

Domestic Food Security and Multilateral Trade Rules

A Critical Evaluation of the Available Options

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Introduction

One of the more significant decisions adopted at the conclusion of the 9th Ministerial Conference of the World Trade Organization (WTO) held in Bali was on public stockholding for food security purposes.¹ The decision was adopted following an intensely engaging process of discussions initiated by G-33 group of developing countries for amending a specific provision in the WTO Agreement on Agriculture (AoA) in order that developing country governments are able to better use public stockholding of foodstuffs for meeting the food security needs of their populations.² G-33 argued that the extant provision imposed restrictions on the ability of a government to use public stockholding by including the cost of these operations in the domestic support (production-related subsidies), which, according to the AoA, cannot exceed 10% of the value of agricultural production of the country.

In the pre-Bali discussions, the G-33 had insisted that a 'permanent solution' to address their concerns must be found through an amendment in the AoA. While this was not agreed to, the Bali Decision on Public Stockholding for Food Security Purposes offered two sops to the G-33: one, WTO members would continue to make efforts to arrive at the 'permanent solution' and two, any breach of the domestic support limits on account of the implementation of food security programmes using public stockholding cannot be reported to the dispute settlement mechanism of the organization until the 11th Ministerial Conference of the WTO which is to be held in 2017.

The disagreements over public stockholding for food security purposes have brought the focus back on the issue of food security in the WTO. Ever since the review of the AoA was taken up in 1999, developing countries have emphasised that the Agreement needs to respond to the challenge of food security that they have had to face. However, it must be pointed out that public stockholding controversy has added an entirely new dimension to the discussions on food security in the WTO.

This paper seeks to contextualise the position that the G-33, and India in particular, have taken on the public stockholding for food security purposes. It argues that countries not only need to develop their agricultural systems in order to meet the challenges of food security,

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¹ Paragraph 1, Public Stockholding for food security purposes WT/MIN (13)/38. WT/L/913

² The issue of food security was included as an integral part of the agriculture negotiations in the Doha Round. The mandate of the Doha Round, laid down in the Ministerial Declaration of the Third WTO Ministerial Conference stated thus: 'We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development.'

they also need ensure that adequate levels of support are provided by the state to ensure that the poor are able to get their food entitlements. Available evidence shows that the interventions needed to address food security needs can vary significantly across countries and it is therefore imperative that sufficient flexibility is imparted in the multilateral trade discipline to provide enough policy space to deal with these challenges.

The paper has three sections. Section I captures briefly the significance of making food security as one of the key pillars of agricultural policy making, particularly in developing countries. As indicated earlier, WTO members have recognised this fact while laying down mandate for reforms in the AoA, which is being undertaken in the Doha Round. Section II discusses the options that the AoA provides to the WTO members for implementing food security programmes, namely the public stockholding route and the direct cash transfers. It then looks at the changes which the G-33 has proposed to make the former a viable option. Section III analyses the implementation of direct cash transfers programmes in the United States and shows that these programmes provide incentives to the farmers and are hence market distorting. Moreover, such programmes can impose considerable burden on developing countries, if these countries choose to adopt them.

Section I

Food and livelihood security is a sine qua non for agricultural policy making in developing countries. The countries have several characteristic features, which are pertinent in the above-mentioned context. These include: (i) continued dependence of a large proportion of the population on the rural economy, in particular, agriculture and related activities, (ii) high incidence of poverty and (iii) widely varying nature of agriculture systems that can range from a diverse agriculture, as in the case of large economies like India, to ones that are dependent on single crops. In light of this, it becomes imperative that developing countries have a degree of autonomy in policy making to take into account the specific needs of the working population engaged in the agricultural sector. Policies would be necessary towards improving productivity, enhancing income levels, reducing vulnerability to market fluctuations and ensuring stability of prices of agricultural commodities, among others. This, in other words, implies that attention must be focused on the improving domestic production systems in the developing countries. While much of the initiative in this regard should take place domestically, developing countries face the daunting task of garnering the resources that are required for bringing about a transformation in their agricultural sector. This task becomes more difficult in the absence of sufficient aid flows from the developed countries.

