



WTO Needs to Relook at Farm Subsidies

For Prelims: WTO, GATT, Subsidy Boxes, Peace Clause, Di Minimus Clause

For Mains: WTO reforms, Issues with Subsidy Boxes, India's suggestions on WTO reforms

Why in News?

The finance minister of India has urged the [World Trade Organisation \(WTO\)](#) to look at the [issue of farm subsidies](#) with an open mind as it impacts the food security needs of emerging economies in the backdrop of COVID-19 pandemic and the Russia-Ukraine war.

- The FM said this while Speaking at the [Asian Development Bank \(ADB\)](#) Governor's seminar on 'Policies to support Asia's rebound.

Note:

- The Asian Development Bank (ADB) Governor's Seminar is an **annual event that brings together the Governors of ADB's member countries**, leading policy makers, development experts, etc. to discuss developmental issues in the Asia-Pacific region.
 - **Headquartered in Manila (Philippines), the ADB** is a regional development bank established in 1966 to promote economic and social development in Asia and the Pacific.
- **The Board of Governors** is ADB's highest policy-making body; comprised of one representative from each member nation.

What are the Subsidies under WTO?

- **Amber Box:**
 - Amber box subsidies are those **that can distort international trade by making a country's products cheaper** in comparison to those of other countries.
 - **Examples:** Subsidies for inputs such as **fertilisers, seeds, electricity, irrigation,** and [Minimum Support Price \(MSP\)](#).
 - According to the WTO, agriculture's **amber box is used for all domestic support measures** that are deemed to distort production and trade.
 - As a result, the trade **agreement requires signatories to commit to reducing trade-distorting domestic supports** that fall into the amber box.
 - Members who do not make these commitments must keep their amber box support within 5-10% of their value of production. (**Di Minimus Clause**)
 - **10% for developing countries**
 - **5% for developed countries**
- **Blue box:**
 - It is the **"amber box with conditions"** — conditions, designed to reduce distortion.

- Any support that would normally be in the amber box is placed in the blue box if **it requires farmers to limit production.**
 - These subsidies aim to limit production by imposing production quotas or requiring farmers to set aside part of their land.
- At present there are **no limits on spending on blue box subsidies.**
- **Green Box:**
 - Green Box is domestic support **measures that don't cause trade distortion or at most cause minimal distortion.**
 - The Green box subsidies are **government funded without any price support to crops.**
 - They also include environmental protection and regional development programmes.
 - "Green box" subsidies are therefore **allowed without limits** (except in certain circumstances).

Why is there a Need to Relook into Subsidy Norms?

- **Unequal Opportunities to Global South:**
 - Ever since the establishment of WTO, there has been a **complaint regarding the export of agricultural goods**, and in general, the viewpoints of the [Global South and emerging markets](#) **have not been given equal weight** as those of the developed nations in trade discussions.
 - The 'Global South' largely refers to countries in Asia, Africa and South America.
- **Issues with Food Subsidy Limit:** There is an **issue with the reference price adopted under global trade norms** - a WTO member country's **food subsidy bill should not breach the limit of 10%** of the value of production based on the reference price of 1986-88.
 - Subsidies for agriculture and poor farmers in developing countries were not counted at all and were frozen by the WTO.
 - **Food security is comparatively stronger in developed nations** than in developing countries because of **the unbalanced nature of trade agreements.**
- **Rising Food Insecurity: The challenges on food security posed by the Covid-19 pandemic and [Russia-Ukraine conflict](#)** have once again emphasized to relook the subsidy norms as food and fertilizer security have become more important now.
- **India's Demand:** As part of permanent solution, **India has asked for measures like amendments in the formula** to calculate the food subsidy cap and **inclusion of programmes implemented after 2013** under the ambit of **'Peace Clause'**.

What is the WTO's Peace Clause?

- As an interim measure, the WTO members agreed on a mechanism called the '**Peace Clause**' in December 2013 and **pledged to negotiate a permanent solution.**
- Under the Peace Clause, WTO members **agreed to refrain from challenging any breach in prescribed ceiling** by a developing nation at the dispute settlement forum of the WTO.
- This clause will stay till a permanent solution is found to the food stockpiling issue.

What is the World Trade Organisation (WTO)?

- **About:**
 - WTO is an international organization that **regulates and promotes global trade.**
 - It was established in 1995 and currently has **164 member countries** (including **the European Union**).
 - It provides a forum for member countries to negotiate and enforce trade agreements, resolve disputes, and promote economic growth and development.
 - It's headquartered in **Geneva, Switzerland.**
- **Origin of WTO:**
 - The WTO is the successor to the [General Agreement on Tariffs and Trade \(GATT\)](#), which was created in 1947.
 - The **Uruguay Round (1986-94)** of the GATT led to the WTO's creation.
 - WTO began operations on 1st January 1995.
 - The Agreement Establishing the WTO, commonly known as the **"Marrakesh**

Agreement”, was signed in Marrakesh, Morocco in 1994.

- **India** was **one of the founding members** of the 1947 GATT and its successor, the WTO.
- Main difference between GATT and WTO was that **GATT mostly dealt with trade in goods, the WTO and its agreements could not only cover goods but also trade in services and other [intellectual properties](#)** like trade creations, designs, and inventions.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q1. India enacted the Geographical Indications of Goods (Registration and Protection) Act, 1999 in order to comply with the obligations to (2018)

- (a) ILO
- (b) IMF
- (c) UNCTAD
- (d) WTO

Ans: (d)

Q2. The terms ‘Agreement on Agriculture’, ‘Agreement on the Application of Sanitary and Phytosanitary Measures’ and ‘Peace Clause’ appear in the news frequently in the context of the affairs of the (2015)

- (a) Food and Agriculture Organization
- (b) United Nations Framework Conference on Climate Change
- (c) World Trade Organization
- (d) United Nations Environment Programme

Ans: (c)

Q3. In the context of which of the following do you sometimes find the terms ‘amber box, blue box and green box’ in the news? (2016)

- (a) WTO affairs
- (b) SAARC affairs
- (c) UNFCCC affairs
- (d) India-EU negotiations on FTA

Ans: (a)

Q4. Consider the following statements: (2017)

1. India has ratified the Trade Facilitation Agreement (TFA) of WTO.
2. TFA is a part of WTO’s Bali Ministerial Package of 2013.
3. TFA came into force in January 2016.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans: (a)

Q5. With reference to Trade-Related Investment Measures (TRIMS), which of the following statements is/are correct? (2020)

1. Quantitative restrictions on imports by foreign investors are prohibited.
2. They apply to investment measures related to trade in both goods and services.
3. They are not concerned with the regulation of foreign investment.

Select the correct answer using the code given below:

- (a) 1 and 2 only
(b) 2 only
(c) 1 and 3 only
(d) 1, 2 and 3 only

Ans: (c)

Mains

Q1. WTO is an important international institution where decisions taken affect countries in a profound manner. What is the mandate of WTO and how binding are their decisions? Critically analyse India's stand on the latest round of talks on Food security. **(2014)**

Q2. "The broader aims and objectives of WTO are to manage and promote international trade in the era of globalization. But the Doha round of negotiations seem doomed due to differences between the developed and the developing countries." Discuss in the Indian perspective. **(2016)**

Q3. What are the key areas of reform if the WTO has to survive in the present context of 'Trade War', especially keeping in mind the interest of India? **(2018)**

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