Asia-Pacific Trade Economists' Conference:
"Trade in the Asian century - delivering on the promise of economic prosperity"
Celebrating the 10th anniversary of ARTNeT
Bangkok, 22-23 September 2014

Ensuring optimal food security for an NFIDC using trade policy instruments under WTO [Work in progress]

Mohammad FARHAD, Research Fellow, Bangladesh Foreign Trade Instittue

Introduction

Food security essentially refers to the availability of nutritionally sufficient and safe food, affordable access to quantitatively and qualitatively acceptable food by all people, both with and without purchasing power, and importantly the assurance of continuous availability and accessibility to such food at all times.[1] In WTO, 'food security' is regarded as a non trade concern[2] and principally focused on the availability of imported food for net food importing countries (NFIDCs) during food price hike and/or the supply of concessional food reduces as a result of trade reforms.[3] However, the Bali Package agreed by the WTO Members at the 9th WTO Ministerial conference held in December 2013, comprised three main elements, one of which related to the use of public procurement for food stockholding system that developing countries can use for food security purpose. Although agreement was confined to the use of a specific policy instrument, public food stock holding system, the focus was on the price support policies and public procurement of food staples for advancing food security objectives, which has brought for the first time, food security as a key consideration in multilateral trade negotiations. This highlights the need for better understanding of the relationship between trade and market related policy instruments and food security. While it is argued that effectively designed trade policies can help to secure stable food supplies, enabling imports to meet shortfalls in local production and can mitigate price volatility trough better functioning markets, and policy makers have long been aware of the use of trade barriers and distortion facing developing country agriculture, the renewed attention to the food security is yet to initiate any meaningful and concrete work programme on trade policy reform. This short analytical note intends to identify and analyze best possible policy instruments available to an NFIDC within WTO framework and suggest some of the policy interventions that NFIDC governments might consider for implementation to achieve their food security goals.

---

[1] B. Karapinar and Ch. Häberli (Eds.), Food Crises and the WTO, Cambridge University Press, pp. 323-346; 2010 and USDA, "Food Security in the United States: Measuring Household Food Security" available at http://www.ers.usda.gov/Briefing/FoodSecurity/measurement.htm

[2] *See the* Preamble to the Agreement on Agriculture (AoA).

[3] Stevens, C., International Trade, Livelihoods and Food Security in Developing Countries". Institute of Development Studies, IDS Working Paper 215, December 2003.

Trade policy instruments for an NFIDC under WTO

1. Import tariffs, tariff-rate quotas and safeguards

These instruments are available under 'market access', one of the three pillars of the Agreement on Agriculture (AoA) and future border protection would play a crucial role in the policy space in NFIDCs. This became especially important after the experience of 2008 food crisis, when most countries reduced or eliminated import tariffs on food making MFN tariff cuts easier, as the applied rates are quite low and hence hardly have any impact on competition. But as an NFIDC, government should, however, need to be very careful about the danger of being 'locked' in the policy space for future border protection. Lower tariffs, without any doubt, beneficial for global food security and solvent consumers in all countries, as it ensure availability of relatively cheap food. However, unilateral tariff reduction does not necessarily improve food security at the national level, especially in NFIDCs where governments need to subsidise food for the poor households without purchasing power, because of the forgone revenue from tariff cuts on food commodities. The consequences of trade liberalisation for producers in NFIDCs could be positive, if their productivity and response capacity increases because of increased competition. Yet in a worst-case scenario it could be detrimental for them, especially if more efficient producers displace small producers in NFIDCs without adequate supply response capacity. To address these supply side capacity constraints, government should design the reform process along with aid for trade measures. Doha round negotiation also allow additional flexibilities for developing countries on Tariff cuts, TRQ and safeguards- often alleged for weakening the full benefit of market opening- which government might use carefully to achieve its food security objectives.

