

# GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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## AGRICULTURAL POLICY

### REPORT OF COMMITTEE II ON THE CONSULTATION WITH

#### I N D I A

1. In accordance with the decision adopted by the CONTRACTING PARTIES at their fourteenth session that consultations should be held with individual contracting parties regarding their agricultural policies, the Committee carried out the consultation with India. The Committee had before it the following documents:

- (i) document COM.II/40(g) dated 9 September 1960, which contained a synopsis provided by the Government of India of non-tariff measures for the protection of agriculture or in support of incomes of agricultural producers;
- (ii) COM.II/87 dated 6 September 1960 which contained detailed information and statistics, also supplied by the Government of India, on commodities entering importantly into international trade.

In conducting the consultation, the Committee followed the plan for consultations contained in Annex A to COM.II/5 and adopted by the CONTRACTING PARTIES at their fourteenth session. The consultation was completed on 15 November 1960.

#### A. General agricultural policies

2. The representative of India in his opening statement advised the Committee that his Government gave high priority to the expansion of agricultural production both in order to provide an adequate standard of nutrition for a vast and growing population and with a view to securing a maximum rate of development for the economy as a whole. He explained that his Government considered that the development of agriculture based on the utilization of domestic manpower and other resources held the key to the rapid economic development of India. The creation of a diversified and intensive system of agriculture, including animal husbandry, the dairy industry, the production of meat, fish and poultry, as well as the development of commercial crops was needed to meet the increased requirements of a more industrialized country. Export earnings were needed to provide an essential part of the foundation for a sustained growth in savings and investment in order to achieve a balanced industrial economy. For these reasons increased agricultural production, particularly the attainment of self-sufficiency in food grains, was one of the principal objectives of India's third Five-Year Plan.

If the targets laid down in the Plan were fully realized, the country would be in a position to meet the basic food grain requirements of the entire population, perhaps with a small margin to spare for unexpected emergencies and demands. It was possible, however, that during the next five years certain imbalances could develop from time to time between supply and demand. If such a situation should occur then corrective action might be necessary in order to curb any tendency toward a rise in the price of food grains, since such a rise would tend to react on the entire price and cost structure of the economy.

3. The representative of India pointed out that in a developing economy it was necessary to maintain a reasonable relationship between prices in the various sectors. For this reason the Government of India had maintained certain regulatory devices such as price controls, zonal arrangements and a minimum amount of State trading. He stated that his Government's approach to the use of such measures was flexible and pragmatic, the basic objective being to achieve a maximum increase in production while at the same time ensuring the maintenance of a reasonably stable price level. He explained that for the present, India had to follow policies which would protect its foreign exchange reserves while at the same time permitting the development of domestic production in order to meet internal demand and to allow for exportable surpluses which could be sold abroad at competitive prices. He emphasized the need to maximize India's export earnings so as to permit the realization of the goals laid down in the development plan. Targets in the plan envisaged exportable surpluses of a number of commodities, the production of which was forecast as follows:

Raw jute	(65 million bales)
Tea	(850 million lbs.)
Raw cotton	(7.2 million bales)
Coffee	(80,000 tons)
Vegetable oilseeds	(9.2 to 9.5 million tons)
Tobacco	(325,000 tons)
Pepper	(30,000 tons)

4. The recent P.L.480 Agreement with the United States was expected to help reduce price fluctuations by building up a reserve of wheat, thus playing an important rôle in stabilizing the whole economy. In this connexion, the representative of India stated that due to limited foreign exchange reserves India encountered a certain amount of difficulty in buying normal commercial supplies of wheat. If it were not for the availability of the additional quantities of wheat provided under the P.L.480 Agreement, India might feel compelled, in spite of food shortages, not to make any commercial purchases whatsoever because of its difficulties in regard to foreign exchange. In that case there would certainly be serious shortages, there might be malnutrition and

there would be a considerable rise in the prices of foodstuffs inside the country. The representative of India assured the Committee that as the economy of his country advanced towards self-sufficiency the need for special assistance of the type provided under the P.L.480 Agreement could be expected to diminish.

5. In concluding his opening statement the representative of India stressed that while the Government of India had been encouraging every effort to restrain domestic consumption, improve quality, stabilize prices and supplies, an expansion in exports would depend to a large extent on the fiscal and other policies governing their entry into foreign markets.

