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U.S. Declines to Counter India Claims Of Illegal Subsidies for Energy Programs

Daniel Pruzin, WTO Reporter

4 October 2013: The U.S. has declined to counter claims made by India that a number of U.S. state and municipal authorities may be providing subsidies for promoting renewable energies that are illegal under global trade rules.

Last April India asked the U.S. to explain how local content requirements under the state of Michigan's 2008 Clean, Renewable, and Efficient Energy Act (Public Act 295) and solar energy programs offered by the city of Austin, Texas, complied with Article 2 of the World Trade Organization's Agreement on Trade-Related Investment Measures (TRIMs).

Article 2 prohibits investment measures that are in violation of the national treatment principle established under Article III of the General Agreement on Tariffs and Trade (GATT). Article III:4 in particular requires WTO members to provide imported goods the same treatment afforded domestically produced goods with respect to all laws, regulations and requirements affecting their internal sale.

In a communication forwarded to WTO members Oct. 4, the U.S. provided India with information on how Michigan's program works, including an acknowledgment that any energy system containing a threshold level of 50 percent Michigan-made equipment will earn incentive credits that go toward meeting the state's requirement that at least 10 percent of a state electric provider's retail supply portfolio include renewable energy by 2015.

However, the U.S. did not respond to India's request for an explanation of how the local content requirements comply with Article 2 of the TRIMs Agreement. The U.S. did note that the incentive credits in question accounted for only 0.0021 percent of all renewable energy credits granted by Michigan in 2012.

In regards to the Commercial Solar Photovoltaic Performance-Based Incentive Program offered by Austin Energy, a publicly owned power company and a department of the city of Austin, the U.S. said a previously mentioned incentive for use of equipment manufactured or assembled in the Austin Energy service area has been removed from the guidelines for qualification for the rebates.The U.S. did not address India's concerns regarding a second program, Austin Energy's Residential Solar PV Rebate Program. India said both Austin programs offer higher rebates and higher payments for solar power generated from equipment which is at least 60 percent manufactured or assembled in Austin Energy's service area.

Local Content

The U.S. has yet to address India's questions raised last April regarding similar local content requirements in the Los Angeles Department of Water and Power's Solar Photovoltaic Incentive Program, the state of California's Self Generation Incentive Program (SGIP) and solar energy incentive programs in the states of Delaware, Minnesota, Massachusetts and Connecticut. Water utilities in South Carolina, Pennsylvania, West Virginia and several New England states have been mandating domestic content for equipment use in water projects, India charges.

The matter was also raised at a meeting of the WTO's TRIMs Committee Oct. 4. U.S. officials told the meeting that they were in discussion with the Los Angeles Department of Water and Power about its program and would provide more information at a later date. The officials also said they were still awaiting further clarification from India regarding its questions on the state water utilities programs.

India posed its questions regarding the U.S. state and municipal programs after the U.S. announced Feb. 6 that it was initiating WTO dispute settlement proceedings to address what it said were illegal domestic content requirements in India's national solar energy program, the Jawaharlal Nehru National Solar Mission (JNNSM).

According to the Office of the U.S. Trade Representative (USTR), India initially required that developers of solar photovoltaic projects employing crystalline silicon technology use solar modules manufactured in India. India later expanded the domestic sourcing requirement to cover crystalline silicon solar cells as well.

India has also drafted new provisions that might expand the scope of the domestic content requirements to include solar thin film technologies, which comprise the majority of U.S. solar exports to India, USTR charged. India also offers solar energy developers participating in the JNNSM a guarantee that the government will purchase a certain amount of solar power at a highly subsidized tariff rate, provided they use domestically manufactured solar equipment instead of imports.

Local content requirements have become a growing concern for WTO members. In addition to India's complaint regarding the U.S. state and municipal programs, the TRIMs committee also heard complaints from the U.S., Japan and the European Union regarding local content provisions in Brazil's telecommunications and automotive sectors, Indonesia's telecommunications and energy sectors, Nigeria's oil and gas industry, Russia's auto investment program, Ukraine's electric power sector and Uruguay's wind power projects.

Electronic Products

On a positive note, the U.S., Japan and the EU said they were pleased with recent indications that India was preparing to remove domestic content requirements in government procurement for electronic products. India's Department of Information Technology issued a policy notice in February 2012 requiring that procured electronic products having national security implications contain at least 30 percent domestic content.

