

Improving WTO Transparency India's Shadow Farm Support Notifications

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India's Farm Support Policies

- Market access
- Export competition/subsidies
- Domestic support
 - Market price support
 - Input subsidies

Official Domestic Support Notifications

- 1995-1997
- Four categories of support
 - Green box (DS1)
 - Stockholding for food security
 - Relief payments for natural calamities including crop insurance
 - Special and Differential Treatment (DS2)
 - Investment subsidies
 - Input subsidies for low-income and resource-poor producers

Official Domestic Support Notifications (contd)

- Product-specific AMS (DS4, 5 & 7)
 - 1986-88 ERP (net importer for rice, wheat, rapeseed, pulses and sugar and exporter for others)
 - Minimum support price announced for 26 commodity lines
- Non-product-specific AMS (DS9)
 - Fertilizer, irrigation, electricity, credit and seed subsidies

	1995	1996	1997
	<i>US\$ Million</i>		
Green Box Payments			
General Services	397.6	239.3	264.6
Public Stockholding for Food Security	1569.7	1708.7	2018.2
Domestic Food Aid	...	...	...
Decoupled Income Support	...	...	...
Income Insurance and safety-net programs	10.9	...	...
Payments for relief from natural disasters	125.0	444.3	443.8
Structural adjustment through producer retirement programs	...	...	...
Structural adjustment through resource retirement programs	...	...	...
Structural adjustment through investment aids	59.2	36.3	76.1
Environment payments	33.2	73.7	70.2
Payments under regional assistance programs	...	...	...
Other	...	...	...
Total	2195.6	2502.3	2872.9
Special and Differential Treatment			
Investments subsidies generally available to agriculture	104.8	1117.3	1142.5
Input subsidies to low income or resource poor producers	149.5	3737.8	4029.3
Total	254.3	4855.1	5171.8
Product Specific AMS			
Rice	-7,577.0	-1,321.3	-1,479.9
Wheat	-9,625.0	-1,280.8	-1,266.4
Coarse cereals	-4,530.4	-1.5	-2.9
Pulses	-1,705.8	...	...
Groundnut	-1,809.3	...	...
Rapeseed and mustard	-1,688.7	...	...
Cotton	-2,106.4	...	...
Soya bean	-191.7	...	...
Tobacco	-181.4	...	...
Jute	-387.6	...	...
Sugar cane	184.4	...	...
Total	-29,618.9	-2,603.6	-2,749.2
Non-Product Specific AMS			
Fertilizer Subsidy	1,864.1	413.6	515.9
Credit Subsidy	102.0	...	...
Subsidy on electricity	2,436.6	373.6	342.5
Irrigation subsidy	1,345.4	143.1	144.9
Subsidy on average supply of seeds	23.9	0.1	0.1
Total	5,772.1	930.3	1,003.5
as % of Value of Production	7.5%	1.1%	1.2%
Value of agricultural production	76,736.0	85,280.0	84,972.0

Domestic Support Classification and Measurement

- Green box
 - Budgetary outlays or expenditures from the Ministry of Agriculture
 - general services (research)
 - environmental payments
 - structural adjustment through investment aids
 - payments for relief from natural disasters
 - public stockholding
 - About 3.5% of value of production in 1997

Support Classification and Measurement (contd)

- Special and Differential Treatment
 - Investment subsidies
 - 1995: small
 - 1996 & 1997: Rural development budget is included, but the share of expenditure or programs included are not identified
 - Input subsidies to low-income or resource-poor producers
 - Small items like specialty product support
 - 80% of the fertilizer, irrigation and electricity subsidies is included since the share of farms with less than 2 hectares of cultivated land is equal to that percentage.
 - More on input subsidy data & measurement under DS9

Support Classification and Measurement (contd)

- Non-product-specific AMS
 - Fertilizer subsidy
 - Total budgetary subsidies in 1995, but for 1996 and 1997 the monetary value is allocated to fertilizer industry and farmers
 - Share of industry in budgetary subsidies is based on Gulati and Narayanan (2003) approach. Retention price scheme. If import price is below the fixed sales price for each manufacturing unit, then the industry is also subsidized.
 - Irrigation subsidy
 - Hoda and Gulati (2007) claim that it is the operating expenditure of minor irrigation projects after subtracting fee receipts. The corresponding budgetary item is very small. The closest we got to notified support is when using 20% of the budget of Ministry of Water Resources

