Ensuring food security through WTO rules: Should the ‘policy space’ be expanded?

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Abstract

With the developing world’s increasing participation in the global trading system, food security has emerged as a mainstream issue and a potential deal-breaker in trade negotiations, as perceived in the recent Bali Ministerial Conference. While several governments adopt food security programmes as a response to political motivations, it is becoming evident that such programmes, particularly in countries that are net agricultural exporters, are likely to distort global agricultural markets. Undoubtedly, there is a need to contextualize the World Trade Organization (WTO) Agreement on Agriculture to reflect the current trends in agricultural markets. However, an overhaul of the existing global agricultural trading system to allow countries to adopt protectionist food security policies can be detrimental to the economic stability of the global agricultural market. Annex 2 of the WTO Agreement on Agriculture provides developing countries with an opportunity to implement judicious policies to support their rural farming communities and to contribute to the well-being of the domestic agricultural sector. Meanwhile, provisions on food aid, calculation of Aggregate Measure of Support and export restrictions on food need to be re-evaluated to make them relevant to current times. Ultimately, the challenge of creating food security within a country is unlikely to be resolved only by a change in WTO disciplines on agriculture: domestic policy initiatives to address issues related to domestic infrastructure and social protection programmes for poor populations will be necessary to achieve a greater impact.
INTRODUCTION

The upward trend in prices of food commodities worldwide, since the price shocks of 2011 up until mid-2014, has emerged as a major threat to the stability of the global agricultural trading system. The last century was characterized by declining food prices and increasing productivity, resulting in producer-oriented policies such as export subsidies, price supports, set-aside programs and buffer stock programs, particularly in the developed world (Meyer and Schmidhuber, 2013). Meanwhile, developing countries — the predominant food importers — negotiated for lower export subsidies (Hoekman and Messerlin, 2005) and protected their domestic farmers through import restrictions and related mechanisms (Chatterjee and Murphy, 2013). These standpoints informed negotiations within the WTO and formed the basis of important negotiations such as the Uruguay Round Negotiations on the Agreement on Agriculture (AoA) (Orden et al., 2011; WTO, 1994). However, the recent spike in international food prices has seen a strong policy reversal amongst trading countries, with food exporters raising export barriers and food importers lowering import restrictions (Andersen and Nelgen, 2011).

The evident discord between the realities of the agricultural trading system and WTO agreements has led to renewed demands by developing countries to modify WTO rules in order to allow greater ‘policy space’ to adopt policies encouraging domestic price stability (Interagency Report to the G20, 2011; Andersen and Nelgen, 2011), food security (Keyzer et al., 2000; Konandreas, 2011) and on occasions, food self-sufficiency. While some countries appear to be pursuing food self-sufficiency in their policy agenda, research indicates that countries that have followed such policies have generally incurred heavy welfare losses. Furthermore, the WTO itself has taken the position that food self-sufficiency is an unrealistic goal in a globalized world (Diaz-Bonilla, 2013; Beghin et al., 2002; Panitchpakdi, 2005; Taylor, 2009; Gayi, 2007). A key concern raised by developing countries, particularly by India in the Ninth Ministerial Conference at Bali in 2013, was the issue of domestic food security policies and their potential incompatibility with WTO rules. This debate received extensive attention due to the continued advocacy of the Right to Food — more specifically by the UN Special Rapporteur on the Right to Food after 2008 and the Food and Agricultural Organization of the United Nations (FAO). However, the issue remains unresolved and continues to be a point of discord between the developed and developing world.

This article will discuss the issue of food security within the WTO framework, with particular focus on the AoA. The first part of the article will explore the relationship between food security and trade, and the underlying political economy of food security. The second part will closely examine the provisions of the AoA and its implications for food security programmes and, in conclusion, it will outline the consequences of the expansion of ‘policy space’ within the WTO for food security programs of developing countries, and the potential for reforms within the system. The article will contend that while trade policies may have an impact on domestic food security, the existing ‘policy space’ within the WTO for developing countries can realistically be altered only to a limited extent. This article concludes that while it may be necessary to contextualize WTO disciplines in light of changing conditions in global agricultural markets, food security issues may be best addressed through domestic policy reform.