Last year a WTO dispute panel struck down local content requirements in the Canadian province of Ontario's green energy program (88 WTO, 5/7/13). The panel backed complaints from Japan and the EU that the minimum domestic content provisions in Ontario's Ontario's Feed-In-Tariff (FIT) violated Article III:4 of GATT by affording less favorable treatment to imported equipment and components for renewable energy generation facilities than that given to like products originating in Ontario.

According to a report issued Sept. 25 by the Information Technology & Innovation Foundation (ITIF), a Washington-based think tank, local content requirements reduce global trade in goods and services by almost $100 billion per year. In particular, the ITIF argued, a rapidly growing number of countries, including Argentina, Brazil, China and India, “have come to embrace a new kind of mercantilist trade policy that seeks to pressure foreign enterprises to ‘localize’ economic activity so that these countries can create domestic jobs.”

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US pushes India again for early phase-out of textile sops

Amiti Sen, Business Line (The Hindu)

New Delhi, 3 November 2013**:** The US has pushed India again to do away with its export subsidies to textiles and garment producers as these sectors are now competitive in the global market.

India will have to start phasing out its textile subsidies soon to conform with the Subsidies Agreement of the World Trade Organisation, a US representative said at a recent meeting of the WTO Committee on Subsidies & Countervailing Measures.

While India may not start phasing out export subsidies on textiles and garments immediately, the growing pressure at the WTO may prompt it to go slow in giving fresh subsidies to the sector, a Commerce Ministry official told *Business Line*.

“We have informed the WTO that India is working with stakeholders on this issue. However, we still needed clarification on certain points, including the definition of products involved,” the official said.

While export subsidies are prohibited under WTO rules, the multilateral trade body allows countries with per capita income below $1,000 to give such incentives 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. However, since countries are given eight years to remove the subsidies, India has time till 2015 to do so.

India has been giving incentives to its exporters over the last few years for exporting to targeted markets and for exporting labour-intensive products to help them tide over the slowdown in global demand. Since textiles and garments are important job generating sectors, these have received generous incentives over the last few years. With the US and EU markets now looking up, the pressure on the Government to further give incentives is not high.

India had earlier pointed out at the WTO 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 takes place, there has to be a common understanding on what the subsidies are.

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Farm Subsidies: Cairns Group Paper Riles India, China

Bridges Weekly Trade News Digest

27 March 2014: An informal paper by the Cairns Group of farm exporters has found that trade-distorting agricultural subsidies in developed countries are four times those of poorer countries, as a share of the value of production. However, the paper, which was presented at an informal WTO meeting last week, has sparked concern from India and China, who question the methodology used to calculate their own farm support levels.

Trade sources told Bridges that the two developing country trading powers were upset that the Cairns Group analysis conflated subsidies that are capped under WTO rules with others that are not subject to any current ceiling on spending.

“China and India strongly objected to the approach,” one negotiator said.

The Cairns paper shines a spotlight on agricultural subsidy trends in ten major farm trading countries, by looking at how these domestic support patterns have evolved over time. The WTO members included in the analysis are Australia, Brazil, Canada, China, the EU, India, Indonesia, Japan, the US, and Russia.

Data gaps

The Cairns Group noted that backlogs and delays in official data reporting to the WTO have meant that significant holes remain in the analysis.

“The lack of complete and timely notifications makes it difficult to observe current trends in domestic support,” they said.

For example, Indonesia “is currently working to fill in certain gaps,” the sponsors explained, in particular by providing information on its public stockholding programmes.

At the WTO’s ninth ministerial conference in Bali last December, members agreed to refrain from bringing trade disputes over public stockholding programmes for food security purposes in developing countries, so long as they provide new data on spending levels to the global trade body.

However, to date no country has formally asked to take advantage of the additional flexibility that was agreed at the conference. Members have also pledged to work towards a “permanent solution” to the constraints on public stockholding identified by developing countries in the run-up to the Bali meeting.

How green is “green”?

Farm support in the EU and US has declined “dramatically,” the group finds, when defined as the current total aggregate measure of support - in other words, the “amber box” spending, including “de minimis” support, that is seen as most trade distorting under WTO rules.