6. With respect to the recent P.L.480 Agreement with the United States, a member of the Committee asked if there were any connexions between the terms of the Agreement and the financing of the agricultural sector of the third Five-Year Plan for economic development. The representative of India explained that the new agreement provided for the sale to India of 16 million metric tons of wheat and 1 million metric tons of rice. Payments for these commodities would be made in rupees equivalent to \$1,276 million. The shipments would take place over a period of four years and one fourth of the wheat and rice would be held as a reserve against possible future crop failures. The new agreement was expected to contribute to India's progress by substantially increasing food supplies, by helping to control rising costs and by giving tangible support to financing India's development projects. Of the rupees to be acquired by the United States in payment for the wheat and rice, the equivalent of \$1,076 million would be made available in the form of loans and grants for economic development.

7. During the discussion of India's third Five-Year Plan, a member of the Committee noted that while this was formulated by the Government it was apparent that its implementation and success depended upon the voluntary co-operation of individuals in all sectors of the economy. In this respect he noted that the agricultural policy of the Government of India differed little from that of more industrialized countries. The representative of India confirmed that planned increases in production needed the full support of individual producers, and as such, they were essentially estimates of targets which it was hoped to achieve. He explained that the successful implementation of the Plan depended upon the continuous process of consultation between the Central and State Governments, the district organizations and local village units. In order to achieve its objectives the Government of India felt that an integrated approach was required in order to reduce impediments to increased agricultural production. It was intended to expand irrigation as well as the use of fertilizers and improved seeds in order to stimulate intensified production. The growth of service co-operatives would be encouraged to foster easier credit and better marketing facilities.

8. Regarding financial expenditures envisaged under the agricultural sector of the Plan, a member of the Committee asked for information on the funds to be provided by the public or private sector and how these compared with overall expenditure. The representative of India explained that the Plan called for a

total investment of Rs.102,000 million in the economy, of which Rs.62,000 million was in the public sector and Rs.40,000 million was in the private sector. An outlay of Rs.6,000 million was provided for agriculture and community development and Rs.6,500 million for major and medium irrigation; private investment in the agricultural sector was estimated to be of the order of Rs.18,000 million. The representative of India emphasized that an integrated view should be taken of these figures. Thus, the allocation made under transport and communications would contribute to improving the agricultural sector of the economy by opening markets and facilitating movement of agricultural products. Similarly, investment in education, health, social welfare, etc. could be expected to reflect itself in a progressive amelioration of conditions in the rural sector of the economy and, indirectly, in higher productivity.

9. A member of the Committee noted that India planned to increase the production of specific agricultural products in order to achieve exportable surpluses from which to earn more foreign exchange. He asked if exports had increased in recent years in direct proportion to increases in production or if greater domestic demand had accounted for a substantial percentage of the increase. The representative of India replied that generally production had increased at a more rapid rate than exports. This was due in part to the rapid growth of the population and to an increase in consumer demand. However, there had been certain periods when specific commodities like sugar, jute or cotton had registered increased exportable surpluses in recent years. He pointed out the need for India to attain a substantial increase in the level of production in order to have a steady level of exports.

10. One member of the Committee noted that agriculture provided employment for about 100 million persons in India. He asked what percentage the latter figure constituted in relation to the entire labour force. The representative of India explained that it was difficult at this time to provide accurate figures since the census held every five years was due in 1961, but he informed the Committee that at the beginning of 1955 approximately 70 per cent of the labour force was employed in agriculture. He mentioned that during the course of the second Five-Year Plan, 7 million jobs had been created in the non-agricultural sector, thus employment in the industrial sector had increased; while this might affect the figure of 70 per cent somewhat it would not do so in any major way. It was expected that the proportion of the population engaged in agricultural pursuits would diminish as the country became more industrialized.

11. Another member of the Committee asked if the increase in agricultural production in recent years was attributable to improved yields or to a higher proportion of land under cultivation. The representative of India replied that the dominant factor had been higher yields. In relation to the Five-Year Plan, these increases resulted mainly from improved methods of cultivation and better irrigation facilities. A certain proportion of the increase had resulted from a determined effort to

bring idle land under cultivation by tackling such problems as excessive saline, flooding or water saturation. By these means it was expected to bring about 18 to 20 million acres of new land under cultivation. It was estimated that during the last ten years approximately 6 million acres of waste land had been reclaimed.

