

Ambitious Trade Liberalisation and Indian Agriculture: The Case of the Proposed EU-India Free Trade Agreement

Ranja Sengupta

Senior Researcher, Third World Network

When the European Union and India launched talks on a bilateral trade and investment agreement in 2007, the negotiations were expected by most stakeholders to be long and complex. However, the negotiation process turned out to be not only complex but non-transparent and thus its development implications have been of increasing concern to stakeholders, policy analysts and civil society in India and Europe.

The FTA includes chapters and provisions on goods (both agricultural and industrial commodities), services and intellectual property rights that go way beyond the WTO. In addition, the agreement addresses issues which are left untouched in the WTO as these were considered sensitive for developing countries; namely investment, public procurement and competition policy. Agriculture and food security emerge as critical issues in the India's FTA negotiations as well as at the WTO. India has often taken strong positions at the WTO to safeguard its farmer's livelihoods, be it from import surges, from western subsidies or on development and food security considerations. Considering that the EU Indian FTA goes way beyond the WTO 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.

Agriculture remains a sensitive issue in India with almost 70% of its population still directly dependent on it. Indian agriculture revolves around numerous small farmers who earn their livelihoods from culti-

vating 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 hectares¹. Only 46.13% of the area under such holdings receives any form of irrigation². Rural poverty estimates vary between 28.3% and 87%³. 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.

Therefore there are several features of the EU India FTA that must be looked at in detail in order to have an understanding of the possible consequences on Indian agriculture, poverty and food security.

1 Data refers to 2005-06, Indian Agricultural Census, Government of India.

2 Data refers to 2000-01, Indian Agricultural Census, Government of India.

3 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).

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. 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 if tariffs are cut while India can gain if and only if NTBs and subsidies are significantly reduced.

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 but are unlikely to be significantly reduced
- 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 trigger⁴ but not a price trigger⁵.

However removal of EU's agricultural subsidies is not on the cards as subsidies are accepted as a multilateral issue negotiable only at the WTO. Under the Common Agricultural Policy (CAP) which still takes up 32% of EU budget, EU still gives huge amounts of subsidy in forms of direct payment to its farmers. Enough literature exists⁶ to show that

even decoupled domestic subsidies are very much trade distorting and affect global prices. This finally ends up in reducing competitiveness of smaller producers in developing countries.

What is likely to happen? Some Projections

Impact assessment studies suggest very little gain for India in commodity trade. Current trade surplus in agriculture is likely to turn into a trade deficit and a long run fall in agricultural employment is predicted⁷. 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 cereals, other crops, agro-food and products from animal origin will remain constant, EU will increase its share in all these markets as a result of the FTA⁸. Projections indicate that EU's share in primary products is likely to increase 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 and from 2.9 to 5.3% in agro-food.

The asymmetric gains of this agreement are expected to hurt commodity producers in agriculture and industry in India, including dairy, poultry, wheat, sugar and confectionary, oilseeds, plantation products and fisheries. 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 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.

4 Tariffs can be raised when the volume of imports crosses a certain threshold.

5 Tariffs can be raised when import prices fall below a certain percentage of a referral period price.

6 See for example, UNCTAD India (2007) 'Green Box Subsidies: A Theoretical and Empirical Assessment'

7 ECORYS, CUTS, CENTAD (2009) *Trade Sustainability Impact Assessment of the EU-India FTA*

8 CEPII-CIREM (2007) *Economic Impact of A Potential Free Trade Agreement (FTA) Between The European Union And India*

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.

TRIPS plus Intellectual Property Rights

The EU has been quite insistent on its requirement for TRIPS plus Intellectual Property (IP) protection. This affects agriculture and food related issues. For example ratifying UPOV 1991 according to EU's demands, will prevent Indian farmers from saving, using and freely exchanging seeds. In addition, the IPR text also includes patent term extension by five years which also refers to plant protection products (Correa 2009). All such measures could affect Indian farmers' access to seeds, traditional cultivation systems, encourages monoculture, and adversely affect bio diversity.

Investment rights

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 as well as raw material from the domestic industry.

Services

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.

The Process of Negotiations and the Democratic Rights of Stakeholders

When do we sign the deal? Alternative information shows the deal is expected to be concluded March/April or June this year. 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. It is obvious that EU will not give up on its demands in the agriculture sector. 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%. 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, a contentious demand that India has refused to grant.

