

Report on the Round Table Discussion “India: A New Era For Agricultural Trade Policies”, organized by RIS, Royal Netherlands Embassy and Wageningen UR, New Delhi, 16-02-2010

FINAL

Executive Summary

The highly intensified agricultural sector in The Netherlands can contribute to India's need for a drastic and environmentally sustainable improvement in agricultural productivity, in order to secure the access to food for the coming generations. A deepening of trade and investment relations in this area evokes a polarized debate on the potential benefits and downsides of such economic cooperation. A round table discussion with stakeholders in India explored whether a gradual opening up to international trade and foreign investment in the non-grains sectors provides inroads to address food security and sustainable development in India. There are widely differing views on the gains and losses associated with a deeper integration of India's agriculture sector in the global markets.

The proponents and opponents of agricultural trade reform find common ground in the view that the sector is not 'ready' for an overall elimination of trade restrictions. Views do differ, however, whether reform will eventually spur hardship or development. Proponents of more openness in agriculture question whether the gradual opening up of markets for trade and foreign investment is an appropriate means to redress the incentives for farmers that are currently misaligned under India's input and marketing policies; and what is a proper timing and sequencing. Adversaries see opportunities to spur agricultural development via the introduction of modern seed varieties, and the reduction of farm support in OECD countries, and warn for the disproportional effect of reform on subsistence farmers.

Economic cooperation with the Netherlands could give an impetus for strengthening India's agricultural and retail sector. An EU-India trade and investment pact has less priority in that respect than a need for domestic policy reform in agriculture and general improvement of the business and investment environment. For that reason, a roadmap to realize the potential benefits of Netherlands-India cooperation has to be oriented upon reform- and innovation-minded States in India and on sectors that are seen neutral to India's position on self-sufficiency.

1. Background & Objectives

1. The deepening of economic relations with India is a high priority of the agribusiness in The Netherlands. Netherlands, a country the size of Punjab, with only 71.000 farmers, is the second largest exporter of agricultural goods in the world, after the US, but before France. The Netherlands, with his highly intensified agriculture, has a lot to offer to India in terms of India's need for a drastic and environmentally sustainable improvement in agricultural productivity, in order to secure the access to food for the coming generations.
2. Trade and investment policies are an important area of cooperation between the governments of India and The Netherlands. Areas for discussion include sanitary and phytosanitary issues, and positions in the negotiations on the WTO's Doha Development Agenda and the trade and investment pact of India and the EU.
3. India shields its agricultural sector from world markets by means of import, export and investment restrictions. Agricultural trade reform is seen to harm the vulnerable Indian agricultural sector. A liberalisation of investment restrictions is seen to invoke higher FDI in retail and processing activities at a loss of livelihoods. This raises the general concern that India's fairly defensive stance regarding trade and investment in agriculture does not accommodate for a transition towards sustainable growth and development in agriculture.
4. To get a more differentiated picture of the policy debate on India's positions, the Netherlands Embassy in New Delhi, the Research and Information System for Developing countries (RIS) Institute, Wageningen UR and the Center for Environment Concerns organised a round table discussion with a select group of Indian opinion leaders on the topic of agricultural trade policy reform, to mark the start of a trajectory for long-term involvement to deepen the economic integration between India and the Netherlands in the form of trade and investment relations in agri-food, for the purpose of furthering rural sustainable development in India.
5. *Objectives of the Round table.* The general aim of the round table discussions is to examine the position that India's agricultural trade policies should provide a window to greater openness in high-value agriculture. The issue at stake is whether a gradual opening up in the non-grains sectors to international trade and foreign investment provides inroads to address food security and sustainable development in India. While there is an active expert debate in India on these issues, public opinion is tilted towards the stance that trade reform entails risks to those dependent on farm income, and should therefore be resisted. As this is seen to impede reform, the specific purposes of the round table is to arrive at a joint understanding among key Dutch and Indian stakeholders of the key issues and need for further action to take India's potential forward.

2. Results of the Round Table: arriving at a joint understanding on context and key issues

A Round table discussion under the heading "India, A New Area for Agricultural Trade Policies" was held with two dozen participants at the RIS in New Delhi on February 16th, 2010, in a two-hour session. This section describes the results of the discussions. Individual contributions to the debate have been grouped by theme in order to provide insight into the diversity of opinions that were delivered. The names and affiliations of participants and the program are provided in the Annexes.