RELATIONSHIP BETWEEN FOOD SECURITY AND TRADE

The WTO has adopted FAO’s definition of food security (FAO, 1996), which is defined as: ‘when people or populations at all times have physical and economic access to sufficient, safe, and nutritious food to meet their
dietary needs and food preferences for a healthy life.' The FAO definition addresses four elements: first, the availability of food at a domestic level, entailing efficient, secure and reliable production, distribution and exchange in markets; second, the access to food, particularly in terms of affordability and consumer preferences; third, the utilization by individuals, ensuring that they receive enough nutrition; and finally, the stability of price and supply in domestic markets (FAO, 1996). Trade policies are closely related to both the availability and prices of the food in the global market. These factors, in turn, influence availability and accessibility in domestic markets. Trade policies may also impact decisions of producers regarding their investments in agriculture (Diaz-Bonilla and Ron, 2010). However, the state of food security in a country is not only contingent on whether the country has sufficient domestic food supply, but also on the existing infrastructure within the food distribution system and the socio-economic status of the individuals in the country (Diaz-Bonilla, 2013). Studies have shown that both countries with adequate food production, such as India and Brazil, and food importing countries like Egypt, can resolve food security issues through targeted social protection programmes and investment in high-quality food storage and transportation infrastructure (Chatterjee and Murphy, 2013). Trade economists have also argued that food security is better ensured through domestic cash transfer programmes than trade protectionist measures (Häberli, 2014). However, such programmes may have an inflationary effect if there is insufficient availability of food in domestic markets, leading to high prices (Chatterjee and Murphy, 2013).

Recent distortions in global agricultural trade have adversely impacted poor consumers, particularly in developing countries and least developed countries (LDCs). With rising food prices, the proportion of consumers’ income spent on food consumption has grown significantly while the ‘quality of diet’ has deteriorated, resulting in increasing rates of malnourishment in poor countries (Meyer and Schmidhuber, 2013; Diaz-Bonilla and Ron, 2010). The FAO reported that, in 2013, 842 million people — or roughly one in eight of the world’s population — suffered from chronic hunger. The proportion rises to one in four people, or approximately 24.8 per cent of the population, in Sub-Saharan Africa. These figures are also high for South Asia (FAO, 2013). While trade policies by themselves are not sufficient to promote food security, they can offer an important contribution, particularly if WTO disciplines are implemented to enable producers in smaller countries to benefit from higher food prices in global markets, and to protect consumers from being adversely affected by volatile food prices (Diaz-Bonilla, 2013; Meyer and Schmidhuber, 2013). In addition to the escalation of food prices, there are two other important issues that are likely to impact food security issues in the coming years. The first is the growing importance of biofuels in the renewable energy industry, which may result in high prices of agricultural commodities due to absorption of excessive agricultural produce in the long run (Tangermann, 2013). The second issue is that of climate change, which has resulted in erratic agricultural production, particularly in tropical countries (ibid).

Since the global financial crisis, several developing countries have responded to the food crisis by scaling up food security and assistance programmes to the vulnerable poor (Meyer and Schmidhuber, 2013). Some examples include the Zero Hunger Programme in Brazil (Ministro Extraordinário da Segurança Alimentar e Combate à Fome, 2003) and the National Food Security Act 2013 in India (Government of India, 2013). While, in previous decades, most developing countries were peripheral players in the global trading system, they are much more important players today. In 2011, developing countries accounted for 41 per cent of global agricultural imports (60 per cent for cereals) and 45 per cent of global agricultural exports (Bureau and Jean, 2013). With a growing share of agricultural trade in the global markets, the role of developing countries is
increasingly becoming pivotal in agricultural trade negotiations. When major food exporters in the developing world implement food security programmes by providing extensive price support or subsidies to their domestic farmers, the process inevitably results in skewing the demand-supply dynamics in the entire global agricultural market. In light of this, the WTO becomes an important negotiating platform to evaluate potential changes to the architecture of the global agricultural trading system. Regional Trade Agreements may also become critical for negotiations on food security policies in the coming years (Herath et al., 2014).

**Political Economy of Food Security**

The political economy of food security is characterized by two competing agendas, one being the promotion of open markets that sell food commodities at cheap, competitive prices for the benefit of consumers; and the other being the promotion of domestic protection which results in high food prices, benefitting producers and protecting rural livelihoods, particularly in developing countries. Previously, developed countries, such as the G10, focused on protecting their farmers while developing countries pushed for open markets (Chatterjee and Murphy, 2013; Diaz-Bonilla and Ron, 2010). However, in recent years, developing countries such as China, Brazil and India have been increasing their levels of domestic protection for farmers (Brink, 2013). The G33 countries, in particular, have demanded regulatory changes within the WTO so as to increase thresholds for provision of domestic support to farmers in developing countries with the aim of reducing rural poverty and/or pursuing food security programmes domestically.