The lack of transparency and adequate consultation with all stakeholders, especially vulnerable groups like farmers, indigenous groups, women, patients groups, MSMEs, during the process of these negotiations has been a consistent worry to CSOs and development policy analysts. In India, 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 India⁹. 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,

⁹ 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.

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.

The new trade strategy: Global Europe takes up arms – Tough demands and hackneyed declarations

The European Union (EU) is going into the new year with a new trade strategy, but it is not nearly as new as it looks. The strategy presented by Trade Commissioner Karel De Gucht last November calls for more rights and fairness in world trade – for European companies. Otherwise it does little more than prescribe more of the same old medicine.

By Armin Paasch, Misereor

The European Commission intends to start enforcing the foreign trade interests of European companies more rigorously, and “with all available means”. It views bilateral free trade agreements as the most important instrument towards achieving this aim, with the WTO serving largely as a “shield against protectionist backsliding”. More specifically, the Commission intends to take a tougher line vis-à-vis newly emerging economies, and to insist more and more on the principle of reciprocity instead of preferential treatment.

Global Europe and Europe 2020

Trade, Growth and World Affairs is the somewhat pretentious title of the new trade strategy replacing the 2006 Global Europe Strategy (EC 2010a and Commission 2006). This new master plan is intended to be the tangible expression of the external dimension of the Europe 2020 strategy and thus an important contribution to “smart, sustainable and inclusive growth” (EC 2009). What can be clearly said about it is this: EU trade policy fails to reflect any of the new regulatory approaches on the table since the global economic and financial crisis, for instance instruments to regulate the financial

markets. On the contrary: the Commission intends to roll back protectionist reactions to the crisis as swiftly as possible. Its unassailable creed is that “open economies tend to grow faster than closed economies”.

The Commission claims, more than 36 million jobs in Europe depend “directly or indirectly” on foreign trade. If free trade agreements currently on the negotiating table were to be finalized – as claimed in the foreword of the strategy paper – the European economy would grow by one additional percentage point. As early as five years from now, the paper assumes, 90% of growth will be taking place outside Europe. “My aim is to ensure that the European economy gets a fair deal and that our rights are respected so that all of us can enjoy the benefits of trade”, declared Trade Commissioner Karel De Gucht on November 9th.

A fair deal for the EU?

Reducing customs tariffs for EU agricultural and industrial exports remains an important goal towards achieving a fair deal. It is one which should be based on reciprocity and, in terms of its substance, cover “substantially all trade”. In actual fact, the EU expects ACP countries to abolish at least 80% of all duties, and according to reliable sources, even 98% in the case of India. A working paper accompanying the communication on the new strategy makes the claim that the tariff reductions planned within the scope of ongoing negotiations will boost trade even more than the elimination of non-tariff trade barriers (EC 2010c: 6). Yet the Commission, much as it did in 2006, continues to view the latter category as presenting the most significant challenges to “smart growth”:

Services meanwhile account for 70% of global economic performance, but for only 20% of world trade. As the world's market leader in this area, the EU therefore seeks, “by all means available, greater openness for its service providers”.

The Commission wants trade agreements – particularly those with Canada, Singapore and India – to include more protection and market liberalization for European *investments*.

Government procurement, for instance in transport, health care and green technologies, represents more than 10% of GDP in industrialized countries, and as much as 20-30% in developing countries (EC 2010b: 20). Here the Commission wants to “continue to press for more opening of procurement abroad, and [...] in particular fight against discriminatory practices”. (EC 2010a: 6).

Another Commission priority is securing “sustainable and undistorted supply of raw materials and

energy”; to this aim it intends to exploit and develop trade rules “to the maximum” (EC 2010a: 8). It also calls for the elimination of barriers to trade in environmental goods and services for the benefit of “sustainability” and climate protection. And finally, in the area of intellectual property rights for European companies, the Commission ideally wants free trade agreements to offer “identical levels” of protection to those existing within the EU, of course taking into account the level of development of the countries concerned.