2.1 The state of India's agriculture

6. Indian agriculture is performing below potential. The growth rate of India's agricultural GDP was 2.5% in the 1950-2000 period. Growth has picked up in the 1985-2008 period to 3% due to the strengthening performance in the high-value segment. Growth output value differs across subsectors. In food grains, growth has dried up from 3.6% in early 1990s to 1.4% in the 1997-2005 period. Growth in fisheries and fruit and vegetables came down from peak growth rates of over 7.5% in early 1990s to stabilize around 3.0% since the late 1990s. Livestock farming has been growing at 3-4% annually since the 1990s.

7. Low output volumes and prices, combined with low margins, press hard on indebted farmers. The state of India's agriculture is indicated by the deteriorating terms of trade for agricultural goods vis-à-vis industrial goods: while the prices of industrial goods have gone up substantially, the agricultural price increase has remained behind at 1%, causing loss of purchasing power in farm households.

8. Some argue that India urgently needs to get its house in order, i.e. reform the domestic policies that constrain agricultural development, before pointing to the vices of economic integration. Good arable land is a scarce good: land ownership is highly fragmented making land markets a priority area for reform; and while the agronomic conditions are quite favourable in large areas degradation of land is a risk. The land market needs repair such that larger landholding are made possible that in turn allow investment on a bigger scale than currently feasible.

9. Public investments in agriculture have been displaced by subsidy expenditures, which leave the sector structurally depleted of innovation and infrastructural improvement. For example, while the share of agriculture in GDP is 18%, in capital formation (investments) this is only 2.3%, severely affecting efficiency of transportation, storage, R&D, extension, distribution and marketing. Infrastructural investments are needed to reduce post-harvest losses and unleash potential for a surplus production (i.e. exports) in perishable products.

2.2 Food security and livelihoods

10. Agricultural growth has contributed little to poverty alleviation. Poverty rates have fallen slowly, at only 1% per annum, for decades in a row. A gradual stepping up of

agricultural productivity growth over the 1980-2000 period has not improved the pace of lifting poverty, but other factors may be at play that obstructed a positive effect.

11. Food security in India is no settled issue: a comparison between China and India demonstrates that India is relatively food insecure. As such, the grains sector remains a subject of analysis and policy. It is, for example, unclear what the effects of import and export bans by the Indian government are on its farmers.

12. The agricultural sector is in stagnation: while the contribution to GDP has dropped to 18% in two decades, the share of agriculture in total employment remains the same, suggesting a deterioration of labour productivity. Meanwhile, agriculture functions as a reservoir of labour shields millions from deeper livelihood vulnerability. This is even more important in the face of reports that the non-farm sectors are shedding unskilled and poor workers, rather than absorbing obsolete agricultural workers.

13. Are there alternative jobs for small producers? In India agriculture is 'a way of life'. Farming conditions are characterized by substantial livelihood risk and limited options for diversification or off-farm employment.

14. Productivity in India's agriculture, some argue, should therefore be raised across the board, accompanied by trade reform, in order to prevent losses under steeper import competition.

15. There is a debate over the likelihood that India becomes a food importing country. Although self-sufficiency is secured in the short run, food security remains an issue in the long run because the increase in domestic supply is insufficient to meet population growth. Vegetable oils is an example of a product that is already imported in large volumes in order to satisfy demand. Several participants indicate that it is likely that India will become a structural importer of dairy products in the near future.

2.3 High-quality production and trade reform to stimulate innovation

16. Growth statistics indicate that after the reforms of the 1990s reform, growth rates in the grains crops came down, while high-value sectors started to rise. The suggestion is that reforms may sufficiently alter the incentive system to promote growth in non-cereals.

17. Quality improvement and value adding are ways to improve the agricultural performance. Productivity levels in high-value subsectors are considered low compared to competing nations. Policy priority areas of investment and reform are: rural infrastructure and the land market. Views differ on the practical opportunities to purchase larger areas of land are larger than current regulations suggest.

18. There is substantial cash flowing into the sector via government subsidy programs to support farmer incomes on the producer side and household purchasing power on the consumer side. These transfers have basically displaced public investments in the sector in areas such as research and development, extension, infrastructure.

19. The subsidies in the Indian agricultural system reduce the incentives for innovation. Reform is needed to give the proper incentives to farmers and for development of value chains. Long-term domestic policies are required to raise the performance level.