12. In reply to another question, he stated that it was anticipated that the land reform programme would not stand in the way of increased agricultural production. The major reforms were being carried out in order to provide security of tenure and a general reduction in rental costs for the benefit of those engaged in agriculture. As a result of recent legislation a substantial proportion of agricultural producers should become land owners in their own right. This was expected to increase productivity. The representative of India stated that serious attempts were being made to overcome the problems created by the small size of the individual farming units by the establishment of service co-operatives and other voluntary organizations which aimed at providing seeds, fertilizers and implements to farmers on easy credit terms. It was also expected that the programmes for co-operative farming on a voluntary basis would enable farmers to undertake co-operative land cultivation on an increasing scale and thus encourage the application of large-scale farming techniques.

13. One member of the Committee noted that measures to increase production were further supplemented by suitable price policies so that cultivators would obtain a fair return for their products. He asked if the fair return would result from negotiations between the producers and the Government or if it would be related to the cost price. The representative of India explained that in recent years prices for most major crops had been sufficiently high to make it unnecessary for the Government to adopt special price support policies, although legislation had been introduced to permit the effective implementation of such measures if required. He stated that a fair return to the producer would be based on the market price as well as on the cost price. While no definite yardstick was used and no formal pattern of negotiations with the farmers had been established, adequate machinery for consultations existed and the cultivators had full opportunities to make their views known through their local co-operative units, through district and State bodies, and through their elected representatives both in the States and in the Centre.

14. A member of the Committee asked for confirmation of his impression that the policy of the Government of India was to advance co-operative farming; he asked what steps had been taken in this direction. The representative of India explained that the co-operative movement had been mostly in the field of credit with little progress along the lines of joint ownership or joint cultivation

of land. However, proposals had been made that private holdings should be pooled for joint cultivation at the village level; excess land above the ceilings established under the reform programme would be turned over to the village governing units for the development of co-operative farms for the landless. The present policy was to concentrate on encouraging the growth of service-type village co-operatives or elective bodies which would be entrusted with the implementation of agricultural development programmes in their area, including the provision of short and medium term credit and marketing arrangements. Credit would be made available at low rates of interest.

15. With respect to subsidies, a member of the Committee noted that the Government of India granted a subsidy for agricultural requisites such as pesticides, insecticides and improved seeds to foster increased production. He asked for information on the magnitude of these subsidies and whether they were a flat rate type. The representative of India replied that until a few years ago a subsidy of 50 per cent had been paid for ammonium sulphate; it had recently been discontinued. At the present time there was a 25 per cent subsidy for superphosphates. Thus, only part of the cost of fertilizers was met by the Government.

16. While discussing State-trading activities members of the Committee asked for details with respect to these operations and enquired whether they extended to commodities other than food grains. The representative of India replied that controlled trading in agricultural products was limited to rice and wheat. Such trade was handled by wholesale traders who had been licensed to submit returns of their sales to the State authorities. Sales of tea, jute, sugar and other commodities were in the hands of private traders and there were no government agencies as such to act as importers.

17. With respect to quantitative restrictions, a member of the Committee asked if it were the intention of the Government of India to relax restrictions on imports of agricultural products as soon as the balance-of-payments position of the country permitted such action. The representative of India pointed out in his reply that in a developing economy the problem of eliminating such controls was a complex one; he advised the Committee that when India reached a stage where import priorities did not need to be decided on the basis of scarce foreign exchange availabilities, then the Government would determine what measures could be introduced to provide a more liberal import régime for agricultural products.

## B. Commodities

### Dairy Products

18. A member of the Committee noted that one of the main factors limiting milk production was the lack of an assured market; he asked what the Government of India was doing to remedy this situation. The representative of India replied that his Government was giving a great deal of attention to methods for improving refrigeration and transportation facilities. Another member of the Committee expressed surprise that the consumption of milk products in any area of India was more or less inversely proportionate to the indigenous production of milk. He wondered if this were due to special distinctions drawn between rural and urban areas or areas where there was a greater density of population. The representative of India explained that the effective distribution of milk depended on adequate transport facilities, as well as on proper arrangements for the storage, sterilization and bulk handling of milk and milk products. Efforts were currently being made to establish milk colonies and creameries near the large towns and consuming centres, and to improve arrangements for the collection and bottling of milk, etc. As these arrangements became widespread, consumption of milk in areas of low production could be expected to increase. Another member of the Committee noted that imports of milk were restricted to infant milk foods and to skimmed milk powder especially for the preparation of toned milk under the Government milk schemes. He asked what policy the Government was likely to follow in future with respect to import permits for milk powder and approximately what percentage of skimmed milk imports was used in the reconstitution schemes. The representative of India replied that he expected that the quota for such imports would remain about the same, but he explained that it was difficult to estimate in advance what the import policy would be for any one commodity since the total import programme was determined every six months on the basis of the overall exchange situation and by consultation between the various Government Ministries concerned; the Ministries of Commerce, Foreign Affairs, Food and Agriculture. He stated that the majority of import licences were allocated to the milk commissioners who released the milk either for direct consumption or for reconstitution; thus it was difficult to estimate the percentage of skimmed milk imports used in reconstitution schemes. In reply to a question regarding the criteria used to determine the source of commercial imports of these products, he explained that these were imports on normal commercial terms with licences valid from all sources, the determining factor being prices and terms of delivery. In this connexion it was stated that no skimmed milk powder had been imported from the United States under P.L.48C arrangements since 1957.

