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News: Sugarcane subsidy

- Recently, the US and Australia have contended that India is giving sugarcane subsidies to its farmers beyond the limits set in the World Trade Organisation's (WTO) Agreement on Agriculture (AoA) calling it violative of global standards that can distort global trade.

Agreement on Agriculture (AoA)

- Agreement on Agriculture (AoA) is aimed to **remove trade barriers and to promote transparent market access and integration of global markets.**
- Agreement on agriculture stands on three pillars: Domestic Support, Market Access and Export Subsidy.

Domestic Support

- Domestic Support **calls for reduction in domestic subsidies** that distorts free trade and fair price.
- Under this provision, the **Aggregate Measurement of Support (AMS) is to be reduced by 20% over a period of 6 years by developed countries and 13% over a period of 10 years by developing countries.**

Under this, Subsidies are categorized into:

- **Green Box:** subsidies that do not distort trade, or at most cause minimal distortion. They are government-funded and must not involve price support.
- They also include environmental protection and regional development programmes.
- “Green box” subsidies are therefore allowed without limits, provided they comply with the policy-specific criteria.
- **Amber Box:** All domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box as all domestic supports except those in the blue and green boxes.
- These include measures to support prices, or subsidies directly related to production quantities.
- **Blue Box:** This is the “amber box with conditions”. Such conditions are designed to reduce distortion.
- Any support that would normally be in the amber box is placed in the blue box if the support also requires farmers to limit production.
- At present, there are no limits on spending on blue box subsidies.

Market Access

- Market access for goods in the WTO means the **conditions, tariff and non-tariff measures, agreed by members for the entry of specific goods into their markets.**

The market access requires that tariffs fixed (like custom duties) by individual countries be cut progressively to allow free trade. It also required countries to remove non-tariff barriers and convert them to Tariff duties.

Export Subsidy

- Subsidy on **inputs of agriculture, making export cheaper or other incentives for exports such as import duty remission** etc are included under export subsidies.

These can result in dumping of highly subsidized (and cheap) products in other country and damage domestic agriculture sector of other country.

World Trade Organisation (WTO)

- The World Trade Organization (WTO) is the **only global international organization dealing with the rules of trade between nations.** At its heart are the WTO agreements, negotiated and signed by the bulk of the world's trading nations and ratified in their parliaments.

- The WTO has 164 members (including European Union) and 23 observer governments (like Iran, Iraq, Bhutan, Libya etc).
- The Appellate Body of the WTO was established in 1995 with its seat in Geneva, Switzerland.
- It is a standing body of seven persons.
- It hears appeals from reports issued by panels in disputes brought by WTO Members.
- The Appellate Body can uphold, modify or reverse the legal findings and conclusions of a panel.
- The Appellate Body Reports, once adopted by the Dispute Settlement Body (DSB), is mandatory to the parties to dispute.

Goals of WTO

- The WTO's global system lowers trade barriers through negotiation and operates under the principle of non-discrimination.
- The result is reduced costs of production (because imports used in production are cheaper), reduced prices of finished goods and services, more choice and ultimately a lower cost of living.

The WTO's system deals with these in two ways.

- **One is by talking**: countries negotiate rules that are acceptable to all.
- The other is by **settling disputes** about whether countries are playing by those agreed rules.

Advantages of WTO

- The WTO can **stimulate economic growth and employment**.
- The WTO can **cut the cost of doing business** internationally.
- The WTO can **encourage good governance. Transparency — shared information and knowledge — levels the playing field.**
- Rules **reduce arbitrariness and opportunities for corruption**.
- The WTO can help countries develop: Underlying the WTO's trading system is the fact that more open trade can boost economic growth and help countries develop.
- In that sense, **commerce and development are good for each other**.
- In addition, the WTO agreements are full of provisions that take into account the **interests of developing countries**.
- The WTO can **give the weak a stronger voice**: Small countries would be weaker without the WTO. Differences in bargaining power are narrowed by agreed rules, consensus decision-making and coalition building.

- Coalitions give developing countries a stronger voice in negotiations.
- The resulting agreements mean that all countries, including the most powerful, have to play by the rules. The rule of law replaces might-makes-right.
- The WTO can support the environment and health: The trade is nothing more than a means to an end. The WTO agreements try to make trade support the things we really want, including a clean and safe environment, and to prevent governments using these objectives as an excuse for introducing protectionist measures.
- The WTO can contribute to peace and stability: When the world economy is in turmoil, the multilateral trading system can contribute to stability.
- Trade rules stabilize the world economy by discouraging sharp backward steps in policy and by making policy more predictable. They deter protectionism and increase certainty. They are confidence-builders.
- Although the **WTO is not a UN specialized agency, it has maintained strong relations with the UN** and its agencies since its establishment.
- The WTO-UN relations are governed by the “**Arrangements for Effective Cooperation with other Intergovernmental Organizations-Relations between the WTO and the United Nations**” signed on 15 November 1995.
- The **WTO Director General participates to the Chief Executive Board which is the organ of coordination within the UN system.**

- The topmost decision-making body of the WTO is the Ministerial Conference, which usually meets every two years.
- It brings together all members of the WTO, all of which are countries or customs unions.
- The Ministerial Conference can take decisions on all matters under any of the multilateral trade agreements.
- World Cotton Day was celebrated by WTO in October 2019.
- The World Trade Organisation (WTO) hosted the event at the request of Cotton-4 (Benin, Burkina Faso, Chad and Mali) to celebrate their official application for recognition of October 7 as World Cotton Day by the United Nations.
- The World Trade Organisation (WTO) organized the event in collaboration with the United Nations Food and Agriculture Organization (FAO), the United Nations Conference on Trade and Development (UNCTAD), the International Trade Centre (ITC) and the International Cotton Advisory Committee (ICAC).