20. A number of features demonstrate the lack of innovation. In the whole of India there are just few examples of processing firms or firms involved in outgrow arrangements. Self-sufficiency in edible oils, which was achieved in the 1990s by

means of export restrictions and other policies, has removed innovation from the sector, resulting in negative growth rates on the long term. With India's food safety standards not up to meeting global standards, vegetables are, for example, exported to Middle East countries because of less stringent regulations on the residues of plant protection chemicals on the product.

21. Few specific records were provided on the positive effects of trade reform on technology and innovation. One example is that the opening up of India's apple markets has induced a strong domestic demand for high-quality apples, which has raised the quality bar for domestic production supply in India, thereby resulting in a positive spill-over effect.

2.4 Effect of post harvest losses

22. The supply chain infrastructure is by some seen as the main bottleneck for development of India's agricultural sector: the lack of transport and communication infrastructure, the government-intervened *Mandi* marketing system, the shortage of cold storage and warehousing facilities and other rural services impedes value adding and quality improvement. Rural credit markets are not delivering.

23. Reduction of post harvest losses is a high priority for productivity improvement and food security in India's agriculture. Post harvest losses have a negative effect on producer prices and profit margins and cause that a marketable or exportable surplus is lost.

24. Critical success factors in the area of agricultural infrastructure need to be worked out to materialize the potential, in particular by means of public-private partnerships aimed at management and certification of food quality and safety. India and Netherlands could both gain from such partnerships.

2.5 Foreign investments, joint ventures

25. Direct investment relations between India and the Netherlands are low, although there is a large interest with domestic and foreign investors to find Indian partners, in particular among the group of mid-sized companies. But foreign investors face many restricting policies and bureaucracy contributes highly to a difficult business environment for foreign investors.

26. Some argue that if horticulture and floriculture can be profitable sectors in other countries, such as in the Netherlands, then why are investments in these sectors not stimulated in India? The Netherlands (or other countries) may contribute to India's agricultural development using its experience and skill in the sustainable intensification of agriculture. Others feel that there is no added value of such investments to rural development.

2.6 Negotiations with the EU on tariffs, non-tariff measures and farm support

27. The conclusion of an agreement under the Doha Development Agenda provides the best possible starting point for a meaningful EU-India free trade agreement (FTA) because it is the single forum where India can address EU farm support. Some argue that EU farm support facilitates overproduction and in large part supports corporate

agri-business, distorting international competition and limiting the opportunities for Indian farmers and agribusiness to enter the EU market, in particular because of the small and medium scale of India's agri-business firms. Others argue that the EU common agricultural policy is under reform in the form of the gradual decoupling of farm support from production levels and elimination of export subsidies.

28. A Doha deal also is the best safeguard for India for preventing that the trade agreement with the EU creates imbalances with India's present trade partners, mainly neighbouring countries joined in the SAARC scheme.

29. With regard to the agricultural paragraph in the EU-India FTA, there are apparently few conflicting interests on defensive or offensive positions, although some participants state that the tariffs and tariff rate quota on sensitive products in the EU obstruct potential export gains for India under the agreement.

30. Non-tariff barriers in the form of sanitary and phytosanitary measures and other regulations feature prominently in the trade discussions. The EU has several issues with India related to labelling, avian influenza and other. India, in turn, faces stringent food safety standards in the EU, but these are as problematic for India as for exporters from other countries. There is uncertainty on actual access to the EU market trade. It is in any case unclear whether an exportable surplus can be produced for the EU market.

31. Some argue that an EU-India FTA will invoke import competition that may threaten the livelihood of small-scale producers, for example in subsectors such as cashew nuts and coconuts, as well as in the fruit and vegetables subsector, where import competition damages the subsector's development. Therefore, it is felt that market access for India's products into the EU should be secured under the FTA in order to reap benefits and export gains that compensate for losses elsewhere.

2.7 Other issues

32. Land grab by foreign investors is mentioned by some to reduce the arable land for food production, forming a threat to food security in India.

33. Climate change is said to be inconsistent with globalization of production and consumption and with the rise of international trade.

34. Also, India's approval of the present regime on intellectual property rights under WTO (TRIPS), in particular breeders' rights, was according to some a sacrifice for international trade at the time of Uruguay WTO talks, which at present is regarded a fatal error.

35. On seed policy, India is felt considering a shift towards GM grain crops. Although this is expected to increase productivity, it also limits marketing opportunities within the EU market.

3. Conclusion and follow-up

36. The overall issue at stake at the Round table discussion is whether opening up to trade and investment provides the appropriate inroads to address food security and sustainable development. In particular, to discuss the role of trade, investment and technology in realizing India's potential in the non-cereals sector.