Support Classification and Measurement (contd)

- Product-specific AMS
 - Formula: $(\text{MSP-ERP}) \times \text{Quantity}$
 - ERP (1986-88 average)
 - MSP, announced annually at the national level (spatial differences and weighting ignored) – Directorate of Economics and Statistics, Ministry of Agriculture
 - Two options for Q: total vs eligible production
 - Total production
 - Eligible production – procurement of paddy, rice, wheat and coarse cereals only since 1996

Support Classification and Measurement (contd)

- Non-product-specific AMS
 - Electricity subsidy
 - 20% of subvention received by all states reported in a report on State Electricity Boards by the Planning Commission
 - Credit subsidy
 - Small for 1995, none for 1996 and 1997. Appears consistent with the federal expenditure on loan waivers. However, interest rate gap on short, medium and long-term loans and their value to farmers has not been computed (nowhere in government documents – banking sector?)
 - Seed subsidy
 - National and state seed labs testing, certification and free disbursement especially for low-income and resource-poor farmers

Shadow Notifications

- 1998-2005
- Preliminary support estimates for 2006-2007
- Projection for 2013

Shadow Notifications 1998-2005

- Green box
 - Total support increased from about \$3 billion to \$7.7 billion between 1997 and 2005 (share in value of production increased from 3.5 to 6.7% during the same time)
 - Two items have grown by over 10% per year
 - Payments for relief from natural disasters quadrupled (includes crop insurance)
 - Public stockholding expenditure nearly tripled

Shadow Notifications 1998-2005

- Special and differential treatment
 - \$5.2 billion in 1997, but has increased to about \$6.9 billion in 2004. Preliminary estimates for 2005 suggest expenditure may be as high as \$9.5 billion
 - Share in value of production has stayed within 6-7% during 1998-2004
 - Fairly confident about other input subsidies, but investment subsidies has been a mystery

Shadow Notifications 1998-2005

- Product-specific AMS
 - Following the same method as in the 1997 notification shows that product-specific remains negative for rice and wheat. Coarse cereals' procurement data recently became available and quantity appears to be relatively small.
 - Considerable narrowing of the gap between MSP and ERP. Nominally, price gap is likely to turn positive in the next few years.

Shadow Notifications 1998-2005

- Non-product-specific AMS
 - No reported credit subsidies during the shadow notification period
 - Seed subsidies considered to be fully exempt (DS2)
 - Fertilizer subsidy remains effective for nitrogenous fertilizer, but new concessions for phosphatic fertilizers have considerably increased. As a result, reductions in the former are offset by the latter with level of notified support in 2005 about the same as in 1997 (~\$500 million).

Shadow Notifications 1998-2005

- Non-product-specific AMS
 - Electricity subsidies increased from \$342 to \$522 million from 1998 to 2005
 - Irrigation subsidies, which we haven't fully figured out, averaged about \$127 million in the shadow notification period