EU support fell from US$35.3billion to US$8.5 billion from 2001 to 2010, while in the US payments fell from US$14.5 billion to US$4.7 billion from 2001 to 2011.

Trade-distorting payments in the EU have fallen as successive reforms have moved the bloc away from market price support and "coupled" farm payments that link subsidies to production, and towards decoupled income support payments.

In the US, high prices for farm goods in recent years have also meant that government schemes to support farmers when prices drop have not paid out as they have in earlier periods.

At the same time, both trading powers have greatly expanded their reliance on green box payments, which are exempt from any ceiling under WTO rules, on the basis that they cause not more than minimal trade distortion.

While some green box schemes, such as food stamps for poor consumers, are widely seen as minimally trade-distorting, other types of payments - such as investment aids or decoupled income support payments - are viewed by some analysts as having a more significant impact on trade and production.

Low-income, resource-poor producers

India and China have objected to the use of a new measure of "total trade distorting support" (TTDS) to calculate subsidy levels, trade sources said.

"The paper creates a new term - a new concept," one trade official said.

While current WTO rules allow developing countries to provide unlimited amounts of input and investment subsidies to resource-poor, low-income producers, the Cairns Group figures include these payments along with other types of farm support that would be capped by the "de minimis" ceiling on trade-distorting support.

This is set at ten percent of the value of production for most developing countries, with separate provisions for payments that are product-specific and those that are not. Exceptionally, China is subject to a lower ceiling of 8.5 percent.

Both China and India have large populations of small farmers, although to date only India has made substantial use of the provisions allowing developing countries extra leeway to provide input and investment subsidies to these producers.

Cairns members report that TTDS levels in China rose from US$320 million in 2001 to US$13.9 billion in 2008, and in India from US$8.2 billion in 2001 to US$37.6 billion in 2008.

Using the same measure, they found that support in the EU fell from US$36.1 billion in 2001 to US$10.3 billion in 2010, and in the US from US$21.5 billion to US$14.4 billion between 2001 and 2011.

While there is no precedent at the WTO for using TTDS to measure support, a draft deal negotiated under the Doha Round would have included cuts to overall trade distorting support - in other words, the sum of trade-distorting amber box, blue box, and de minimis payments. It would also have provided for separate cuts to each of these categories, and new limits on product-specific payments.

Reinvigorating Doha

While the Cairns paper was shared with members as a contribution to the normal review process in the WTO's Committee on Agriculture, some trade sources consider its analysis to be potentially relevant to the current efforts at preparing a Doha Round "work programme" by end-2014.

“Substantial reductions” in trade-distorting support were among the issues members had agreed to address when the talks were launched in the Qatari capital in November 2001.

A recent report from New Zealand ambassador John Adank, the chair of the WTO agriculture negotiations, warned that discussions on a Doha work programme are still at an “early stage” of renewed engagement.

“Many members do not yet have definitive views on a range of issues to which they are now turning their minds after a gap of some years,” the chair observed.

Although negotiators came close to striking a deal in 2008, the talks languished for several years, until the prospect of a breakthrough on a “small package” of measures in Bali re-energised discussions.

Adank has now invited all WTO members to an informal meeting this Friday to exchange views on how to achieve further progress.

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US insists India give WTO data on food security scheme

Amiti Sen, Business Line (The Hindu)

17 March 2014: Targeting India's food security programme, the US has questioned its efficiency and has said that the country should spell out measures to increase the programme's effectiveness. It has also demanded that India submit all relevant statistics and documents on the programme to the World Trade Organisation (WTO) in order to gain immunity against penalties in case subsidies breach specified limits."The matter would come up for detailed discussion at the meeting of the WTO's Committee on Agriculture next week," a Government official told Business Line . India fought hard at the WTO's Ministerial Meeting in Bali in December to keep procurement subsidies under India's Food Security Programme out of the list of subsidies classified as 'trade distorting'. In case 'trade distorting' subsidies breach 10 per cent of production value, a country is subject to penalties.

Conditional reprieve

While a permanent solution to the problem was deferred in Bali, developed countries promised not to take any action if subsidies breached the given caps. However, the reprieve is subject to the condition that India submits all information and documentation that are sought by members on particular programmes involving subsidies.