The need to realise the objective of food security has been emphasised in several initiatives that have been taken at the multilateral level. Food security, as the World Food Summit pointed out, exists when all people at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life. This definition lends itself to four dimensions of food security, namely, food availability, economic and physical access to food, food utilization and stability (vulnerability and shocks) over time.³ The most important take away from this definition is the fact that food security crucially depends on both demand and supply side factors, and hence policies for food security should be such that they can take care of the exigencies arising from both demand and supply side.

The Plan of Action adopted by the World Food Summit proposed that each nation must adopt a strategy consistent with its resources and capacities to achieve its individual goals

³ FAO (2013), The State of Food Insecurity in the World 2013, p. 17.

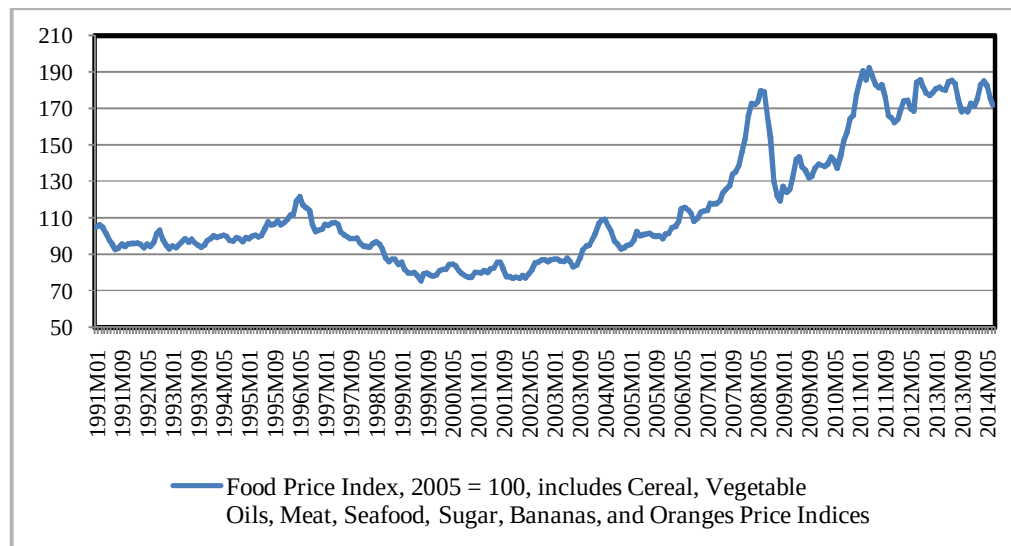
and, at the same time, co-operate regionally and internationally in order to organise collective solutions to global issues of food security. Besides emphasising the importance of national policies, the participating countries expressed their commitment to "strive to ensure that food, agricultural trade and overall trade policies are conducive to fostering food security for all through a fair and market oriented world trade system." This sentiment was also expressed in the Doha Ministerial Declaration, which underlined that the "rules and disciplines to be negotiated" in agriculture should respond to the food security needs of developing countries.

The food security carve-out in AoA has a strong empirical basis as we shall indicate in the following discussion. A generalised trade liberalisation approach is premised on a particular set of demand-supply situation in agricultural markets and overall economic situation, neither of which are true for large parts of the world today, more so for third world countries where the food insecurity problem is most acute.

To begin our discussion, let us look at some stylized facts regarding the state of agriculture, food security and related issues in the world today.

1. Food prices: International food prices displayed a downward trend for more than a decade after the WTO came into being. This trend was reversed in the second half of the previous decade, which marked the beginning of a big spike in food prices. The period after this has been marked by high volatilities and much higher prices. Chart 1 shows this trend.