Table 4: Summary of India's Shadow Farm Support Notifications

Component	1997-98*	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Green Box Payments (DS1)									
General Services	236.1	270.4	354.5	325.2	308.7	319.1	368.7	402.7	470.2
Public Stockholding for Food Security	2176.0	2214.1	2243.3	2708.7	3741.2	4429.3	5534.3	5817.5	5328.0
Payments for Relief from Natural Disasters	426.0	378.6	412.6	492.2	852.3	708.2	896.8	995.6	1679.8
DS1 Total	2955.0	2978.7	3124.0	3650.8	5009.3	5589.9	6964.0	7387.8	7689.3
Special and Differential Treatment (DS2)									
Investments Subsidies to Agriculture	1142.5	601.4	1734.8	2027.1	1930.2	2122.3	2235.0	2545.6	5006.4**
Input Subsidies to Low Income or Resource Poor Producers	4013.6	3956.1	3584.3	3290.5	3049.8	3754.3	3848.2	4311.6	4466.6
DS2 Total	5171.8	4557.5	5319.1	5317.6	4980.0	5876.6	6083.2	6857.2	9473.0**
Product Specific AMS (DS4, 5 and 7)									
Rice	-1480.0	-1330.9	-1690.4	-2024.4	-2117.4	-1509.7	-1891.6	-1866.1	-1921.7
Wheat	-1178.8	-1692.5	-1835.0	-2139.6	-2760.3	-2542.9	-2004.9	-2042.1	-1734.2
Coarse cereals	-2.8	-	-	-	-	-	-	-	-
DS4, 5 and 7 Total	-2661.6	-3023.4	-3525.5	-4163.9	-4877.6	-4052.6	-3896.6	-3908.3	-4183.2
Non-Product Specific AMS (DS9)									
Fertilizer Subsidy	515.9	417.5	282.5	388.1	260.5	257.1	319.0	444.1	483.5
Credit Subsidy	-	-	-	-	-	-	-	-	-
Subsidy on Electricity	342.6	492.1	519.9	326.9	364.0	537.0	482.3	466.4	522.3
Irrigation Subsidy	144.9	79.5	93.6	107.6	137.9	144.4	160.7	167.3	110.8
Subsidy on Average Supply of Seeds	0.1	-	-	-	-	-	-	-	-
DS9 Total	1003.5	989.0	896.1	822.6	762.4	938.6	962.1	1077.9	1116.7
Non-Product Specific AMS as % of Value of Production	1.2	1.1	1.0	1.0	0.9	1.1	1.0	1.0	1.0
Value of Agricultural Production (Mil. \$)	84973	91329	88799	82905	88502	83561	100682	105663	115419

Alternative Domestic Support- Definition and Measurement Scenarios

- Green box
 - Can a part of public stockholding become product- or non-product-specific AMS?
- Special and differential treatment
 - Targeting of input subsidies
 - Apportioning between DS2 and DS9

Alternative Domestic Support- Definition and Measurement Scenarios

- Product-specific AMS
 - Errors in MSP as well as ERP
 - Eligible versus total production
 - Shadow exchange rate
 - Nominal versus real MSP

Alternative Domestic Support- Definition and Measurement Scenarios

- Non-product-specific AMS
 - Box shifting (from DS9 to DS2)
 - Computation of fertilizer subsidy is different from that of irrigation or electricity

Preliminary Estimates for 2006 and 2007

- Public stockholding projected to grow
 - Stockholding capacity (40 mil tons)
 - MSP goes up, but prices for urban consumers may not go up as much
- Modest increases in DS2, less clarity on investment subsidies
- Product-specific AMS turns positive with nominal MSP
- Non-product-specific AMS' share in value of production remains constant (near 1%)
- Projection for 2013

Table 9: Projections of India's Product- and Non-Product-Specific AMS, 2006 and Beyond

	2006-07	2007-08	2013-14 [*] (a)	2013-14 [*] (b)
			Mil. \$	
Green Box (DS1)	8624	9673	19258	
Public Stockholding for Food Security	5957	6660	13004 ^{**}	
Special and Differential Treatment (DS2): Other Input Subsidies ^{***}	4557	4649	5243	
Product-Specific AMS (DS4-5-7)	-2038	95	3741	-773.5
Non-Product-Specific AMS (DS9)	1150	1184	1415	
10% of Value of Agricultural Production (<i>de minimis</i>)	11930	12331	15038	

Implications of Proposed Doha Modalities

- No restraint on green box or special and differential treatment
- Product-specific AMS turns positive with nominal MSP and can breach the de minimis level if total production is used. Even with real prices, MSPs are likely to exceed ERP by 2015 or 2016
- Proposed credit subsidies and whether they fit in DS2 or DS9
- De minimis exemptions vary between \$23 and \$30 billion depending on the growth of value of agricultural production

India's Strategy in the Doha Round

- Offense versus defense, more of the former
- Enough slack in de minimis
- Given the price boom, and increase in tax compliance (revenues), the de minimis exemptions provide an excellent opportunity to move away from trade distorting support
 - Logistical difficulties
 - Political will