

## **Ambitious Trade Liberalisation and Indian Agriculture: The Case of the Proposed EU-India Free Trade Agreement<sup>1</sup>**

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When the European Union and India launched talks on a bilateral trade and investment agreement in 2007, the negotiations were expected to be long and complex. But since then its development implications have been of increasing concern to stakeholders, policy analysts and civil society in India and Europe.

The FTA includes chapters on goods (both agricultural and industrial commodities), services, intellectual property and contains provisions that go way beyond the WTO or are WTO plus. In addition, there are chapters on areas left untouched in the WTO as these were considered sensitive for developing countries; namely investment, public procurement and competition policy. Dispute settlement and trade facilitation are also included. The EU wants a chapter on sustainable development, which includes provisions on labour and environment standards which India has refused to include so far, on the grounds that these are non-trade issues.

Agriculture remains a sensitive issue in India with almost 70% of its population still directly dependent on it. Indian agriculture, unlike big capital based European agriculture, revolves around numerous small farmers who earn their livelihoods from cultivating small plots of land, and with limited access to resources like water, seed and fertiliser. 83695 thousand marginal farmers (those own less than 1 hectare of land) who represent 65% of farmers in India, own only 20% of total land, with an average holding size of 0.38 hectares<sup>2</sup>. Only 46.13% of the area under such holdings receives any form of irrigation<sup>3</sup>. Rural poverty estimates vary between 28.3% and 87%<sup>4</sup>. The agriculture sector also has a higher proportion of women workers compared to other sectors. Tribal, indigenous communities also form a sizeable chunk. All these are constituencies with low education, skills and low productive resources.

India's agriculture sector has also suffered from low investment and policy neglect, and farmers' productive ability is constrained by grossly inadequate infrastructural facilities like road and transport systems, marketing and storage facilities. The institutional credit system, technology development and extension services are still weak. Unlike Europe, Indian farmers enjoy very little direct subsidy on agriculture. The Indian farmer is still largely left to fend for himself and to eke out a living by producing food both for his own consumption as well as for the market. Their ability to feed themselves is intrinsically linked to their ability to sell, and therefore, to produce.

It is not surprising, therefore, that agriculture and food security emerge as critical issues in India's trade agreements, be it the WTO or in its Free Trade Agreements. At the WTO, India has often taken strong positions to safeguard its farmer's livelihoods, be it from import surges or from Western subsidies or on

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<sup>2</sup> Data refers to 2005-06, Indian Agricultural Census, Government of India.

<sup>3</sup> Data refers to 2000-01, Indian Agricultural Census, Government of India.

<sup>4</sup> There are 5 alternative estimates of rural poverty .28 % (Planning Commission), 50 % (N.C. Saxena Committee Report), 42 % (Tendulkar Committee Report), 77 (National Commission for Enterprises in the Unorganised Sector Report), 87% (Utsa Patnaik).

development and food security considerations. Considering that the FTAs in general and North-South FTAs in particular, move towards a WTO plus framework for agriculture, the impact of such liberalisation on this sector remains critical. In addition, this particular FTA brings together many interlinked chapters all of which can have a combined and cumulative impact on not only the way India trades but on its entire production and distribution systems.

There are several features of this FTA that must be looked at in detail in order to have an understanding of the possible consequences on Indian agriculture.

### **The Provisions in EU-India FTA and Impact on Agriculture**

India's current agricultural trade is low and accounts for only 2.9% of its merchandise imports. But that is also because India still imposes quite a high applied tariff (duty) at a simple average of 31.8% (2009) on agricultural products while its notified bound or maximum duty is 113.1%. On the other hand, Indian products face a much lower duty of 13.8% in EU markets of agricultural products. Again, India offers duty free access only in fruits, vegetables and plants (21.7%) and vegetable oils (72.9%) while 60% of India's agricultural products can technically enter EU duty-free.

However, even though the EU has low tariffs, it gives high subsidies to its agricultural producers which work both as a protective instrument in its domestic market, as well as a competitiveness enhancing instrument for EU's exporters. Indian products also face high non tariff barriers (NTBs) like food and other standards as well as technical barriers in EU, making exports difficult, while NTBs are lower in India. Given the tariff and NTB structures in the two countries, the EU obviously has much more to gain in terms of tariff reduction while India's gains lie in getting NTBs reduced, simplified and harmonised and in the removal of EU subsidies, a much discussed issue in the trade talks even at the WTO.

*But what does the FTA contain?* Tariff reduction to zero is included on at least 90% of tariff lines. Export taxes have to be totally removed, threatening the government's control over domestic food supply even in times of a crisis. There may even be a standstill on the exempted tariff lines, i.e. duties cannot be raised from current MFN levels. Non tariff barriers in the form of standards, sanitary and phyto sanitary measures and technical barriers (TBTs) are also being discussed. However most of EU FTAs show that affirmation of at least WTO standards has been followed. According to unverified information, there are no Special Products (SP)<sup>5</sup>. The Special Safeguard Mechanism (SSM), over which India took a strong stand in the WTO, is also much diluted. Apparently, EU has allowed only a volume trigger<sup>6</sup> but not a price trigger<sup>7</sup>.