Attacking India's food subsidy programmes, the US said that the cost of India's food subsidy bill is approximately twice the amount it would cost to provide all households living below poverty with enough cash to cross the poverty line. "This highlights the large costs the Government incurs in procuring, storing, and distributing foodgrains that could otherwise be more effectively used to alleviate poverty in India," a US submission to the WTO pointed out. Pointing specifically at the National Food Security Act 2013, the US said that India should point out if there is any specific language in the Act to address these concerns (related to efficiency). It also asked India to highlight the steps being taken to implement its current policies more efficiently.

"The US has started treading into India's sovereign policy making space under the guise of need for increased transparency for subsidy programmes. The country has no business questioning the efficiency of India's programmes," a trade expert from a Delhi-based research organisation said.

Complicated process

India has also been asked to submit the documentation on the domestic subsidy involved in the Food Security Programme. The process could be complicated as it would involve taking into account all the procurement done by the Government at various stages in every State, the prevailing market price at that time and the minimum support prices (MSP) paid to farmers.

While India has not yet breached the 'trade distorting' subsidy cap, it may do so, especially in case of rice, once the Food Security Programme is fully implemented.
India has long been fighting for exclusion of subsidies for procurement under the food security programme.

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Canada, Pakistan frown at India's foodgrain exports, farm subsidies

Amiti Sen, Business Line (The Hindu)

New Delhi, 27 January 2014: Rice and wheat exporting countries have raised fresh concerns about India's food stocks and farm subsidies at the World Trade Organisation (WTO).

This comes less than two months after Western countries promised India that no action would be taken against it for breaching food subsidy levels prescribed by the multilateral body at least for the next four years. The WTO's Committee on Agriculture (CoA) will take up the questions raised by Canada and Pakistan on India's wheat and non-Basmati rice exports, existing levels of stocks and the subsidies extended, in a meeting scheduled on January 29, a Commerce Department official told Business Line. Canada has asked India to give details on the volume of wheat stocks held by the Food Corporation of India (FCI) in the light of recent reports that the country would be exporting up to 20 lakh tonne of wheat due to surplus stocks.

In a representation to the CoA, Canada has also asked India to specify how it calculates the floor price (minimum price) for wheat exports. "Reports (news) indicate that the Government of India has lowered the floor price for wheat to $260 per tonne from $300 per tonne which is lower than the price of the same quality wheat from Canada (and other countries) sold in the range of $270 to $275 per tonne," the representation said.

WTO concession

India and a number of other developing countries have been granted a reprieve by the WTO against legal action for breaching farm subsidy limits, fixed at 10 per cent of total produce, on items covered under the country's food security programmes.

This was part of the deal struck at the WTO Ministerial meet in Bali, Indonesia, in December. Members are now supposed to work on a permanent solution to the problem.

India is likely to breach the prescribed subsidy limits once it fully implements its Food Security Programme which offers 5 kg of subsidised foodgrain to about two-thirds of its population. The reprieve, however, would not be applicable if the subsidised foodgrain is released in the export market and affects global prices. India is also obligated to supply all data related to production, pricing, procurement and subsidies demanded by WTO members who would want to ensure that subsidised food was not distorting the global market.

A number of civil society organisations, such as Right to Food Campaign, Action Aid and Third World Network, had earlier warned that the temporary reprieve, called the Peace Clause, would lead to insufficient protection and onerous data sharing obligation.

Pakistan, in its representation to the CoA, has asked India to furnish details of rice exports in the last two years. It has also asked the country to clarify if all non-Basmati rice varieties were eligible for market price support. "India will get some time to reply to the questions," the official said.

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Govt clears export subsidy for raw sugar

Business Standard

New Delhi, 16 January 2014: A Group of Ministers headed by Agriculture Minister Sharad Pawar on Thursday approved a cash incentive for export of four million tonnes of raw sugar for two years. The idea is to help mills reduce their surplus stock.

The amount of subsidy has not been decided. The ministry of food and consumer affairs will calculate and circulate a cabinet note on the subject. "We have decided to give incentives to promote raw sugar as a new product," Food Minister K V Thomas told reporters after the meeting.

The group was set up on the direction of Prime Minister Manmohan Singh. In 2007-08, a similar subsidy was given but for all kinds of sugar. This time, it is to be limited to raw sugar and to adjusting the difference between production cost and the international sale price.

