Why is India challenging WTO verdict on sugar?

WTO verdict on sugar subsidies, Fair and Remunerative Price (FRP), Drop in sugar prices, WTO's dispute settlement panel, Appellate Body of the WTO

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Why in news?

India filed an appeal with the Appellate Body of the WTO disputing a verdict by the WTO's dispute settlement panel on sugar subsidies.

What is the issue?

- In 2019, Australia, Brazil, and Guatemala complained against India at the WTO.
- They argued that the subsidies (both domestic as well as export subsidies) provided by Indian government to sugar producers exceed the limits imposed by WTO trade rules. offered by India
- They believe that these subsidies have led to increased production of sugar and caused the price drop of sugar in the global market.
- According to WTO rules, subsidies **cannot exceed 10%** of the total value of sugar production.
- The WTO ruled that India's sugar policy was favouring domestic producers through subsidies at the cost of foreign producers.
- The panel recommended India to withdraw its alleged prohibited subsidies within 120 days from the adoption of this report.
- India provide subsidies under
    1. the Production Assistance
    2. the Buffer Stock
    3. the Marketing and Transportation Schemes
- India has stated that the WTO's dispute panel ruling has made certain erroneous findings and is completely unacceptable.

India is the second-largest sugar producer in the world after Brazil

What is India’s stand?

- India has argued at the WTO that it does not offer direct subsidies to sugarcane farmers and thus doesn’t break any international trade rule.
- **FRP-** The other countries oppose that the Centre and the State governments in India mandate the minimum price (**Fair and Remunerative Price**) at which sugar mills can buy sugarcane from farmers.
- States also set minimum procurement prices that may be higher than the Centre’s price to adjust for conditions at the local level.
- **Drop in sugar prices**- The high procurement price for sugarcane set by the Government is believed to have led to a supply glut that in turn has caused drop in sugar prices.
- The low price of sugar has affected the revenues of mills, their ability to pay farmers and several sugar mills are caught in a debt trap as consumer demand for sugar has remained stagnant.
- The Centre has even mandated the compulsory blending of ethanol derived from sugarcane with fuels such as petrol and diesel.
- **Restructuring loans**- State governments and the Centre have regularly intervened to reduce the debt burden on sugar mills.
    - Earlier this month, the Centre decided to restructure loans worth over Rs. 3,000 crore offered to sugar mills by the Sugar Development Fund.
- **Fund for export**- The Centre also regularly sanctions funds to encourage sugar mills to export sugar depending on sugar prices in the global market.
    - In the budget last year, the Centre allocated a total of Rs. 3,500 crore to fund the export of 6 million tonnes of sugar.

What lies ahead?

- India has filed an appeal with the Appellate Body of the WTO disputing a verdict by the WTO’s dispute settlement panel on sugar subsidies.
- The WTO Appellate Body’s decision will be considered final on the dispute.
- But the appellate body of the WTO is not functioning because of differences among member countries to appoint members, and disputes are already pending with it.
- In case India refuses to comply with the decision, it might have to face retaliatory action from other countries in the form of additional tariffs on Indian exports and other stringent measures.

- Such retaliatory measures may benefit producers in these countries but affect consumers who have enjoyed lower sugar prices due to subsidies offered by India.
- These actions will destroy the very purpose of WTO.

Reference

1. https://www.thehindu.com/business/Economy/explained-why-is-india-challenging-wto-verdict-on-sugar/article38275758.ece