However removal of EU's agricultural subsidies is not on the cards. Under the Common Agricultural Policy (CAP) which still takes up 40% of EU budget, EU still gives huge amounts of subsidy to its farmers on dairy, poultry, cereals. Enough literature exists (for example UNCTAD 2007<sup>8</sup>) to show that domestic subsidies are very much trade distorting and affects global prices thus reducing competitiveness of smaller producers in developing countries. However subsidies cannot be negotiated under any free trade agreement as it is a multilateral issue and can, therefore, be negotiated, only at the WTO level. Therefore the EU-India FTA in

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<sup>5</sup> Special Products are those that enjoy protection on the grounds of protecting farmers' livelihoods, food security and rural development.

<sup>6</sup> Tariffs can be raised when the volume of imports crosses a certain threshold.

<sup>7</sup> Tariffs can be raised when import prices fall below a certain percentage of a referral period price.

<sup>8</sup> UNCTAD India (2007) 'Green Box Subsidies: A Theoretical and Empirical Assessment'

agriculture harps on the reduction of tariffs but is silent or hazy on the removal of non tariff measures like subsidies, standards and TBTs.

### *Projections*

Impact assessment studies suggest very little gain in commodity trade. Trade surplus in agriculture will turn into a trade deficit and a long run fall in agricultural employment is predicted<sup>9</sup>. A small increase in agricultural exports will be countered by a larger increase in agricultural imports.

While India's share in EU's markets in primary products, cereals, other crops and products from animal origin will remain constant (at 0.3, 1.2, 0.6 and 0.1% respectively), EU will increase its share in all these markets as a result of the FTA<sup>10</sup>. For example, in primary products EU's share increases from 4.9% to 16.7% by 2020, and from 17.6% to 23.5% in cereals. In products of animal origin, EU's share is projected to increase from 7.5% to 10.4% by 2020. Projections for 2020 also show that while EU will gain USD 321 million in agro food products, India will gain only 7 million USD<sup>11</sup>. Similarly, EU will gain 133 million USD in cereals while India gains only 7 million USD. In products from animal origin, EU gains 150 million USD compared to 1 million for India. In primary products EU gains 5128 million USD while India gains 39 million USD.

The asymmetric nature of this agreement is expected to hurt commodity producers in agriculture and industry, including dairy, poultry, wheat, sugar and confectionary, oilseeds, plantation products and fisheries (the latter is under NAMA). Apart from EU's subsidised competitiveness in dairy and poultry products, EU's global trade patterns show increasing exports in commodities such as wheat, oilseeds, plantation products; commodities which still enjoy high applied tariffs in India. EU is also interested in selling wines and spirits to India, where India's current applied tariff is a high 70.8% (on beverages and tobacco).

EU has made signalled that meaningful market access by India for wines, beer and spirits and in other areas of key offensive interests to EU like dairy, poultry, cereals, fisheries, and processed agricultural products (PAPs), often by removing them from the negative list, is essential for the conclusion of the FTA.

Once these protections are removed, EU products are likely to flood Indian markets in these segments. European exports can also destroy value added agro processing in India, as well as basic crops by destroying the linkage with local processing industry.

### *A Skill Biased FTA*

The structure of this FTA benefits Indian services compared to agriculture and even manufacturing. Even within services, the benefits are likely to accrue only to skilled areas such as IT & banking. With literacy rate just above 60%, the lack of these skills among large sections of the population, especially among farmers and agricultural workers, makes it difficult for them to shift between sectors. They will most likely end up among India's growing informal workers which accounts for 92% of India's total employment (420 million) and poverty among non-agricultural unorganized workers (both men and women) is estimated at 20.6 per cent (NCEUS 2007). Women are special victims of such shifts.

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<sup>9</sup> ECORYS, CUTS, CENTAD (2009) Trade Sustainability Impact Assessment of the EU-India FTA

<sup>10</sup> CEPII-CIREM (2007) Economic Impact of A Potential Free Trade Agreement (FTA) Between The European Union And India

<sup>11</sup> CEPII-CIREM (2007) Economic Impact of A Potential Free Trade Agreement (FTA) Between The European Union And India

### *TRIPS plus Intellectual Property Rights*

The EU has been quite insistent on its requirement for TRIPS plus IP protection. This affects not only issues like access to cheap medicines by threatening India's generic production of medicines, there but agriculture and food related issues as well. For example ratifying UPOV 1991 according to EU's demands, will prevent Indian farmers from saving, using and freely exchanging seeds. In addition, provisions under the present law, such as the registration of extant and farmers' varieties and benefit sharing provisions to compensate farmers' for their innovations will also be threatened. In addition, the IPR text also includes patent term extension by five years which also refers to plant protection products (Correa 2009). Such measures can affect Indian farmers' access to seeds, traditional cultivation systems, encourages monoculture, and adversely affect bio diversity.