Officials said the food ministry had proposed an incentive of Rs 2,390 a tonne on raw sugar, with the burden shared by the Centre and state governments; it would cost at least Rs 1,000 crore over two years. However, the panel is believed to have disfavoured this and asked for a reworking of the amount, they said.

The Indian Sugar Mills Association had suggested an incentive of Rs 3,500 a tonne, which would cost the exchequer Rs 1,400 crore. It noted the global price was Rs 22,500 a tonne, against the domestic production cost of Rs 26,500 a tonne, sources said. "The government should move fast in notifying the subsidy, as the sugar season will come to an end in two to three months," a sector official said. Mills are facing a cash crunch as prices have come below the cost of production, in view of surplus availability. They also have huge cane payment dues, projected to reach Rs 15,000 crore by the end of the 2013-14 sugar season in September.

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CCEA defers subsidy on raw sugar exports

PTI

New Delhi, 4 February 2014: The Cabinet Committee on Economic Affairs (CCEA) today deferred a decision on fixing subsidy for exports of raw sugar, amid differences between food and agriculture ministries.

The Food ministry has proposed a cash subsidy of Rs 2,000 per tonne, while the agriculture ministry wants Rs 3,500 a tonne for exports of four million tonnes of raw sugar in the next two years. A Committee of Secretaries of ministries concerned would rework the quantum of subsidy tomorrow and the proposal is likely to come before CCEA later this week. "The proposal was taken up for discussion. But a decision was postponed," Food Minister K V Thomas told reporters after the CCEA meeting. "Our proposal is Rs 2,000 per tonne of export subsidy on raw sugar.

The Agriculture Ministry wants Rs 3,500 per tonne. The quantum of subsidy would be re-calculated," he said. The Committee of Secretaries of food, agriculture, commerce and finance ministries would meet tomorrow to re-calculate the subsidy of raw exports, he added.

That apart, the minister said, that the Commerce Ministry has also raised some concerns whether the subsidy is WTO compliant.

"The Commerce Minister was also not present in today's meeting," Thomas said citing another reason for deferring a decision.

Another minister present in the meeting said: "There is going to be some further little consultation between the Food Minister and the Agriculture Minister. I think it (proposal) will be come back on Thursday (in CCEA)."

Thomas said the subsidy would be Rs 800 crore on the basis of food ministry's proposal of Rs 2,000 per tonne, while the exchequer would have to bear Rs 1,400 crore if Agriculture Ministry's demand is considered.

The Food Ministry has proposed a cash incentive to sugar mills for exports of 4 million tonnes of raw sugar in two years as the industry is facing a liquidity crunch with prices of sweetener being lower than the cost of production.

Sugarcane price arrears to farmers has reached about Rs 10,000 crore from about Rs 3,000 crore at the start of the current marketing year in October 2013. In December, government had approved Rs 6,600 crore interest-free loan to sugar industry for making payment to sugarcane farmers.

India is the world's second largest sugar producer and biggest consumer. Production is estimated at 25 million tonnes in the 2013-14 marketing year (October-September) as against 25.1 million tonnes in the previous year. The annual domestic consumption is seen at 23.5 million tonnes.

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CCEA clears Rs 3,333 a tonne raw sugar export subsidy

Business Standard

New Delhi, 13 February 2014: The Cabinet Committee on Economic Affairs (CCEA) on Wednesday decided to give mills a subsidy of Rs 3,333 a tonne on the export of raw sugar for February and March. The decision followed a stormy meeting that lasted about an hour.

Food Minister K V Thomas told PTI the finance ministry would be consulted to ensure the framework of the subsidy complied with World Trade Organization norms. The subsidy would be paid through an escrow account.

The decision, deferred thrice because of a disagreement between the agriculture and food ministries over the amount, was finally taken after a compromise, a senior official said, adding the matter might be brought back to the Cabinet in April.

At a subsidy of Rs 3,333 a tonne, the government would incur an expenditure of about Rs 1,300 crore on the export of four million tonnes (mt) of raw sugar through the next two years, provided the subsidy isn't changed in April.

Officials said in its revised proposal, the food ministry had favoured raising the subsidy from Rs 2,000 a tonne to Rs 2,800 a tonne, with prospective effect. But if the subsidy is provided from October 1, 2013 (the beginning of the 2013-14 sugar season), it should be capped at Rs 2,000 a tonne. The subsidy was for the export of four mt of raw sugar for two years.

