

WTO's Agreement on Agriculture (AoA)

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Why in News?

The US and Australia have contended that India has provided sugarcane subsidy beyond the limits set out in the WTO's Agreement on Agriculture (AoA), which may have distorted global trade.

What is WTO's Agreement on Agriculture (AoA)?

- **The AoA is an international treaty** of the World Trade Organisation (WTO), negotiated during the **Uruguay Round of the General Agreement on Tariffs and Trade**.
 - It entered into force with the establishment of the WTO on **1 January 1995**.

- It includes the classification of subsidies by “boxes” depending on consequences of production and trade:
 - **Amber** (most directly linked to production levels),
 - **Blue** (production-limiting programmes that still distort trade), and
 - **Green** (minimal distortion).
- While payments in the amber box had to be reduced, those in the green box were exempt from reduction commitments. However, **all must comply with the “fundamental requirement”** –
 - To cause not more than minimal distortion of trade or production, and
 - **Must be provided through a government-funded programme** that does not involve transfers from consumers or price support to producers.

The AoA Consists of Three Pillars:

- **Domestic support:**
 - AoA divides domestic support into **two categories:** trade-distorting and non-trade-distorting (or minimally trade-distorting).
 - The system currently allows Europe and the US to spend \$380 billion a year on agricultural subsidies.
 - **These subsidies end up flooding global markets** with below-cost commodities, depressing prices, and undercutting producers in poor countries, a practice known as **dumping**.
- **Market access:** Market access refers to the reduction of tariff (or non-tariff) barriers to trade by WTO members. The AoA consists of tariff reductions of:
 - 36% average reduction — **developed countries** — with a minimum of 15% per-tariff line reduction in next six years.
 - 24% average reduction — **developing countries** — with a minimum of 10% per-tariff line reduction in next ten years.
 - **Least developed countries (LDCs) were exempt from tariff reductions.** But they either had to convert non-tariff barriers to tariffs or “bind” their tariffs, creating a ceiling that could not be increased in future.
- **Export subsidies:**
 - It requires **developed** countries to reduce export subsidies by at least 36% (by value) or by 21% (by volume) over six years.
 - For **developing** countries, the agreement required cuts were 24% (by value) and 14% (by volume) over ten years.

Criticism of WTO's AoA:

- It has been criticised by civil society groups for
 - **Reducing tariff protections for small farmers**, a key source of income in developing countries,
 - **While simultaneously allowing rich countries to continue subsidising agriculture at home.**
- The Agreement was criticised by NGOs **for categorising subsidies into**
 - **Trade-distorting domestic subsidies** (the “amber box”), which have to be reduced, and

- **Non-trade-distorting subsidies** (blue and green boxes), which escape discipline and thus can be increased.
- As efficient agricultural exporters press WTO members to reduce their trade-distorting “amber box” and “blue box” support, **developed countries’ green box spending has increased.**

Concerns Raised About India’s Sugarcane Subsidies:

- **US-Australia report**
- It argued that during all the four years (2018-19 to 2021-22) **India’s sugar subsidies crossed 90% of the value of production against the permissible level of 10%.**
- However, for calculating subsidy (**Aggregate Measurement of Support [AMS]**) levels, the report referred to the methodology recommended by a WTO panel that had ruled against Indian sugar subsidies in 2021.
 - AMS is a trade distorting (amber box) subsidy. Since it distorts trade, the AMS is categorized as a ‘reducible’, ‘non-permissible’ or ‘non-exempted’ subsidy.
 - The AMS consists of two parts — **product-specific subsidies and non-product specific subsidies.**
 - Product-specific subsidy refers to the total level of support provided for each individual agricultural commodity. E.g., wheat AMS is the subsidy given specifically to wheat.
 - Non-product specific subsidy, refers to the total level of support given to the agricultural sector as a whole, i.e., subsidies on inputs such as fertilizers, electricity, irrigation, seeds, credit etc.
- **India’s stand**
 - Each sugar season, India sets the **Fair and Remunerative Price (FRP)** for sugarcane.
 - The FRP is an administered price that effectively acts as a floor price for sugar mills to pay farmers for sugarcane.
 - In addition, farmers are paid premiums for increased production efficiency, and farmers in some States are eligible for additional payments by sugar mills under specific State-level support, known as **State-Advised Prices (SAPs).**
 - In its appeal against the WTO panel report of 2021, **India argued that the panel had erred in finding that the country’s FRP and SAP constituted market price support under the AoA.**
- **2021 Panel Report could not be adopted**
 - The US-Australia report said India’s appeal prevented the panel report from being adopted by the WTO Dispute Settlement Body.
 - As the Appellate Body of the WTO is not functional because of non-appointment of members, no decisions on appeals can be taken till it starts functioning again.

Q.1. What is the Fair and Remunerative Price (FRP) for sugarcane?

FRP is the minimum price that mills have to pay to sugarcane growers. With the amendment of the Sugarcane (Control) Order 1966 in 2009, the concept of Statutory Minimum Price (SMP) of sugarcane was replaced with the FRP of sugarcane.

Q.2. What is the WTO’s Dispute Settlement Body?

The Dispute Settlement Body of the World Trade Organisation (WTO) makes decisions on trade disputes between governments that are adjudicated by the Organisation.

Source: India's sugarcane subsidy breaches WTO norms, allege US & Australia

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