The end of “naivety”

These priorities are not new. To a large extent, they reflect the agenda outlined by the Commission in its 2006 communication on *Global Europe*, and they are goals it has vigorously pursued in bilateral negotiations with ACP countries, Andean countries, South and South-East Asia, South Korea, India etc. What has changed since 2006 is the acceptance of negotiations with individual countries whenever “complex intra-group dynamics” threaten to lower levels of ambition (EC 2010b: 23). De facto, the EU has long since implemented this step, which is so detrimental to regional integration, vis-à-vis many ACP countries as well as vis-à-vis Colombia, Peru, Singapore and Malaysia.

The conspicuously aggressive undertone of the document is also something new: “The EU will remain an open economy but we will not be naïve”, the communication defiantly claims. “[...] we will act vigorously against any protectionist tendencies that may harm our interests.” (EC 2010a: 4 and 12). The new strategy therefore pays significantly more attention to implementing instruments than it did in 2006. The Commission sees the WTO primarily in the role of a “shield against protectionist backsliding”. It would like to see this body’s monitoring functions and dispute settlement system being strengthened, and favours the integration into the WTO of strategically important countries such as Russia. It intends to set up a “group of eminent persons” who should make “independent recommendations” to help shape the post-Doha agenda.

Aside from the WTO, the strategy also includes a section on the EU’s enforcement and implementation agenda in the area of trade policy. Alongside innocuous instruments such as “naming and shaming” within the scope of the G20, the paper also includes the serious prospect of trade defence instruments being applied more rigorously in future to counter export restrictions (EC 2010a: 13). In order to extract more concessions from trading partners in the area of public procurement, services or investment, the

Commission, according to its progress report on *Global Europe*, would even consider threatening “to temporarily reduce the EU’s level of openness”. The document admits that this type of strategy would need to be carefully designed (EC 2010b: 24)

Reciprocity instead of preferential treatment

The EU’s tougher stance will particularly affect larger emerging economies: “Trade policy will not gain public support in Europe if we do not have fair access to raw materials, or if access to public procurement abroad is blocked” (EC 2010a: 4). The Commission expects both its developed and emerging partners to match its efforts “in a spirit of reciprocity and mutual benefit”. It evidently now wants to extend the principle of reciprocity, which until now had applied to developing countries only within the scope of bilateral agreements, to other policy areas as well. Before the Doha Round agreement can be concluded, the progress report claims, “a general understanding on key issues of ambition, balance and reciprocity” would need to be reached (EC 2010b: 5).

With a view to the upcoming reform of the General System of Preferences (GSP) in the EU, which it plans to propose in 2011, the Commission is now declaring that benefits must be focused on the “countries most in need”. For instance, it explicitly names the preferential market access currently granted to India within the scope of the GSP as a problem in view of the high trade barriers impeding the activities of European companies there. There are several indications that newly industrialized countries might ultimately be the losers of the GSP reform. Another alarming aspect of this issue is the remark that granting GSP preferences could not only be based on respect of human rights, the environment or labour standards but also made contingent on certain tax matters, a remark which might very well be a reference to export taxes. In this context, the claims made in the section on “Inclusive growth” about offering more opportunities to developing countries sound trite. The Commission fully ignores the fact that countries like India and China are still home to the great majority of the world’s poor and hungry.

The coherence of foreign trade policy with the MDGs and human rights is one of the basic precepts of the EU Treaty. And yet, nowhere is any critical reflection to be found on the potential effects of the deregulation measures called for by the EU. NGOs and UN human rights bodies fear that displacement of small farmers as a consequence of a radical

elimination of tariffs will lead to infringements of the basic right to food. Market liberalization for services and investments could cause displacement of small retailers by European supermarket chains. Tightening intellectual property rights could restrict the access of poor people to generic medicines and seeds, which in turn would jeopardize their rights to health and food. Not one of these issues, which were also brought up by NGOs in the EU public consultation process, is mentioned in the strategy. Before this backdrop, it remains doubtful whether positive new approaches can be expected from the Communication on trade and development announced by the Commission for 2011.

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EcoFair Trade Dialogue Conference and Strategy meeting in Prague

by Dagmar Praskova, Glopolis



*EcoFair Trade Dialogue Strategy Meeting Prague
October 2010*

In the occasion of World Food Day in October 2010, the EcoFair Trade Dialogue Project organized a two-day International conference and first Strategy meeting of organizations interested in creating an EcoFair Trade platform for future cooperation.