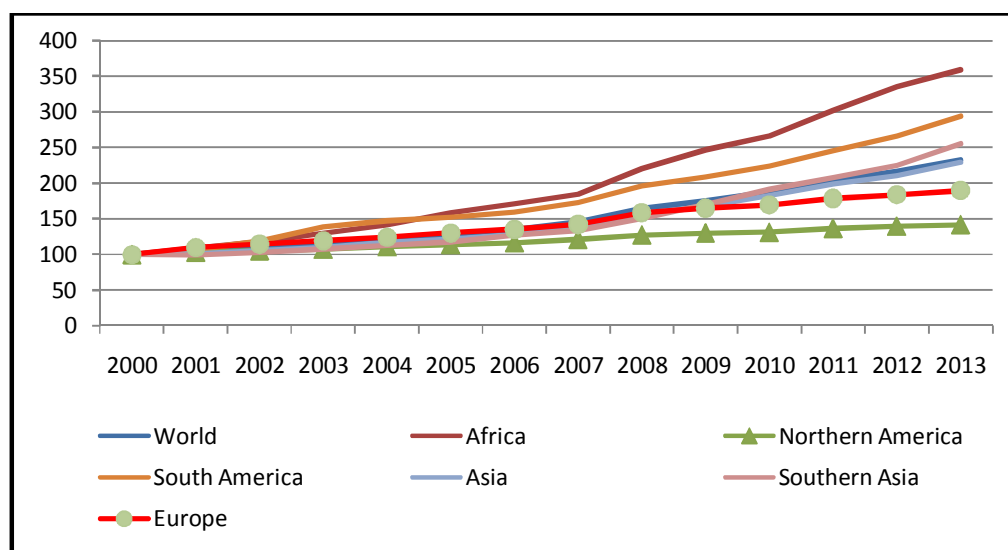
Chart 1: IMF Food Price Index



Source: IMF Primary Commodity Database

2. There is considerable regional variation in food price trends, and the inflation is much higher in the third world compared to developed regions of North America and Europe. Chart 2 shows these trends from 2000 onwards. It can be seen that the divergence in food price inflation has become more pronounced after the food price spikes in second half of the last decade.

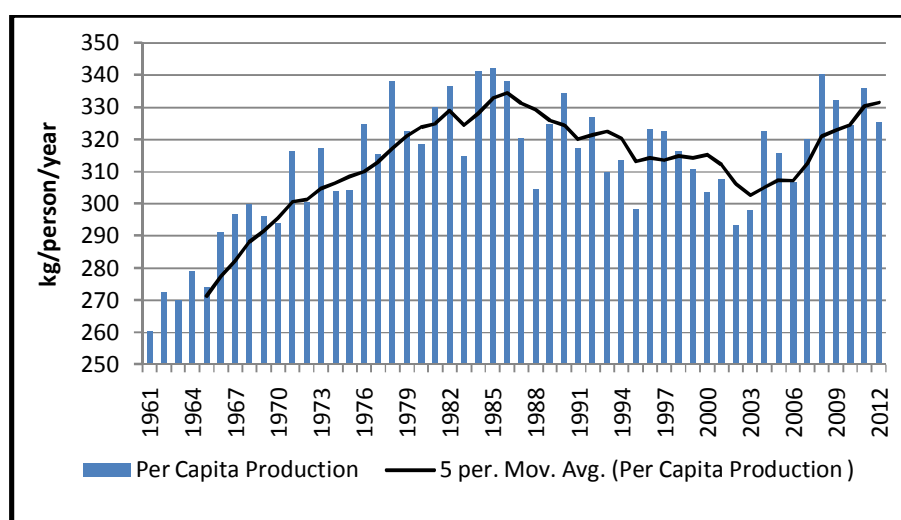
Chart 2: Consumer Prices, Food Indices (2000=100)



Source: FAOSTAT Data

3. Per Capita Cereal Production: Cereals are the most important constituent of food basket, given their crucial role in providing nutrition through direct and indirect consumption.⁴ From the food security viewpoint, per capita cereal production is the relevant indicator, since it shows whether or not food production is keeping pace with population growth. Charts 3 shows the trends in per capita cereal production for the world from 1960 onwards.