### *Strong investment rights threaten access to natural resources like land, water, energy sources*

Strong investment provisions that allow foreign access to land, minerals, water and forest products will surely threaten livelihoods, food security and basic sustenance of small farmers, tribal communities, women and children who already have unequal access. It can heighten land grabbing in resource rich areas, thus taking away critical access to cultivable land and other productive resources from tribal, indigenous and rural communities. It can even threaten the survival of our agriculture based industrial sectors by starving them of raw material through investment and removal of export taxes.

### *Services and Public Procurement*

The liberalisation of retail services can also put pressure on small farmers' livelihoods. Not only do big supermarkets ask for very high standards and reject produce on grounds of not meeting that quality, they can gradually take away farmer's access to local markets. Sometimes farmers are initially given high prices but with increasing dependence on big buyers from retail chains, the prices have often come down.

In addition, if government procurement is liberalised with market access to the EU, then special acquisition from farmers for the Public Distribution System (PDS) may also become difficult and European producers will have to be given equal treatment to this mechanism which essentially provides price support to Indian farmers. PDS must be kept out of the purview of the public procurement and the investment chapter.

### *The Global Agricultural Market and India's Food Economy*

What this does to India's food economy and food security are also urgent questions. In a situation of volatile global market, speculation in agricultural commodities and a still persisting food crisis, depending on imported food and curtailing the ability of domestic producers to produce their own food may not be prudent options. Both producers and consumers are hurt by the volatility in global prices.

### **Current State of Play: When do We sign the Deal?**

Alternative information <sup>12</sup>shows the deal is expected to be concluded March/ April or June of 2011. However, final signing may have to wait till the end of the year. While a lot of the talks in agriculture and NAMA are now over, differences remain over some sensitive segments like dairy, poultry, wines and spirits.

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<sup>12</sup> EC notes to CSOs in Europe and Newspaper reports

It is obvious that EU will not give up on its demands in the agriculture sector. EU also wants its agricultural GIs (highly relevant to wines and spirits) to be recognised in exchange for recognition of India's non-agricultural GIs. This can also be a problem because India's underdeveloped IP system in agriculture cannot compete with EU's well advanced system of IP recognition.

In exchange for giving significant market access India wants an asymmetrical package from EU on agriculture. This consists of longer implementation periods and asymmetrical coverage expressed. However, EU actually wants India to improve its offer on tariff line coverage, and increase its offer to 95%.

While subsidies are still off limits, discussions are still continuing on safeguards such as special products and the special safeguard mechanism. On the non tariff barrier front, India wants more from EU on conformity assessment which has been a major problem for Indian exporters in the past.

### **The Process of Negotiations and the Indian Democracy**

The lack of consultation and transparency during the process of these negotiations has been a consistent worry to CSOs and development policy analysts. The lack of consultation with all stakeholders, especially vulnerable groups like farmers, indigenous groups, women, patients groups, MSMEs, have been a feature of such FTA negotiations. In India and EU, neither the draft text nor the impact assessment studies have been shared with stakeholders, state governments or with civil society, making alternative development friendly analyses by independent non government agencies very difficult. Final sensitive lists are not made public, and there has been almost no effort on the part of the government to prepare affected stakeholders for dealing with the impact of such agreements.

The political process surrounding such negotiations remains undemocratic and non-transparent. There is no parliamentary oversight and ratification of this and other FTAs in India. Even state (or provincial) governments are not consulted in this process nor are their ratifications mandatory. This is in conflict with the fact that agriculture is a 'state subject' in India<sup>13</sup>. In Europe while the European Parliament has ratification mandate, their ability to ask for changes in the text remains limited.

***In conclusion***, the EU-India FTA is expected to have significant impact on livelihoods, access to food and productive resources in Indian agriculture, especially of the poor and marginalised. That such an important policy measure can be introduced without transparent and extensive consultations with stakeholders undermines Indian democracy. In terms of EU's trade policy, the joint perusal of CAP and the demands made in its FTAs with developing countries seriously undermines EU's image of being supportive of sustainable development in the Third World.

EU's insistence on including agriculture belies the European Commission's claims that agriculture is not a major issue in the negotiations. It is clear that EU recognises that it is a hugely sensitive sector for India in terms of its livelihood and food security implications, but is still continuing with aggressive demands in this sector.

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<sup>13</sup> Different areas fall under different lists where central or state governments have the authority to formulate policy. India has a central list, a state list and a concurrent list.