more difficult than a single undertaking,” the source wryly observed. Many trade observers have argued that a small package of measures is more manageable in the current political climate than the more comprehensive set of agreements envisaged under Doha.

In contrast, a developing country official warned that negotiators may again risk overloading the set of topics on which decisions would be required at Bali.

“The attempt to put more issues on the agenda… we’ve seen that at MC8 and MC7,” sighed the delegate, using negotiators’ short-hand for the WTO ministerial conferences held in 2011 and 2008, respectively.

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India under pressure at WTO to phase out textile export sops

Amiti Sen, Business Line (The Hindu)

New Delhi, 16 May 2013: Pressure is mounting on India at the World Trade Organization (WTO) to pare subsidies and incentives given to its textiles sector.

The European Union and Japan have joined hands with the US and Turkey to demand that India stop giving fresh subsidies and gradually phase out the existing ones as the textiles sector had already achieved export competitiveness.

India, however, maintains that many of the subsidies identified by the US and others are not subsidies and merely a reimbursement of input duties. It said before the phasing out happens, there has to be a common understanding on what the subsidies are.

The issue came up for discussion at a recent meeting of the WTO Committee on Subsidies and Countervailing Measures.

“We agree that the textiles sector in India has achieved export competitiveness, as defined by the WTO. But, we have some time to phase out subsidies and many of the incentives given to the sector cannot be classified as subsidies at all,” a Commerce Department official told Business Line.

In an indirect reference to the new package of incentives announced for exporters in the Foreign Trade Policy last month, the US said it was concerned about press reports on India providing new subsidies to its textile industry.

Textile export is important for India’s economy as the sector is the largest job provider in the country. With the downturn in global trade reducing demand for exports, the Government has been providing several incentives to exporters.

Turkey said export subsidies by India had created unfair competition for Turkish textile industry. It urged India not to implement new programmes, and said it was ready to discuss this issue with the country. Japan and the EU also expressed concern and said that the matter had to be sorted out soon so that there was a check on subsidised exports.

The WTO allows countries with per capita income below $1,000 to give export subsidies till exports are lower than 3.25 per cent of world trade in that particular commodity. India’s share in the global market for textiles crossed the limit in 2007, according to WTO records, and is almost four per cent at the moment.

Since countries are given eight years to remove the subsidies, India has time till 2015 to do so.

“There is also no clarity over whether India actually crossed the threshold in 2007. We have to reach an agreement even on this,” the official said.

India’s garments exports in 2012-13 declined 12.23 per cent to $8.4 billion while exports of cotton yarn, fabrics and made-ups increased 10 per cent to $7.5 billion.

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India Seeks Change In Food Subsidy

Pakistan and Gulf Economist

19 May 2013: The proposed food security law may attract penal action at the World Trade Organization for a possible breach of the subsidy cap allowed under these rules, prompting the government to seek an amendment to the norms.

Although a proposal from the G-33, spearheaded by Indonesia, China, Pakistan, the Philippines and India, had already been moved in the run-up to the ministerial meeting in Bali in December, the proposed food security legislation has increased the urgency.

At the heart of the problem is WTO's agreement on agriculture which mandates that procurement from poor farmers be capped at 10% of the value of production. With international prices on the rise, and local price fixed at 1986-88 levels, most developing countries with large populations are now staring at the prospect of breaching the ceiling.

Similarly, food sold through the public distribution system also faces restrictions. In case of India, the prospects appear stronger given that the food security law will increase the procurement requirement and increase the subsidy level.

"The food aid commitment is increasing and welfare of the people is a sovereign function of the government," said an official who did not want to be identified. While the G-33 had suggested that the norms need to be reviewed, developed countries led by the US have opposed the proposal, saying it will reopen a decision taken in 1994. Indian officials, however, said while the WTO wanted subsidy reduction by the rich, it was not meant to hit poor farmers, such as those in India.

"It's not our proposal alone. It represents the views of countries that account for nearly 40% of the world population. It's a problem that all of us will face," said an official.

But there is good news for India as some major players such as the European Union, Norway and Australia have shown flexibility, leaving the US virtually isolated.

India has taken a strong position saying it is unwilling to negotiate another issue on the Bali agenda -trade facilitation - which is being pushed by the developed countries, led by the US.

"During a meeting in Geneva last week, we said that we are willing to show flexibility. We can discuss the issue but the agenda has to be comprehensive," a senior official said.