The agriculture ministry had struck to its assessment that any subsidy below Rs 3,500 a tonne wasn't feasible, as international prices of raw sugar were much lower than the cost of production in India.

Last week, the CCEA had deferred a decision on granting the cash subsidy because of differences over the amount of subsidy. Following this, a few meetings were held between Thomas and Agriculture Minister Sharad Pawar, as well as between officials of the food, agriculture and finance ministries.

However, no conclusion was reached. Subsequently, the matter was refereed to the CCEA. Subsidy of Rs 2,000 a tonne would have cost the exchequer Rs 800 crore, while subsidy of Rs 3,500 tonne will cost it Rs 1,400 crore.

The subsidy will be adjusted from the Sugar Development Fund through two years. The export subsidy is part of a package to bail out the sugar sector, which has been facing losses due to mounting cane arrears and falling prices.

The Indian Sugar Mills Association has welcomed the decision.

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Raw sugar export subsidy under WTO scrutiny

Amiti Sen, Business Line (The Hindu)

New Delhi, 19 March 2014: India's recent decision to give subsidies to exporters of raw sugar is facing international flak with many countries questioning its validity under global trade rules. Major nations such as Australia, Colombia and Brazil, which export agricultural products, have said that the subsidies would affect their interests and distort the world market.

In February, the Cabinet approved a subsidy of Rs3,333 a tonne for export of raw sugar in response to rising stocks of white sugar in the country. The incentive is valid till this month-end. The incentive will then be reviewed by the Government before it decides if the subsidies should continue.

Under pressure

"The pressure being piled on India at the WTO is largely to ensure that the subsidies do not get extended for a longer period of time," a Government official told *Business Line*.

The opposing countries, in separate representations to the WTO, have asked India to explain the legal validity of the move under multi-lateral trade rules that do not allow new subsidies for exports. The issue will be taken up at the meeting of the Committee on Agriculture on Friday where India, the world's second largest producer of sugar, will have to explain its move.

"India's defence is that WTO rules prohibit export subsidies only on finished products and raw sugar is a semi-processed item. It is, therefore, exempt from such restrictions," a Government official told *Business Line*. But other exporting countries, including the world's top sugar producer Brazil, are not willing to buy the argument.

Brazil, in its submission, has pointed out that developing countries are allowed flexibilities for giving export subsidy (under Article 9.4 of the Agreement on Agriculture) only to meet marketing or transportation costs and there was no legally-binding decision by the WTO to extend its scope. It also said that in case India says that the subsidies are for reducing marketing or transportation costs, it should give evidence of how it is happening.Australia, Colombia and the European Union have asked India to specify the quantities of export that has already happened at the subsidised price and the period for which the subsidies will continue.

Output, exports

White sugar stocks in the country at the beginning of the current sugar year (October2013-September 2014) was a whopping 8.8 million tonnes (mt). Sugar output in the on-going year is expected to be 25 mt against domestic demand of 22 mt.

Due to low global prices, Indian mills have exported less than 0.8 mt of raw sugar this season.
If the Government continues its subsidy programme for the remaining months of the season, exports could touch an estimated 4 mt.

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Sugar export subsidies ‘will not cross $ 80 million’

Amiti Sen, Business Line (The Hindu)

New Delhi, 24 March 2014: India’s export subsidies on sugar announced last month will not exceed $80 million and is essentially designed to encourage diversification away from white sugar to raw sugar, the country has clarified to the World Trade Organisation.

This would translate into roughly 1.4 million tonne of subsidised sugar exports going by the current exchange rate and the subsidy amount of Rs3,333 a tonne. Defending its action at a recent meeting of the WTO Committee on Agriculture (CoA) where several members including Brazil and Australia attacked the sops, India said the subsidies were aimed at discouraging white sugar production of which there was a glut in the global market, a WTO official told *Business Line*.

While the WTO does not allow any new export subsidies, some allowance is made for marketing and transportation. There are disciplines in place for members to gradually eliminate existing subsidies.

Drawing flak

Coming down heavily on India at the CoA meeting last Friday, Australia said the Rs3,333/tonne incentive payment is equivalent of 14-16 per cent of the world price and threatens to seriously destroy trade as India is the third largest exporter of sugar. It demanded that India immediately discontinue the subsidies.

