The dispute about sugar subsidies at WTO

Why in news?

India is in negotiations with Brazil to resolve a long-standing dispute about sugar subsidy at the World Trade Organisation (WTO).

What is WTO?

- The World Trade Organization is the only international organization that deals with the rules of trade between countries.
- **Establishment**- It was created in 1995 superseding the 1947 General Agreement on Tariffs and Trade (GATT).
- **Members**- The WTO is run by its 164 members representing 98% of world trade.
- **Decision making**- Unlike other organisations, such as the IMF or World Bank, WTO does not delegate power to a board of directors or an organizational chief.
- All decisions are taken through consensus and any member can exercise a veto.

How disputes are settled in World Trade Organisation (WTO)?

- The bilateral consultation is the first step to resolve a dispute as for the proceedings in the WTO.
- If the sides are unable to resolve the matter through consultation, either can approach the Dispute Settlement Panel.
- The panel's report can be challenged before an Appellate Body.
- The WTO Appellate Body's decision will be considered final on the dispute.
- However, the body is unable to review cases at present given ongoing vacancies.
- WTO member countries can resolve disputes outside the dispute settlement mechanism and later inform the multi-lateral body about the same.
- India is in bilateral talks with Brazil to resolve the long-standing sugar dispute at WTO.

What is the dispute about?

- In 2019, Brazil had submitted a complaint against India in WTO alleging that India's according of sugar subsidies was inconsistent with its trade rules.
- **Support measures -** The complainant argued against the -
    - Minimum prices of sugarcane and sugar
    - Fair and remunerative prices (FRP)
    - Specific states enforcing higher minimum prices
    - Minimum Indicative Export Quota (MIEQ)
- **Reason -** Brazil, Australia and Guatemala criticized that India's support measures to sugarcane producers exceed the de Minimis level of 10% of the total value of sugarcane production.
- The countries argued that the sugar subsidies incentivised Indian sugarcane farmers

which led to increased domestic production of sugarcane and sugar.
- It contended that with production exceeding domestic demand resulting in increased sugar stocks the government intervention facilitated lowered prices for the commodity in the global market.

India is the second-largest exporter of sugar in the world behind Brazil, which is also the largest exporter.

What did the WTO say?

- WTO constituted a panel to study the allegations in October 2019, which submitted its report in December 2021.
- The WTO panel report concluded that India was providing 'lump sum assistance' for expenses emanating on account of sugar towards maximum admissible export quality (MAEQ).
- The panel stated that the support measures of India are inconsistent with WTO trade rules under Article 7.2 (b) of the Agreements on Agriculture (AoA).
- The WTO asked India to withdraw its exports subsidies within 120 days from the circulation of the report.

Article 7.2 (b) of the Agreements on Agriculture (AoA) stipulates that members cannot provide support in excess of the relevant de Minimis standards.

What is India's defence?

- **India's Stand -** Following the report, the Indian government stated the dispute panel's findings are unreasonable and not supported by the WTO rules
- The report also evaded key issues which it was obliged to determine.
- India held that the schemes are meant to support sugarcane producers and exports and are well within its obligations under the WTO agreements.
- **Appeal -** In January 2022, India appealed against the panel's ruling at the WTO's appellate body.
- In its appeal, India held that the panel 'grossly errs' in holding that the MAEQ were of the 'same essence' as other alleged export subsidies.
- Further, it contended that FRP and state-advised prices do not constitute 'applied administrative prices'.

Sugar Production in India - Last year and ongoing season
• In Sugar Season (Oct-Sep) 2021-22, India emerged as the world's ***largest producer and consumer*** of sugar.
• India had exported 11 million tonnes in the last year where the production stood at 35.9 million tonnes.
• For the ongoing sugar season, the production is estimated to be 32.8 million tonnes.
• India had allowed exports of 6.1 million tonnes for the ongoing season exhausting the quota.
• With annual domestic consumption is pegged at 27.5 million tonnes, there is a potential ground for price uncertainty domestically and outside.

Quick Facts

- **FRP -** The Fair and Remunerative Price (FRP) is the minimum price that sugar mills have to pay to sugarcane farmers.
- **MAEQ -** Maximum Admissible Export Quality (MAEQ) works as a marketing assistance listing upper limit for exports of sugar.
- **MIEQ -** Minimum Indicative Export Quota (MIEQ). Under mill-specific MIEQ, sugar mills must export an allocated amount of sugar by the end of each season (October-September).

References

1. The Hindu - What is the dispute about sugar subsidies at WTO?
2. ET - India in bilateral talks with Brazil to resolve sugar dispute at WTO

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