3.1 Trade and rural livelihood

37. There are widely differing views on the gains and losses associated with a deeper integration of India's agriculture sector in the global markets. In terms of the risks, two main concerns are raised.

38. First, a closer integration in global agricultural markets pushes India's farmers out of the market because the farm support in OECD countries creates an unlevelled playing field. India's position in the agricultural negotiations under the WTO Doha Round reflects precisely these internal concerns with regard to trade reform.

39. Second, integration of India's agricultural market with global markets will expose Indian farmers and consumers to volatile global prices. We have recently seen such price volatility in sugar, dairy and meat markets. Because many farmers are asset-poor and indebted, the capacity to cope with temporarily depressed prices is limited, which results in unmanageable livelihood risk.

40. Others argue that discussions on trade should be placed in perspective of trade's contribution to sustainable development. In general, openness to trade must be regarded as a positive contribution to agricultural development. A condition for successful trade reform is that several of the restrictions to agricultural development are lifted and these are typically rooted in domestic policies and spending patterns.

41. In this respect, the proponents and opponents of agricultural trade reform find common ground in the view that the sector is not 'ready' for an overall elimination of trade restrictions. Views do differ, however, whether reform will eventually spur hardship or development. Proponents of more openness in agriculture question whether the gradual opening up of markets for trade and foreign investment is an appropriate means to redress the incentives for farmers that are currently misaligned under India's input and marketing policies; and what is a proper timing and sequencing. Adversaries see opportunities to spur agricultural development via the introduction of modern seed varieties, and the reduction of farm support in OECD countries, and warn for the disproportional effect of reform on subsistence farmers.

3.2 What can an EU-India agreement contribute specifically to realize the trade and investment potential?

42. A strengthened Indian agricultural and retail sector is in the interest of those who are negotiating trade liberalisation with the Indian government. Developed countries are often perceived in India as taking advantage of the relative weakness of the India agricultural and retail sector. The categorically defensive position held by national government adheres to the position of subsistence farmers and their organizations. It is supported in the public opinion by references to farm support under the common agricultural policy and its distorting impact on world markets. It will not be easy to change this perception, but a step forward could be to focus on the positive role of trade and investment to the development of a strong Indian agricultural and retail sector instead of focusing on trade liberalisation only.

43. The experts have indicated that there are medium-sized and large commercial farmers that would like more open markets, but such tones reflect minority positions in the public debate. The development implications of such a policy change are not

well addressed. India and the EU therefore, have an interest in identifying the potential for trade and investment to contribute to development of the agricultural and retailing sector in India. Equally important is that both regions explore how the rising import competition under more open market conditions will affect the position of farmers in India.

3.3 Roadmap

44. Opening up to trade and investment is a way forward for sustainable development of India's sector. Can we work towards a roadmap that identifies ways for India to capitalize on its huge agricultural potential? How can we take this identified potential forward?

45. A major assumption to work on is that the potential for productivity improvement and value-adding is particularly present in relation to high-value agriculture. Strong growth rates have been recorded in the subsectors of fruit and vegetables, spices, high-quality rice, livestock and marine products agriculture. There is, nonetheless, a major challenge to facilitate further development of these subsectors. One key policy to raise productivity levels is to redress the current neglect of public investment in agriculture and in rural infrastructures. Another is to further reform the incentive system for farmers and to repair flaws in the rural markets for land, credit and labour.

46. The overall aim is to support innovation in farming agri-business. The suggested perspective here is that a gradual opening up in the non-grains sectors to international trade and foreign investment is another key element of the policy mix. The roadmap is aimed at gaining recognition for the importance of greater openness in agriculture for food security and sustainable development in India.

47. What needs to be undertaken to do this has to be formulated in terms of additional research; information sharing; stakeholder involvement; advocacy; etc. In order to address the observations presented above, the following actions are deemed appropriate on the short term:

- Provide factual information on the identified key issues related to trade reform and agriculture, in particular with regard to the economic relations between India and EU;
- Assess and demonstrate the potential of how trade and investment can contribute to rural socio-economic development in India;
- Continued interaction and dialogue with stakeholders on priority and agenda-setting, formulation of research needs, match-making, policy advocacy, government-to-government cooperation, etc

3.4 Follow-up in 2010

48. After the round table discussion, a text on the draft conclusions of the round table discussion has been shared with India-resident participants, inviting them to include final reactions and make suggestions for follow-up activities that aim to build a deeper mutual understanding of the perceived threats and opportunities surrounding trade and investment relations between agriculture and food sectors in India and Netherlands. The following activities are foreseen.