Chart 3: Per Capita Cereal Production (Cereals, Rice Milled Equivalent) World

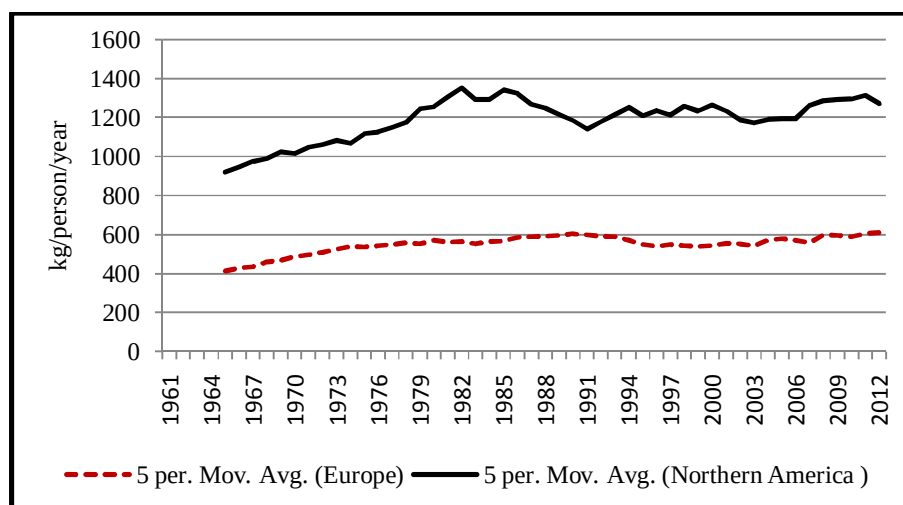


Source: Calculated from FAOSTAT Data

⁴ As per FAOSTAT Data, share of dietary energy supplied from cereals, roots and tubers for World, Africa, Asia, Southern Asia and Latin America and Caribbean in 2009 was 51, 63, 57, 62 and 40 percent respectively. Of the 872.2 million undernourished people (3 year average) in 2009, 861.8 were in Africa, Asia and Latin America and Caribbean.

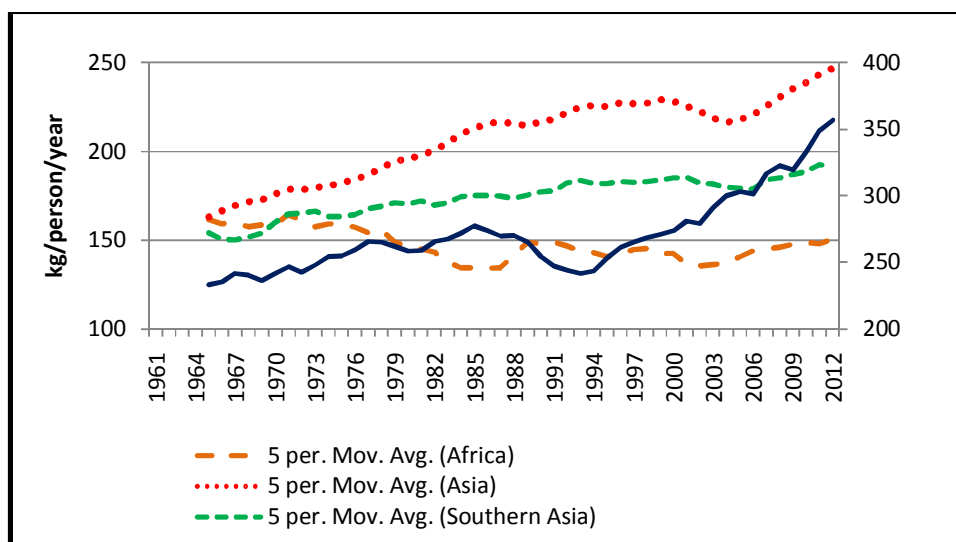
It is clear that there was a significant decline in per capita cereal production from mid 1980s till the first half of the previous decade. There are significant regional variations in these trends as is shown in Charts 4 and 5.

