Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Voluntary Report - public distribution

Date: 3/7/2003

GAIN Report #IN3017

India

Trade Policy Monitoring

FY 2003 Budget - Agriculture Highlights

2003

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Report Highlights:

In the FY2003 Government Budget, although the peak "basic" tariff rate was lowered from 30 percent to 25 percent, agricultural and dairy products were specifically excluded, thereby denying any improved market access for these products.

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

Finance Minister Jaswant Singh presented the FY 2003 Government Budget before the Parliament on February 28, which according to the Minister, addresses five priority areas: (a) poverty eradication, health, housing, education, and employment; (b) infrastructure development; (c) fiscal consolidation through tax reforms; (d) agriculture; and (e) manufacturing sector and export promotion.

Tariff Changes

There were no big surprises on the tariff front for agricultural products. Although the peak "basic" tariff rate was lowered from 30 percent to 25 percent, agricultural and dairy products (falling under Chapters 1-24 of the harmonized tariff system), cotton, and silk were specifically excluded, thereby denying any improved market access for these products.

The effective customs duty on **raisins** was reduced from 105 percent to the WTO bound rate of 100 percent, not enough to allow market access for US raisins. The basic duty on **liquor and spirits** was reduced from 182 percent to the WTO bound rate of 166 percent but was unchanged for **wine,** which remains at 100 percent. The additional duty (AD), also called countervailing duty (CVD), on liquor, wine, and beer was modified, providing a lower effective duty rate to high priced/premium brands. US wine importers are unlikely to benefit since they were not targeting the premium wine market in India.

The revised countervailing duties on wine are: 75 percent for those carrying a CIF value up to $25 per case, 50 percent or $37 per case (whichever is higher) for those carrying CIF value between $25 and $40 per case, and 20 percent or $40 per case (whichever is higher) for those with CIF value above $40 per case. Following is the revised import duty structure for imported wines:

	Basic Duty	**AD**	**SAD 1/**	**Total**
Wines with CIF up to $25/case	100%	75%	4%	264%
Wines with CIF $25 to $40/case	100%	50%	4%	212%
Wines with CIF above $40/case	100%	20%	4%	149.6%

1/ Special Additional Duty

The effective rate of duty on **shrimp larvae and fish feed** in pellet form was reduced from 30 percent to 5 percent. According to trade sources, as most of the shrimp feed imports are from the United States this will benefit US exporters.

The excise duty on **sugar confectionery** (excluding white chocolate and cocoa-based confectionery) and **biscuits** was reduced from 16 percent to 8 percent. This would result in a lower applied import duty on these products as any change in excise tax rates should also be applied to the Additional Duty imposed on imports.

The budget imposed an 8 percent excise duty on branded, packed refined **edible vegetable oils**, vanaspati (hydrogenated vegetable oils), bakery shortening, margarine, and other similar edible preparations. Heretofore, the excise duty on such products was zero. This new impost is unlikely to have any significant impact on the applied import duties on vegetable oils (although any change in excise tax rates should also be applied the Additional Duty imposed on imports), as India's vegetable oil imports are mostly in bulk. Nonetheless, the domestic vegetable oil refiners and packers have vehemently opposed this levy as it will result in higher consumer prices for their products, lower demand, and reduced profit margins.

Other Policy Announcements

Expansion of Subsidized Food Distribution Scheme

The Finance Minister announced an expansion of the ***Antyodaya Anna Yojana*** (foodgrain distribution for the poorest-of-the poor) to cover an additional 5 million families at an additional cost of rs. 5.07 billion ($106 million). Under this scheme 25 kilograms of wheat/rice per month are distributed to 10 million poorest-of-the-poor families at rs. 2 per kg for wheat and rs. 3 per kg for rice. The expansion of the scheme is likely to result in increased offtake of wheat and rice from government stocks, curtailing exportable surplus.

The government food subsidy bill during FY 2002/03 increased significantly to rs. 242 billion ($5 billion) from rs. 175 billion ($3.6 billion) in 2001/02, largely due to massive exports of wheat and rice at highly subsidized prices. The budgeted level of food subsidy for 2003/04 is rs. 278 billion ($5.8 billion).

Increase in Fertilizer Sales Price

To contain the fertilizer subsidy, the issue price of urea was increased by rs. 12 per bag of 50 kg, and Di Ammonium Phosphate (DAP) and Muriate of Potash (MOP) by rs. 10 per bag. Several opposition parties and state governments have strongly opposed this move. Despite the increase in the fertilizer prices, the budgeted level of fertilizer subsidy for FY 2003 is rs. 127.2 billion ($2.65 billion) compared with the 2002 revised estimate of rs. 110.1 billion ($2.3 billion).

Crop Diversification

With a view to encourage crop diversification, the Finance Minister proposed a new scheme on high-tech Horticulture and Precision Farming and has allocated rs. 500 million ($10.4 million) for this scheme. Major components of the proposed scheme are use of biotechnology tools, green food production, and high-tech green houses. Precision farming technology is aimed at the judicious utilization of resources like land, water, and time, including demonstrations of these technologies.

Price Stabilization Fund for Plantation Crops

With a view to providing income stability for small growers, a Price Stabilization Fund of rs. 5 billion ($104 million) has been created for the benefit of tea, coffee, and natural rubber growers. Furthermore, the excise duty of rs. 1 per kg on tea was abolished and replaced with a cess of rs. 1 per kg. The fund generated from the cess will be used for the development, modernization, and rehabilitation of the tea plantation sector.