19. Concerning cheese, a member of the Committee asked if surveys had started regarding the potential for producing this product in greater quantities. The representative of India replied that some preliminary steps had been taken with a view to establishing a cheese factory in his country, but foreign exchange and suitable foreign collaboration were required in order to proceed with this project. Another member of the Committee recalled that at one point he had seen a figure showing the butter production in India at 400,000 tons; he asked what the actual butter production was. The representative of India regretted that he did not have this information available, but agreed to provide it at a later date.

#### Meat

20. A member of the Committee asked if any progress had been made in the production of meat and meat products in India. The representative of India explained that there were no detailed figures available for meat production in his country and that many states had laws prohibiting the slaughter of cows, hence meat consumption was limited to mutton and lamb.

#### Oilseeds and vegetable oils

21. Noting that the total production of the five major oilseeds rose to a record level of 6.9 million tons in 1958/59, a member of the Committee asked approximately what percentage of this was exported and what was the average level of domestic consumption requirements and if any oilseeds were imported. The representative of India replied that in 1959/60 production had decreased to 6.4 million tons and that the majority of this had been processed by local crushing plants for use within the country. Certain kinds of groundnut, castor or linseed oil had been exported in recent years and exports of the latter two had been substantial. Limited quantities of cottonseed oil had also been exported. On the other hand, palm and copra oil had been imported to meet the needs of the domestic soap industry. In response to a request for confirmation of the fact that import licences were issued for copra oil, the representative of India replied in the affirmative.

22. A question was asked regarding the desire by India to make full use of its domestic oil crushing facilities. The representative of India explained that there was surplus domestic crushing capacity in the country which needed to be utilized, hence the tendency had been towards processing rather than exporting. Another member of the Committee pointed out that India and Brazil were the two largest producers of castor seeds in the world. He asked if there were any possibility that India would increase its production of castor seeds to such an extent as to permit their export sometime in the

future. The representative of India explained that the exportation of castor seeds had been prohibited for over ten years because domestic production had been inadequate to meet the internal demand provided by domestic crushing units. He pointed out that it was essential to the economic well-being of his country that these units operated at full capacity insofar as possible. If exports of castor seeds were permitted this might cause unemployment and have a completely exaggerated effect on prices so as to make it difficult for India to compete in world markets. He added that if the production of castor seeds expanded sufficiently then it might be possible to permit some exports. The same member of the Committee noted that one target in the second Five-Year Plan had been to increase oilseed production by 31 per cent and in the third Five Year Plan from 28 to 32 per cent. He asked if the target applied to all oilseeds or only to groundnut and copra. The representative of India stated that the Government of India looked forward to the possibility of cultivators increasing their production of oilseeds of all types to 9 million tons. The question as to whether the production of one or another type of oilseed would be increased would depend on the conditions prevailing at the time, for example, the price return to the cultivator.

23. Another member of the Committee asked for confirmation of his impression that in the past the Government of India had attempted to restrain domestic consumption of vegetable oils in order to maintain exports. The representative of India stated that it had been necessary to impose excise duties on vegetable oils for this purpose depending upon domestic price levels; efforts had certainly been made to maintain export markets.

#### Sugar

24. A question was asked regarding the manner in which the Indian Sugar Export Promotion Act was administered. The representative of India explained that under the Act the sugar marketing associations were given export quotas which they distributed among the local sugar mills. In 1956/57 and 1958/59 it had been possible to export because sugar production in these years had been substantially higher than in previous periods. In reply to a further question regarding the criteria used for determining minimum prices of sugar cane, the representative of India explained that there was not too much difference between these prices and world market prices. Minimum prices for sugar cane delivered to the mills were fixed by the Government in order to enable cultivators to plan their production. The minimum price was generally based on an estimate of the cost of production and the average price obtained over a representative earlier period.