Chart 4: Per Capita Cereal Production (Cereals, Rice Milled Equivalent) Europe, North America



Source: Same as Chart 3

Chart 5: Per Capita Cereal Production (Cereals, Rice Milled Equivalent) Asia, Africa, and South America

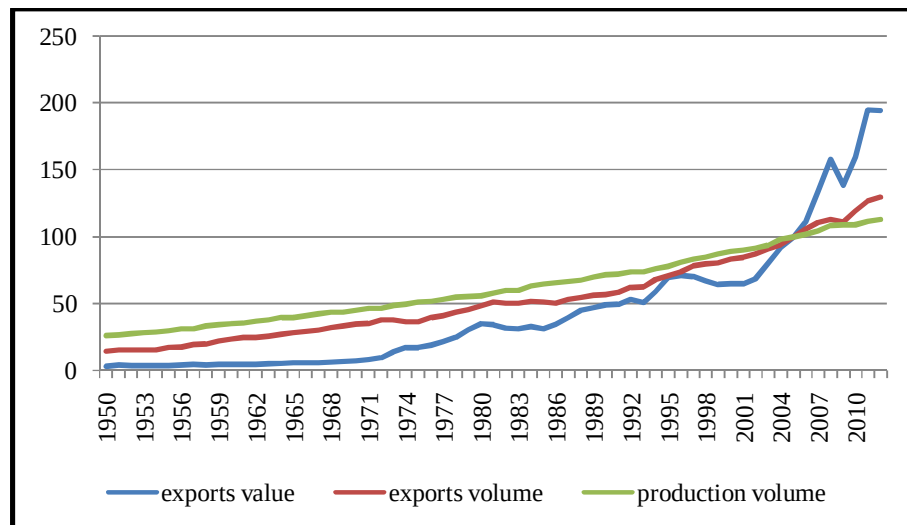


Source: Same as Chart 3

A reading of Charts 3-5 shows that even though per capita production levels are much higher in the developed world i.e. North America and Europe, they have clearly stagnated, with no significant increase in the last three decades. Talking about the developing world, per capita production experienced a downward reversal or stagnation in most parts except South America in the period from 1980s till the period which marks the beginning of spike in food prices. The reversals were most pronounced in regions like Southern Asia and Africa, where poverty and food insecurity is rampant. Also, developing countries are nowhere near the per capita production levels in the developed world.

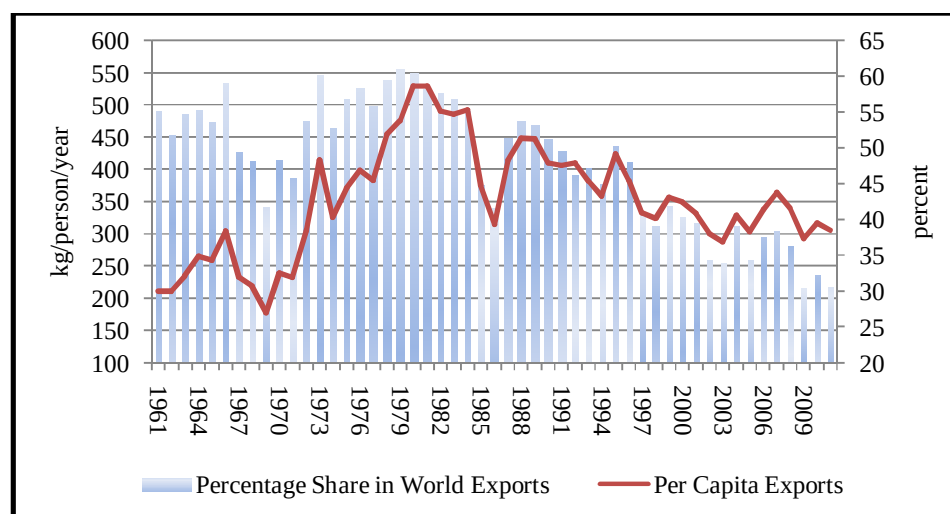
4. Trade in Agricultural Commodities: World markets today are witnessing a tightness which is unprecedented since the 1950s. Chart 6 shows these trends. The rapid growth of prices, which has led to export values overtaking export and production volumes needs to be seen the context of the information presented above. The developed world, particularly North American countries have been the biggest exporter of cereals traditionally. With stagnating per capita production levels and increasing demand for cereals on account of feed and fuel use, the per capita export of cereals as well as North America's share in food exports has been coming down continuously, as is shown in Chart 7.