The conference was called "Fighting Hunger – Towards an Ecofair Approach on Trade and Agricultural Policies". Main questions of the first day were how to put the first Millennium Development Goal back on track, what impacts the Common Agriculture Policy has on vulnerable poor people in developing countries and how CAP is coherent with food security policies. These questions were answered during the second day with focus on possible solutions for fair and sustainable agro-food systems such as EcoFair trade rules, sustainable agricultural investment, potentialities of a human rights approach, ecological modes of production or stable remunerative prices.

Among many experts and representatives of the European non-governmental sector, speaker's role was given to the newly presented EcoFair Trade Ambassadors from Burkina Faso, Kenya, India and the Philippines. They shared their experiences and perceptions related to the problems of current trading regime and European policies faced by their countries. These ambassadors will be involved in numerous activities of the whole EcoFair Trade Project which will primarily enrich the debate by practical arguments.

The participants agreed that if hunger and poverty is to be eradicated or at least reduced there is the need to support small-scale farmers in developing countries and place them at the center of the fight against hunger. They should have greater control over resources and women should be given stronger

position in society. Respecting human rights, especially the right to food, should be the key point in the debate on food and agricultural policy. There is also need for a change at the international level such as greater support for local production, focus on food sovereignty, trade and investment policy reforms, regulation of agricultural commodities speculations and price volatility, increase in agricultural investment targeting real priorities and restriction of land grabbing. Finally, speakers concluded that civil society should initiate human rights impact assessments and alternative trade mandate in order to influence directly the European policies.

During the Strategy meeting, a coalition of organizations agreed that the main objective of common activities would be the monitoring of the possible impact of the European trade, agriculture or finance policies on small-scale farmers through a human rights perspective. More concretely, the interest will be concentrate on Free Trade Agreements, food commodity speculations and high volatility prices, land grabbing and negative impact of foreign direct investment, possible displacement of small food producers due to European exports of milk and meat products or negative impact of European food consumption and production patterns promoted by the CAP on food producers in the South.

The project partners, Heinrich Böll Foundation, Misereor and Glopolis, will also strive for close cooperation with the Southern and European partners through involvement of different events and activities. This cooperation will be realized in the form of co-editing/commenting of publications, co-organizing seminars and workshops or simply sharing information. The the Ecofair Trade Dialogue wants to cooperate in initiatives of existing such as CAP campaign of the German Forum for Environment and Development, the development of an Alternative Trade mandate (ATM) supported by the Seattle to Brussels Network (S2B), the Stop EPA Campaign and others.

New Publications of the EcoFair Trade Dialogue:

Agriculture and Trade after the Peak Oil by Rajeswari S. Raina:

Peak oil – a peak in global oil production when a significant proportion of recoverable resources has been produced – will induce several changes in the way we produce and distribute agricultural

commodities, especially food. How will the current excessive and wasteful dependence of agriculture on fossil fuels be affected once oil becomes expensive and supplies decline? The objective of this discussion paper is to offer decision-makers and citizens a synthesis of existing information on likely changes in the agri-food systems once oil becomes expensive and scarce. The paper highlights the fossil-fuel dependence in existing agricultural production and distribution systems as part of a larger and highly unsustainable structural problem in the global economy.

Trade and Food Reserves: What role does the WTO play? By Sophia Murphy:

Reserves offer an obvious way for governments to reduce price and supply volatility. There is considerable tension among economists on the relative merits of trade and reserves, in a debate that often assumes that the policies are somehow in competition with each other. The idea of food reserves tends to find favour among those who do not believe trade liberalization serves food security well. Those that are persuaded by free trade arguments tend to see reserves as market distorting and an unnecessary public expense. In fact, trade and reserves policies should be complementary strategies.

Both publications can be downloaded at:
www.ecofair-trade.org

Impressum

EcoFair Trade Dialogue (www.ecofair-trade.org)

Heinrich-Böll- Foundation
Schumannstrasse 8, 10117 Berlin
0049 30 285 34 - 0
info@boell.de

Bischöfliches Hilfswerk MISEREOR e. V.
Mozartstraße 9, 52064 Aachen
0049 241 442-0
info@misereor.de

Prague Global Policy Institute – Glopolis
Soukenická 1189/23
110 00 Prague 1
00420 272 661 132
info@glopolis.org

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