Sugarcane

- Sugarcane is a **low-land tropical, plantation, and cash crop** which are grown in the regions having **high temperature and heavy rainfall**.
- This crop is usually grown in **regions that have monsoonal type of climate**. Some major producers include India, Java, Formosa, Cuba, Jamaica, Trinidad, and Barbados.
- **India is the top country with sugar cane production** in the world beating Brazil in 2022. However, **Brazil is the largest exporter** of Sugar in the world. **India is also the largest consumer** of sugar in the world.
- India accounts for about **19 percent of the world's production of sugarcane**. But it occupies only 2.4 percent of the total cropped area in the country.
- This industry provides employment for more than 4 lakh persons directly and many farmers indirectly.
- The **sugar industry is a seasonal industry** because of the seasonality of raw materials.
- The development of the industry on modern lines dates to 1903 when a sugar mill was started in Bihar. Subsequently, sugar mills were started in other parts of Bihar and Uttar Pradesh.

- In 1950-51, 139 factories were in operation. The number of sugar factories rose to 662 in 2010-11.
- Sugarcane is a **weight-losing crop**. The ratio of sugar to sugarcane varies between 9 to 12 percent depending on its variety.
- Its **sucrose content begins to dry during haulage** after it has been harvested from the field.
- **Better recovery of sugar is dependent upon its being crushed within 24 hours of its harvesting.**
- **Sugar factories hence are located within the cane producing regions.**
- **Maharashtra has emerged as a leading sugar producer** in the country and produces more than one-third of the total production of the sugar in the country.
- **Uttar Pradesh is the second-largest producer** of sugar. The sugar factories are concentrated in two belts – the Ganga-Yamuna doab and the Tarai region.
- The major sugar-producing centers in the Ganga -Yamuna doab are Saharanpur, Muzaffarnagar, Meerut, Ghaziabad, Baghpat, and Bulandshahr districts; while Kheri Lakhimpur, Basti, Gonda, Gorakhpur, Bahraich are important sugar-producing districts in the Tarai region.
- The **crop yield is low in Northern India than in Southern India**. Uttar Pradesh's yield is low, but in Maharashtra, Karnataka, and Tamil Nadu the yield is high.

- Area under sugarcane is expected to be almost 54.55 lakh hectare in 2021-2022 sugar season (October to September) or 3% higher than the current season's area, according to the Indian Sugar Mills' Association (ISMA).

Advantages of increasing Sugarcane production

- Sugar production generates several by-products, such as molasses, bagasse, and press mud, which can be used to produce other products such as ethanol, paper, and Bio-Fertilizers.
- Sugar mills can divert excess sugarcane to ethanol, which is blended with petrol, which not only serves as a green fuel but also saves foreign exchange on account of crude oil import.
- The government of India has fixed a target of 10% blending of fuel grade ethanol with petrol by 2022 & 20% blending by 2025.
- India achieved its target of an average of 10% blending across the country five months ahead of the targeted timelines of November 2022.
- Cultivating sugarcane provides farmers with an opportunity to diversify their agricultural activities and increase their income.
- Sugarcane cultivation can be integrated with other crops such as vegetables, fruits, and spices to promote crop diversification. This can lead to better soil health, reduced pest and disease pressure, and improved crop yields.

Challenges Associated with Growing Sugarcane

Longer Duration to Harvest

- Sugarcane takes a long time to grow and be ready for harvest (around 10 to 12 months). Growing sugarcane is not an easy task as it requires the farmer to plant and harvest two more crops before they can finally harvest sugarcane.
- This means that growing sugarcane demands a lot of hard work over a period of about three years.

Higher Investment

- Growing sugarcane requires farmers to invest more money because they have to prepare the fields properly before planting. This involves tilling the soil to a greater depth, followed by harrowing, and leveling it to make it suitable for sugarcane.
- Moreover, buying sugarcane seedlings is expensive, and before planting, farmers need to add manure and fertilizers to the soil, which also comes at a high cost.

High Labor Cost

- The labour for cutting sugarcane costs huge and if the cutting season is dry without rain, it gravely affects the total weight of the cane and if it rains, there

will be slush on the path resulting in lorries/trucks not being able to come near the field.

- Farmers must spend a lot to transport the sugarcane from their fields to the main road by employing labour.

Unviability Sugar Exports

- India is finding it difficult to export sugar as the cost of producing it is higher compared to the international market price, mainly due to the high cost of sugarcane.
- To help bridge this gap, the government has been providing export subsidies, but other countries have raised objections with the World Trade Organization (WTO).
- Although India is currently allowed to continue with these subsidies until December 2023, there is uncertainty about what will happen after that.

Problem with India's Ethanol Programme

- Blending ethanol with petrol to use as auto fuel was first announced in 2003, but this initiative has not been very successful due to several challenges. One of the key challenges is the poor pricing of ethanol supplied for blending.

- Since the price of ethanol is often higher than the price of petrol, blending ethanol with petrol becomes less economically viable. This can discourage ethanol producers from supplying ethanol for blending.

Price Determination of Sugarcane in India

- The Prices of Sugarcane are determined by the Central Government and the State Governments.

Central Government: Fair and Remunerative Price (FRP)

- The Central Government announces FRP which are determined on the recommendation of the Commission for Agricultural Costs and Prices (CACP) and announced by the Cabinet Committee on Economic Affairs (CCEA).
- CCEA is chaired by the Prime Minister of India.
- The FRP is based on the Rangarajan Committee report on reorganising the sugarcane industry.

State Government: State Advised Prices (SAP)

- The SAP is announced by the Governments of key sugarcane producing states.
- SAP is generally higher than FRP.

- The price is calculated by the experts, who calculate the entire economics of the crop by taking input cost and then suggest to the government, which may agree or not.