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India

Agricultural Situation

The Indian Budget 2006/07 - Agricultural Highlights

2006

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Report Highlights:
Finance Minister presented the Central Government's Budget for IFY 2006/07 (Apr-Mar) on February 28, 2006. Although the peak non-agricultural import duty was lowered from 15 percent to 12.5 percent, the budget offered no new market openings for agricultural products. Rather, it imposed a Countervailing duty of four percent on all imports, including agricultural (with a few exceptions), basically to account for the VAT and other local taxes applied to domestic products but not to imported goods, further restricting market access.

Includes PSD Changes: No
Includes Trade Matrix: No
Unscheduled Report
New Delhi [IN1]
[IN]

On February 28, Finance Minister Chidambaram presented the government's budget for Indian Fiscal Year (IFY) 2006/07 (Apr-Mar). Focusing on the Common Minimum Program of the coalition government, the Budget continues to lay increased emphasis on the social sector and employment generation programs. In the agriculture sector, emphasis is on irrigation, credit, crop diversification and marketing, research, and biotechnology.

Agriculture Focus Areas

Following are some of the proposals relating to the agricultural and related sectors embedded in the Budget:

- Farm credit to be increased to rs. 1,750 billion ($38.9 billion) to cover an additional 5 million farmers.
- Outlay for Accelerated Irrigation Benefit Program (AIBP) to be increased to rs. 71.21 billion ($1.6 billion), with the central government grant component at rs. 23.5 billion ($522 million).
- The National Agricultural Insurance Scheme to be continued in 2006/07.
- The Central government to contribute to the Special Purpose Tea Fund for re-plantation and rejuvenation of tea.
- Public-Private Partnership model to be employed to set up model terminal markets for horticultural products in various parts of the country, with a budgetary allocation of rs. 1.5 billion ($33.3 million) in IFY 2006/07.
- Proposes establishment of a Central Institute of Horticulture in Nagaland in northeast India, and constitution of a National Fisheries Development Board.
- Proposes setting up of a National Institute of Food Technology Entrepreneurship and Management.
- Creation of a separate credit window with a corpus of rs. 10 billion ($220 million) for refinancing loans to the food-processing sector.
- Launching of the National Agricultural Innovation Project for research with multilateral assistance in July 2006.
- A special grant of rs. 1 billion ($22 million) to the Punjab Agricultural University in acknowledgement of its pioneering contribution to the green revolution.
- Accorded the status of an autonomous National Institute to the Rajiv Gandhi Center for Biotechnology in Kerala.

Import Duty Changes

While lowering the peak import duty on most non-agricultural products to 12.5 percent from the earlier 15.0 percent, import duty on most agricultural products remain unchanged. Market access for agricultural products has been further restricted with the introduction of a 4 percent Countervailing Duty (CVD) on all imports (agricultural and non-agricultural) with a few exceptions, to account for the VAT and other taxes applicable to domestic products but not to imported goods. However, full credit of this duty will be allowed to manufacturers of excisable goods. The CVD will be applicable even to those products for which the current applied rate is at the WTO bound rate, such as soybean oil, almonds, etc. However, products exempted from VAT will not attract CVD. Agricultural products exempted from CVD include fresh vegetables and fruits, seeds, raw wool, poultry and cattle feed, pulses, rice, wheat, and coarse grains. For detailed notification and explanations on CVD please see http://indiabudget.nic.in/ub2006-07/cen/cus1906.pdf, http://indiabudget.nic.in/ub2006-07/cen/cus2006.pdf, and http://indiabudget.nic.in/ub2006-07/cen/dojstru1.pdf

Finance Ministry officials claim that the CVD is not in violation of the WTO rules. As the 4 percent CVD is applied on assessable value of imports, the effective CVD rate will be higher than 4 percent. For example, in the case of crude degummed soybean oil, attracting an import duty of 45 percent, the effective duty will be 50.8 percent.

Other custom duty changes for agricultural products are:

- Duty on Atlantic salmon lowered to 10 percent from 30 percent.
- Duty on natural honey increased from 30 percent to 60 percent.
- Duty on vegetable oils and their fractions, partly or wholly hydrogenated, inter-seterified, elaidinised (whether or not refined but not further prepared) falling under HS code 1516 20 increased from 30 percent to 80 percent.
- Duty on margarine and other similar preparations, falling under HS Code 1517 or 1518, increased from 30 percent to 80 percent.

Major Excise Duty Changes

- Excise duty on condensed milk (containing any sweetening matter) reduced from 16 percent to zero.
- Excise duty on processed meat, fish and poultry products reduced from 8 percent to zero.
- Excise duty on pasta reduced from 16 percent to zero.
- Excise duty on ice cream abolished.
- Excise duty on ready-to-eat packaged food lowered from 16 percent to 8 percent.
- Excise duty exemption on unbranded protein concentrates, texturized protein substances withdrawn. They will now attract 16 percent duty.
- Excise duty on aerated waters reduced from 24 percent to 12 percent.

For details see: http://indiabudget.nic.in/ub2006-07/cen/exnotecex.pdf