a) Demonstration of the potential of how trade and investment can contribute to rural socio-economic development via business cases

49. By means of a round of conducting interviews and analysis of selected business cases of Dutch and Indian investors in the agricultural sector the possible implications of deeper market integration for livelihood and agricultural development are demonstrated. Studies are performed in both regions where The Netherlands is operating Business Support Offices, i.e. the states of Gujarat and Tamil Nadu.

b) Create a dossier on issues in agricultural trade related to the EU-India trade and investment pact

50. Relate results of round table and business cases to context of EU-India FTA, resulting in a dossier describing facts and opinions on the identified key issues on the basis of secondary literature, as well as a set of practical business cases. The purpose of the dossier is to provide a basis for constructive discussions between public and private actors over intended trade and investment relations between Netherlands and India in the field of food and agriculture.

3.5 Required Follow-up in 2011

c) Define a practical road map to deepen the economic integration between India and the Netherlands in the form of trade and investment

51. Organize a follow-up round table discussion with stakeholders, both public and private, with the purpose of defining a practical road map to deepen the economic integration between India and the Netherlands in the form of trade and investment relations in agri-food, for the purpose of furthering rural sustainable development in India. Possible elements of the road map include: collective priority and agenda-setting, formulation of research needs, match-making, policy advocacy, government cooperation, etc. with support from the Business Support Offices of The Netherlands in the states of Gujarat and Tamil Nadu.

52. The road map defined activities to work towards a development of relations and relevant network, research proposals, applications of projects for government-to-government or business-to-government cooperation under investment funding schemes.

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Annex A. List of participants and their affiliations

Name	Organisation
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Dr.B.C.Barah	National Centre for Agricultural Economics and Policy Research
Dr.D.Sunitha Raju	Indian Institute of Foreign Trade
Ms.Tamanna Chaturvedi	Indian Institute of Foreign Trade
Mr.Rajesh Srivastava	Rabo Equity Advisors India
Mr.Kalyan Chakravarthy	YES Bank
Mr.M.J.Khan	Agriculture Today(CARD)
Mr. Krishan Bir Chaudhary	Bharatiya Krishak Samaj, before at State farms corporation of India
Dr.Bhavani	Dr.Ms. Swaminathan Research Foundation
Dr Phillip Matthews	Centre for Trade & Development
Dr.Devinder Sharma	Forum for Bio-Diversity & Food Security
Dr Pradeep	Cuts Delhi Resource Centre
Mr Atul Anjan	All India Kisan Sabha
Mr Anil Singh	South Asia Network on Social and Agriculture Development
Mr Ashok B Sharma	Free Lance Journalist on Trade
Ms Lakshmi	Farmer
Mr Marcel Vernooij	Ministry of Agriculture, Nature and Food Quality, Netherlands
Mr Johan Gatsonides	Ministry of Agriculture, Nature and Food Quality, Netherlands
Mr Anand	Royal Netherlands Embassy
Mr Thom Achterbosch	Wageningen UR
Mr Hans Nijhoff	Wageningen UR
Mr K.S.Gopal (facilitator)	Center for Environmental Concerns

Annex B. Round table program

	INTRODUCTION	
15.00-15.10	Welcome and objective of round table Inviting Dr. Dhar to chair	Mr. Wolff
15.10-15.25	Self introduction	All
15.25-15.30	Placing the agenda	Mr. Gopal
	CONTEXT OF THE ROUND TABLE	
15.30-16.00	Presentation on the contours of the discussions: Dutch and Indian perspective	Mr. Vernooij Dr Dhar Dr D. Sharma Mr. Srivastava
16.00- 16.15	Coffee break	
	DELIBERATING SUBSTANTIVE ISSUES IN THE NON-CEREALS SECTORS	
16.15-16.25	Presenting research findings (issue 1: trade & investment)	Mr. Achterbosch
16.25-17.10	Discussion on: 1. Development policies: trade, investment and technology, incl. EU-India FTA and WTO 2. Food security & sustainability 3. Any other substantive issues	Dr Dhar
17.10-17.30	ROAD MAP / FOLLOW UP	
	Taking the potential forward: - Additional research - Information sharing - New actors - Meetings - Advocacy Consensus on next steps	Facilitated by Mr. Nijhoff
	Closing remarks	Dr Dhar Mr. Wolff