Focus on wresting gains for agriculture at Seattle

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IN A recent ruling the appellate panel of the World Trade Organisation (WTO) has upheld the verdict of dispute settlement panel (DSP) which ruled that India cannot maintain quantitative restrictions (QRs) under balance of payments (BoP) cover. The proceedings were initiated in 1997 following a complaint from the US, which was not satisfied with the phase-out plan offered by India.

This would mean that we may be required to dismantle all QRs much earlier than 2003, the deadline in the normal course. But India can get a breathing period of at least 15 months from the day report of the panel is adopted by the DSB. On this basis, the deadline would be 2001.

While a big hue and cry is being made about the fall-out of the panel's decision, the fact remains that hardly any credible action has been initiated to prepare the country for facing the onslaught of the D-day even if it were to be 2003 or a couple of years later. Thanks to the globalisation and free-trade euphoria, our planners and policy makers do not have even a whiff of the impending problems.

In the QR-free scenario, our agriculture and small-scale industries -- the prime providers of income and employment -- would be exposed to serious risks. In addition, industries like fertilisers which supply essential agricultural inputs will face serious threat. The emerging scenario could endanger country's food security and trigger off unprecedented socio-economic upheavals.

The negotiations leading to WTO (1995) were dominated by developed countries who did not allow these issues to come to the centrestage nor did our negotiators make any worthwhile attempt. Eventually, though some reliefs were available viz., continuation of QRs on grounds of BoP problems etc., these did not touch even the fringe of the problems at the core.

Even in regard to the need for BoP cover, an IMF-dictated criterion, i.e., level of foreign exchange reserves, was adopted to guage whether a country was in problems or not. This is highly misleading as the country may have high reserves despite a significant deficit on trade account. In fact, India is currently in a situation which cannot be considered as healthy and yet, the panel has ruled against continuing BoP cover.

It is almost close to five years since the WTO was put into effect on January 1, 1995. During this period, the powers that be have only indulged in sermonising on the need for Indian industry to improve its working in order to face global competition. Unfortunately, they have neither the inclination nor time to understand that production costs are largely beyond its control and are constantly pushed up by actions of the Government e.g., increase in hydrocarbon prices, power tariffs, railway freight etc.

Consider, for instance, DAP -- a premier phosphatic fertiliser. For producing it, raw materials intermediates viz., phos acid and ammonia, have to be imported. Supplies of these are controlled by a few global players. And their pricing is such that C&F cost in one tonne DAP is either more or at best equal to the cost of imported DAP. The domestic units are thus perpetually handicapped, to the extent of at least conversion cost.

Likewise, in the case of urea, despite efficiency levels comparable to the best in the world, Indian industry produces it at significantly higher cost than plants in the Middle East, Russia and CIS countries.

This is because it pays many times more for feedstock than the plants abroad. For instance, the current cost of naphtha to the former is about $6.5 per million Btu as against a price of less than $1.0 per million Btu for gas charged to the latter.

At present urea imports are canalised.

The government authorises imports only to the extent required for plugging the gap between domestic supply and demand.

If it is decanalised and any one is free to import, this would render majority of plants unviable. In respect of DAP, which is already decanalised, domestic units are protected by giving higher concession under ad hoc schemes. If the differential is removed it would go into the dumps.

Even as developed countries continue to heavily subsidise their agriculture (notwithstanding reduction commitments under WTO), our farmers are not only saddled with low crop yields, but also are under tremendous pressure to pay for imputs viz., fertilisers, seeds credit etc., at market determined rates.

This together with high cost of processing marketing and distribution will put them to significant disadvantage vis-a-vis imports in a QR-free regime.

Against this backdrop, removal of QRs will lead to drastic reduction in production of foodgrains and other agricultural crops and attendant loss of employment and income. Already, the capacity of agriculture to provide jobs has been substantially eroded. The situation will become unanageable in the event of allowing unfettered imports.

Against this backdrop, during the Millennium Round beginning at Seattle in November 1999, the Indian delegation should give top priority to the need for protecting India's agriculture, maintaining food security and ensuring high levels of employment and income.

Instead of getting bogged down with the period of phase out i.e. 2001, 2003 or 2005, the emphasis has to be on securing a deal that would help in subserving these overriding objectives.

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