2. Product subsidies for domestic staple food production, including irrigation, fertiliser, tractor and other input subsidies

Reducing agricultural product subsidies for staple food production, including irrigation, fertiliser, tractor and other input subsidies as proposed by the July 2008 draft modalities would have different economic, political and legal implications on the food security of an NFIDC in short and long term. The reduction of overall trade-distorting domestic support (OTDS) by the rich countries between 66 and 85 percent,[4] would increase the world price, at least in the short run, resulting in higher import

[4] Draft Modalities for Agriculture, para. 3.

bills for the NFIDCs. Reduction of such subsidies at the domestic level by the NFIDCs, which will have to reduce at lower percentage level, would cut budgetary pressure on taxpayers money, on the other hand has the risk of short term price hike and displacement of capacity constraints poor farmers. Politically such reduction would be risky as it will affect both consumers and producers in the short run. However, this is an indispensable correction to global agricultural market distortions, and in the medium and long-term, it will ensure more level playing field for the non-subsidised agricultural sectors to compete based on less distortive market signals; and hence could have positive impact on countries food security through increased domestic food supply.

The Doha draft Modalities also contains several legal challenges.[5] First, the proposed product-specific support cap is intended to limit subsidies focusing on specific staple food. However, the proposal of such caps at the base year level would allow rich countries to increase presently low level subsidies and concentrate support on certain commodities, including staple food, such as rice or maze; and which would adversely affect domestic supply and food security of an NFIDC. Second, an straightforward shift to 'production-limiting or decoupled direct payments' will not enhance food security, as subsided producers from rich countries-whether fully Green-box compatible- will continue to depress food prices, which apparently benefits an NFIDC in short term, but negatively affect its otherwise improvement possibility in staple food production.

3. Export restrictions, differential export taxes and export prohibitions

Economic analysis shows that any kind of export restriction or export tax negatively affect food security (at global level) as it shrink local production and increase world food price. But it could be a useful tool for maintaining domestic food supply at reasonable price, and widely used by many countries during the 2008 food crisis. However, government should also take into account the fact revealed by a World Bank study that such policies provide limited relief to the domestic consumers while impose big cuts on the revenue of domestic producers.[6] Disciplining export restrictions of food commodities still remain answered in food security dilemma.[7] Even GATT Article XI, which requires general elimination of QR, indisputably

[5] B. Karapinar and Ch. Häberli (Eds.), Food Crises and the WTO, Cambridge University Press, 2010
[6] Anderson, Kym et al. 2008. 'Measuring distortion to Agricultural incentives revisited', World Bank Policy Research Working Paper 4612.
[7] lbid, pp. 318

permits such prohibitions for food security purposes.[8] The draft modalities provide very little on disciplining Export restriction; only propose notification and timeframe for new restrictions. However, there is no proposal for regulating differential export taxes, which is the main trade distorting tool. As an NFIDC, government needs to be very careful in deciding its policy stands on these issues. While the existing rules allow greater flexibility and policy space for the government to respond to the food crisis; for an NFIDC, food security is likely to be more volatile based on the non-availability of staple food during price hike. Therefore, lack of disciplines on export restrictions, export taxes and export prohibitions could increase food insecurity for an NFIDC.

4. International non-emergency food aid and subsidised export credits

The impact of international non-emergency food aid on food security is highly criticized, especially because of its alleged use as a means of surplus disposal or dumping, which showed its truly nasty face when food aid was reduced to its lowest level ever in 2008, in parallel with an record food price hike. Government of an NFIDC should be aware that such non-emergency food aid might have short term economic and political benefits through cheap foods for consumers and increased food security for the population with less purchasing power, while such benefits come only at the expense of local market distortions and unsubsidized food production. Moreover, the 'best endeavor' nature of food aid also increases food insecurity, especially for the NFIDCs, as experienced during the food crisis. From legal point of view, WTO can only attempt to discipline the trade and competition relevant aspects of such non-emergency food aid. The July proposal will not improve the situation and might worsen its use as evident from the introduction of new loophole named 'safe box'[9] or use of pretty lose language like 'tied aid' and 'aid in kind'.[10]