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Draft Bali Decision on Ag Export Subsidy Cuts Tabled

Bridges Weekly Trade News Digest

30 May 2013: Developed countries should halve ceilings for budgetary spending on farm export subsidies in a decision at the WTO's ministerial meeting in the Indonesian resort of Bali this December, the G-20 group of developing countries has said. The group, which seeks farm policy reform in the developed world, has said that the move would be a token step towards ending the controversial payments - widely seen as the most trade-distorting type of support to producers. Quantity commitment levels should also be cut to actual average levels in a 2003-05 base period, the G-20 also said. WTO ministers agreed that farm export subsidies would be eliminated by 2013 when they met in Hong Kong nearly eight years ago - alongside parallel moves to curb other forms of export competition.. But slow progress on the broader Doha Round of trade talks, launched in 2001, has stymied efforts to phase the payments out. Ministers agreed that the Doha negotiations were at an impasse. When they met in Geneva eighteen months ago, and said they would focus instead on small steps that could be fast-tracked as the basis for a broader accord.

'Another milestone missed.'

The G-20 non-paper, which was submitted last Thursday, said that the group regretted that the 2013 deadline for ending farm export subsidies is yet another Doha Round milestone to be missed.. The group's proposal should therefore be seen as part of an incremental approach. to achieving the more ambitious goal, according to a copy of the submission seen by Bridges. While the latest version of the draft Doha accord continues to deserve the unwavering support of the G-20, the group was nonetheless willing to propose agreement on intermediate. Commitments for Bali, in a spirit of flexibility and pragmatism. Export credits: intermediate targets The proposal therefore sets targets in a number of areas that are less ambitious than those included in the draft Doha modalities. Text, the most recent version of which dates from December 2008. Developed countries should immediately set maximum repayment terms at 540 days, the group proposed, while developing countries would have to do so no later than three years after implementation. The original Doha accord would instead have set a maximum of 180 days for subsidised export credit repayments. However, the non-paper's sponsors do not set out in detail new disciplines for addressing any trade-distorting effects arising from the activities of exporting state trading enterprises or the provision of international food aid. In 2005, WTO members had agreed to address these in the Doha talks in parallel to negotiations on export subsidies and export credits.

'Overloaded boat for Bali?'

Trade sources said that the EU and US immediately opposed the G-20 non-paper. Some members of the G-10 group of countries with highly-protected and subsidised farm sectors were also reported to have expressed concerns. The boat is already overloaded, warned one negotiator who expressed misgivings about the G-20 proposal. If you add one extra issue, you make things much harder,. the source explained. Many trade officials have cautioned against adding too many items to the global trade body's agenda ahead of the ministerial conference, fearing that another high-profile failure could potentially deal a death-blow to the faltering Doha Round talks. However, others cautioned against setting the bar for ambition too low. This year, we were supposed to be eliminating fully export subsidies, another trade source said. Actual spending on agricultural export subsidies and export credits has dropped substantially from the levels seen in the 1980s and 1990s, when the European Community and US used these programmes to keep producer prices high at home by shifting surplus production off of domestic markets. Trade facilitation: finding the balance

Some developing countries have argued that a Bali deal on trade facilitation - seen by many as a potential centrepiece of the ministerial gathering - would have to be complemented by action in other areas, such as agriculture, if it is to generate consensus amongst the organisation's membership. A proposal last year from the G-20 on tariff rate quotas was aimed at establishing this balance, as was another submission on food stockholding and domestic food aid from the G-33 group of developing countries with large populations of smallholder farmers. Trade sources told Bridges that countries such as India are making progress on trade facilitation conditional on corresponding action on their priorities - such as increased flexibility for developing countries to purchase food at administered prices when building food stocks or providing domestic food aid. Others reported that the US was also proving reluctant to entertain new proposals on other issues in the absence of faster traction on trade facilitation. G-33 proposal: some convergence? The chair of the agriculture negotiations, New Zealand ambassador John Adank, told a meeting open to all negotiators last Thursday that elements of potential convergence have begun to surface. in two areas on consultations on the G-33 proposal. Countries might be willing to explore whether WTO members could agree to exempt a set of developing country farm programmes from subsidy limits, so long as these cause no more than minimal trade distortion, the chair said. They may be also be willing to agree not to bring legal challenges to minimally trade-distorting support programmes under a possible peace clause,perhaps along the lines of similar commitments made in the past. However, members are still very much divided. Over any possible amendment to the Agreement on Agriculture, or an agreed interpretation of its provisions, in the run-up to the Bali ministerial. They were also divided over the utility of setting up some kind of case-by-case mechanism that could allow members with specific concerns to seek additional flexibility. �\I know that some delegations will be disappointed that I am not able to report rather more definitive progress, Adank acknowledged. However, he proposed to continue holding further informal consultations to identify more clearly the range of potential landing zones.. OECD meeting: negotiators look for a signal several trade officials told Bridges that they were hopeful that ministers meeting in the sidelines of an OECD event in Paris this Thursday and Friday might be able to provide some sort of signal on how to move forward in the talks. A number of ambassadors, including Adank, were due to attend, sources said. Both OECD members and some other countries would be there. Maybe right now it's too early to make a compromise, mused one negotiator. Another concurred, telling Bridges that the deal is always going to get done closer to the time.. Negotiators will have a better idea. of prospects for the ministerial by September, the source said.

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