**Chart 6: World Merchandise Export and Production in Agricultural Products
(Index, 2005=100)**



Source: Table A1a, World merchandise exports, production and gross domestic product, 1950-2012, International Trade Statistics, WTO 2013

Chart 7: Trends in North America Cereal Exports



Source: Calculated from FAOSTAT Data

5. Share of Agriculture in GDP and Employment: Gross imbalances persist in the share of agriculture in income generated and employment in the third world regions, where it continues to engage a large share of the workforce despite declining income shares. Table 1 shows these trends.

Table 1: Share of Agriculture in Income and Value Added

Regions	Percent Share of Agriculture in Total Employment		Share of Agriculture in Value Added		
	1995	2010	1990	2000	2011
East and North-East Asia	46.3	33	5	5	5
South-East Asia	52.1	41.5	15	12	12
South and South-West Asia	52.9	49.4	23	19	15
North and Central Asia	21.3	19.3	19	8	5
Pacific	17.3	17.1	4	5	3
Asia and the Pacific	49.5	39	11	7	7
Africa	61.7	56.2	17	14	16
Europe	12.4	6.7	4	2	2
Latin America and Caribbean	23.2	16.2	9	5	5
North America	3	1.7	2	1	1
World	41.8	33.9	6	4	4

Source: Statistical Yearbook for Asia and the Pacific 2013

The stylized facts given above can be used to draw three broad conclusions:

1. The period before food price spikes saw the collapse or stagnation of per capita cereal production in third world countries. These trends have been accompanied by worsening of imbalance between income and employment shares of agriculture. The latter is bound to have negative implications for food security from demand side.
2. The trade route for meeting shortage of food is coming under squeeze as exports from the developed world are declining on account of stagnating per capita production levels.
3. Price shocks for food are more severe in the third world, compared to regions like North America and Europe.

These conclusions can be used to argue that policies for ensuring food security in the third world must be aimed at achieving self-sufficiency in food production instead of relying on trade, stabilizing food prices and safeguard the livelihood of large number of people who are still engaged in agriculture; who are unlikely to find gainful employment opportunities outside agriculture.

Developing country coalitions, in particular the G-33, have made a series of interventions in the agriculture negotiations in the Doha Round arguing in favour of introducing new instruments in the AoA that are necessary for the farm sector to realise the objectives of food security as well as livelihoods.⁵ While these instruments, if adopted, would unlock the constraints that the farmers in developing countries face in providing the necessary supplies of foodstuffs, the crucial distribution-related issues that are key to ensuring that the poor and the undernourished get adequate access to the available supplies of food need are waiting to be effectively addressed within the AoA framework. Olivier de Schutter, the UN Special Rapporteur on the right to food made this point very effectively in his Final Report: "[T]he multilateral trade regime as well as regional and bilateral trade agreements must allow countries to develop and implement ambitious food security policies including public food reserves, temporary import restrictions, active marketing boards, and safety net insurance schemes, in support of the progressive realization of the right to food".⁶ The relevance of the point that the Special Rapporteur's had made became obvious in the context of the constraints that the AoA had imposed on the ability of developing countries to use public stockholding for food security purposes. The following section provides the details.

Section II

Existing AoA rules allow for unrestricted expenditure on domestic food security.⁷ Two

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