The proposal of Doha draft modalities on agriculture related to discipline export credits primarily focused on repayment periods; and for LDCs and NFIDCs it can be extended to between 360 and 540 days and in special case a farther extension is also possible. This will, with no doubt, contribute positively towards ensuring food security for an NFIDC.[11]

[8] Article XI:2 of General Agreement on Tariffs and Trade 1947
[9] Draft Modalities for Agriculture, Annex L, paras. 6-10
[10] Draft Modalities for Agriculture, Annex L, para. 3.
[11] Draft Modalities for Agriculture, Annex J, para. 5.

5. Foreign direct investment incentives including long-term land leases[12]

Foreign direct investment in food production including long term acquisition of farmland in developing countries have increased rapidly as an aftermath of 2008 food crisis. While such FDI and land leases have the potential of the creation of a significant number of farm and off-farm jobs, development of rural infrastructure and agricultural technology transfer in poor developing countries; at the same time could also reduce national food security as the investors mainly attempt to ensure their food supply back at home and the poor local people likely to lose access to and control over land threatening their livelihoods and ecological sustainability. Therefore, such FDI and land leases might bring short term economic benefits to the country, while could have potential detrimental impacts on long term food security, especially at the poor household level and could create severe political and legal difficulties as a result of displacement of local farmers. It is fundamental for the government to ensure that these land leases, and the legal environment within which they take place, are designed in ways that would minimize the threats and facilitate the opportunities for all parties involved.

Possible way forward: policy interventions for improvement

This is widely agreed by policy makers that the main responsibility to ensure food security is at the national level and it can be best ensured by right ‘mix’ of production, trade and investment and food aid policies. But the discussion here surfaced that food security cannot be isolated from the global system and supply side constraints cannot be removed overnight. This section highlighted few policy recommendations that an NFIDC government may use to improve its food security.

(i) *Import tariffs, tariff-rate quotas and safeguards*: Widespread heterogeneity among the WTO developing Members made any single policy formula impracticable, while a comprehensive policy accumulating both interests- ‘market access’ and ‘policy space’- can aid progressive structural reform necessary to ensure optimal food security. Such measures should be carefully targeted for special products and safeguards but obviously with strict timeline for graduation.

a. Designating ‘sensitive products’ for which tariff cuts will be more moderate than required by the formula, hence protects less competitive domestic products and ensure

[12] Analysis based on IFPRI Policy Brief, “Land Grabbing” by Foreign Investors in Developing Countries: Risks and Opportunities, No 13, April 2009

short term food security especially in NFIDCs, while such protection may also slow down necessary reform in the countries inefficient production structure which is the primary source of food insecurity problem.

b. Government should identify 'special products' according to their role in food security which would be exempted from the full extent of tariff reduction and TRQ increase. This will protect local producers from international competition, while consumers have to pay for producers' lack of competitiveness. Due to extremely complex process of administering TRQ, developing countries would find it difficult to take advantage of that flexibility.

c. As an NFIDC, government can also use the provision of Special Safeguard Mechanism (SSM) based on import quantity and price triggers to protect its producers against price slumps and import surges. Although there is still no agreement on the SSM triggers and the allowable extent of tariff increase; at any rate, the food security implication of the proposed mechanism would be the same as for the special products.

(ii) *Domestic support*: From a food security perspective the current proposal leave much room for improvement, especially through gradual strict disciplining of staple food subsidies in rich countries, which might be negatively affect the NFIDCs in short term, but will assist structural reforms required to achieve long term food security.

(iii) *Export restrictions, differential export taxes and export prohibitions*: Export restrictions and export taxes need to be disciplined to create trust and predictability among trading partners, which are keys to ensure food security. A failure to discipline export restrictions would be particularly damaging to food security during high food prices as proved in 2008 food crisis.

(iv) *Food aid:* In order to contribute to the food security of the NFIDCs, WTO, instead of opening of a 'safe box' for all, should incorporate in its Doha round