World’s top sugar producer Brazil asked how India could justify the subsidies since there has been no consensus to extend special provisions for developing countries. Other members that questioned the subsidies include Colombia, the EU, Paraguay, Thailand, El Salvador, Canada, the US, Pakistan and New Zealand.

The subsidy amount of Rs3,333 of raw sugar export announced by the Cabinet last month is for exports made in February and March. Fresh calculations will be made for April based on existing exchange rate.

Rising inventories

Meanwhile, India’s white sugar stock is on the rise. At the beginning of the current sugar year (October-September 2013-14), stocks were at 8.8 million tonnes (mt). Sugar output in the on-going year is expected to be 23.8 mt, according to industry estimates, against a domestic demand of 22 mt.

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Food Ministry starts review of raw sugar subsidy amidst WTO pressure

Anindita Dey, Business Standard

Mumbai, 22 April 2014: The department of food has started a review of the Rs 3,300 crore raw sugar subsidy scheme announced towards end of last calendar year, albeit maintaining that the scheme will continue for remaining months till the new cabinet comes in place.

According to sources close to the development, the review is aimed at reworking the amount of subsidy downside based on new rates of benchmarks - exchange rate tariff and international prices which has substantially changed since the time when the scheme was announced. However, till date the final notification for the scheme has not been released.

Sources said that the scheme can at least run for two months – April and May 2014 of which more than 20 days of April 2014 are already over. The review follows strong objection raised by the members of the World Trade Organization (WTO) stating that this will distort global trade as India is the third largest exporter of sugar in the world. The subsidy was given for promoting raw sugar export by Indian millers.

Meanwhile, the government of India has decided to strongly defend its stance on the raw sugar exports on the ground that the export subsidy is not intended for exporters or industry but for farming community or cane millers. According to sources close to the development, the subsidy to be given for export of raw sugar will be passed on to the cane growers for diverting the sugarcane produce from processing white sugar to raw sugar which is not the usual practice in India. Explaining this, sources said, usually in India there is no demand or consumption of raw sugar and the entire cane is processed for sugar or jaggery or mollases etc. On the other hand, there is surplus stock of sugar in the country which is why the sugarcane farmers are not in the position to get proper remuneration as the cost of production is higher than the market price.

Therefore a conscious decision has been taken by the government to divert the domestic production to the export market where the demand is for raw sugar and not processed sugar, said sources. The subsidy thus is intended for helping the millers/ farmers to divert manufacturing of sugar to raw sugar. Thus the concern of the world community is not correct in stating that the raw sugar subsidy will distort the global prices as they are not intended for the exporters but for the cane millers and farmers.

Last year, the Cabinet Committee on Economic Affairs (CCEA) has also approved Rs 6,600 crore interest-free loans to the sugar industry with interest subvention of 12% to be borne by the Sugar Development Fund.

The loans will be provided by banks to sugar mills exclusively for making payments to sugarcane farmers, including arrears. The loans are equivalent to the excise duty paid by the mills in the past three years and the mills have to repay the loans in five years. These mills could avail of a moratorium on repayment for the first two years. The decision was taken to help the sugar industry tide over the cash crunch.

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Sops for raw sugar exports cut by Rs 1,000 a tonne

Business Line (The Hindu)

Chennai, 13 May 2014: The Centre has cut the incentive for raw sugar exports by over Rs 1,000 a tonne to Rs 2,277, drawing protests from millers.

In a notification issued last week, the Centre reduced the incentive from Rs 3,300, aimed at encouraging exports of raw sugar in order to overcome glut in the domestic market. While fixing the incentive at Rs3,300, the Food and Consumers Affairs Minister KV Thomas had said that the facility would initially be extended for two months (February and March) and then, it would be recalculated every two months taking into account the average exchange rate of the rupee.

According to the notification, the revised incentive will be valid till May 31.

Mills disappointed

Expressing surprise over the move, Indian Sugar Mills Association Director-General Abinash Verma, in a letter to the Food Secretary, said that the industry is disappointed over the cut in the incentive rate.

Pointing out to the Gazette notification issued on February 28, Verma said the average exchange rate of rupee was to be calculated based on the dollar price during the seven days preceding April 1.

When the incentive was approved by the Government, the rupee traded at 62.44 against the dollar. Since then, the rupee has gained and ruled at 60.32 in the last week of March. Therefore, the rate should have been Rs 3,800 and not Rs 2,277, Verma said.

“Since there is no other criteria prescribed in the Gazette Notification of February 28, there cannot be any other position whatsoever than to either retain the original rate of Rs 3,300 or to increase it. Therefore, the notification of May 7, reducing the incentive rate is not as per the law prescribed by the Ministry,” the ISMA official said in the letter.

Based on the notification, exporters and buyers from other countries had entered into sugar deals in the belief that the incentive of Rs 3,300 a tonne holds for raw sugar exports. But a sudden change in the Government’s stand without any notice was in contravention to the provisions of the February 28 notification. It has created confusion in the market and millers were feeling betrayed. The Government’s action to cut the incentive was wrong especially when there was sugar surplus, which need to be exported.

In a quandry

Sugar prices have dropped in the last one month and continue to rule below the cost of production, Verma said, adding that cane arrears to farmers have surged to over Rs 12,000 crore.

The ISMA official wondered how the Government arrived at the figure of Rs 2,277 and sought to know the reason for the cut in the incentive.

“What will happen to sugar mills which have dispatched or exported sugar after April 1 considering the Gazette Notification of February28, which is the only rule or order of the Government in public domain till now, and have done so on the clear understanding that the incentive rate would be Rs 3,300/tonne. Who will compensate the losses to these sugar mills?,” asked Verma.

On April 20, PTI, quoting official sources, said that the Government had decided to continue the incentive for raw sugar exports at Rs 3,300 a tonne during April-May.

Surging stocks

Some four lakh tonnes of sugar were expected to be exported during April-May with some consignments already reaching the destination or on the way.

The issue has also figured at the World Trade Organisation with countries such as Australia questioning the move to offer incentives for exports. However, India has held firm and said that there was no going back on its commitment to encourage raw sugar exports. The Government came up with the incentive to cut production of white sugar. White sugar stocks in the country have been on the rise.

At the beginning of the current sugar year (October-September 2013-14), stocks were 8.8 million tonnes. Sugar output in the on-going year is expected to be 23.8 million tonnes, according to industry estimates, against a domestic demand of 22 million tonnes. The stocks are expected to go up and to combat a glut situation. The Cabinet cleared the Food Ministry’s proposal to allow exports of raw sugar.

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WTO talks: Don’t harp only on fishery sops, says India

Amiti Sen, Business Line (The Hindu)

New Delhi, 19 May 2014: India has said that negotiations on tightening fishery subsidies at the World Trade Organization (WTO) pushed by the European Union, New Zealand and Chile should take place only after there is substantial progress in the areas of agriculture, industrial goods and services.

Warning against ‘cherry-picking’ of issues, the Centre said that the proposal to curb such subsidies to clamp down on over-fishing should not be singled out as several other related areas such as anti-dumping are part of the working programme on rules.

In a recent meeting of the WTO’s Negotiation Group on Rules, a handful of countries, including the EU, New Zealand, Chile, the US, the Philippines and Australia, said discipline in this area should be central to any Doha Round work programme. They argued that global fish stocks continued to fall while harmful fish subsidies continued to increase.

“There is an ongoing attempt at WTO by developed countries to identify individual issues and try to push for an agreement, completely ignoring the agenda of the Doha Development Round. We have to guard against it,” a Commerce Ministry official told *Business Line*.

India has called for exclusion of small and marginal fishermen from the multilateral curbs in the negotiations on fishery subsidies, stating that livelihoods of lakhs of poor families in India depend on fishing.

The Doha Round, launched in 2001 to open up markets in agriculture and industrial goods and services, is in a logjam, but members agreed to deliver on a small package of issues at Bali last year, reviving interest in the round.

In Bali, the developed countries managed to get through an agreement on trade facilitation — a pact to smoothen trade by improving infrastructure and reducing paperwork.

In return, India and some other developing countries were given a reprieve against action on the subsidies given by them to farmers for buying crops for their food security programme. A promise was made that a long-term solution to the issue would be taken on priority-basis after the Bali meeting.

“Although we agreed on a trade facilitation pact, we do not want pacts on individual issues to become a rule. The Doha Round has to be agreed upon in full and the developed countries can’t cherry-pick issues that they want to push. We are also determined to ensure that our problems related to subsidising our food security programme is settled at the earliest,” the official said.

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