The negotiating position taken by countries in international fora such as the WTO is strongly influenced by the domestic politics that affect food security programmes. For instance, prior to the 2014 general elections in India, massive political support for social infrastructure programmes resulted in the adoption of extensive food security programmes, arguably at the cost of slowing economic growth (Drèze, 2013; Bhagwati, 2013). Post-election policy circles within the Indian government continue to provide strong support to the food security agenda, while the developed world remains unwilling to provide concessions. Furthermore, since provision of food commodities is a vital public good, opposition to liberalization of food markets exists within various factions of society, particularly amongst the lower income groups and powerful farmer lobbies. (Hermann, 2007). In fact, the agenda of ‘food sovereignty’ (Lee, 2007), developed as a response to the ‘unjust logic of the globalized food system’, is now gaining credibility amongst numerous governments and organizations (De Schutter, 2014; Chatterjee and Murphy, 2013). The governments of Ecuador, Nepal, Mali, Venezuela, Bolivia and Senegal have all adopted the principle of food sovereignty in some form (Beauregard, 2009).

While several studies show that the manipulation of food prices in the domestic market can be damaging to the global economy (Diaz-Bonilla, 2013), the political incentives for such actions are clear. There is an inherent tension in the political and economic objectives currently sought in the agricultural trading regime. Some scholars argue that food trade regimes in earlier decades were relatively stable due to the presence of hegemonic powers (Pritchard, 2009). However, the growing negotiating power of developing countries and the absence of a hegemon have left WTO agricultural negotiations rudderless (ibid). Going forward, it appears inevitable that the extension of the ‘policy space’ for food security programmes within the WTO will be an important item on the negotiating agenda for several developing countries (Tsiouman, 2012).
AOA AND FOOD SECURITY: WHY DEVELOPING COUNTRIES WANT MORE 'POLICY SPACE'

Although the AoA is considered to be one of the most important agreements governing the global agricultural trading system, several countries have acknowledged that it is no longer relevant to the current climate in agricultural trade (Andersen and Nelgen, 2011; WTO, 1994). While the larger debate governing the amendment of AoA is outside the scope of this article, the article focuses on provisions therein of particular relevance to the food security programmes of developing countries.

The AoA provides some degree of latitude for developing countries to adopt policies in order to ensure food security through several Green Box measures (WTO, 1994). Under Annex 2 of AoA, various prescribed mechanisms (also called as Green Box measures) allows countries to make provisions for food security programmes without violating WTO laws. A Green Box measure must not be trade distorting or have only a minimal distorting impact on trade; it must be government-funded; and should not involve any price support to farmers (Annex 2, Paragraph 1). One of the most important Green Box measures (Annex 2, Paragraph 3) allows for public stockholding for food security purposes under a national food security programme, provided it is legally recognized under national laws. The exemption not only covers purchase of grains, but also associated costs such as government aid for private storage, which forms a part of the national food security programme. However, in order to take advantage of this exemption, the process of stock accumulation and disposal must be financially transparent, and the products must be bought and sold at market prices. In the case of developing countries, acquisition and sale of food stocks at administered prices is permitted, provided the external reference price is accounted for in the Agriculture Measure of Support (AMS) (Footnote to Annex 2, Paragraph 3). AMS is the amount of monetary support provided annually to agricultural producers for a specific agricultural product or in general, as calculated by the provisions of AoA. Exemptions made under Annex 2 are not calculated in the AMS (Article 1(a), AoA).

Furthermore, domestic food aid also qualifies for an exemption under Annex 2, Paragraph 4 as long as it relates to the defined nutritional objectives of the population, and is provided by the government at market prices in a financially transparent manner. Food aid can be both direct and indirect, thus allowing the targeted population to buy food at market or subsidized prices. An exception is made for developing countries that provide food on a regular basis to the rural or urban poor at reasonable prices. In addition, other forms of support to the agricultural sector within the Green Box measures (WTO, 1994) include payments for research and training to agricultural producers that do not constitute a direct transfer (Annex 2, Paragraph 1); decoupled income support (Annex 2, Paragraph 6); government financial participation in income insurance and income safety-net programmes (Annex 2, Paragraph 7); relief for natural disasters (Annex 2, Paragraph 8) and a few other assistance programs (Annex 2, Paragraphs 12 and 13) and structural adjustment programmes (Annex 2, Paragraphs 9, 10 and 11).

In addition to Green Box measures, there are other important provisions within the AoA that can be utilized, particularly by developing countries, to support their agricultural sector (WTO, 1994). For instance, under Article 6.4 of AoA, developing countries enjoy a higher de minimis threshold in domestic support reduction commitments. In case of exemptions provided for specified agricultural products, the permissible limit is up to 10 per cent of the total production of that particular product. In other cases, where exemption is not product-specific in nature, up to 10 per cent of the total domestic agricultural production is permitted. Under Article 6.2 of AoA, investment and input subsidies for low-income or resource-poor (LIRP) producers are also exempted.
from domestic support reduction commitments. Under Article 12 of AoA, member states instituting new export prohibitions or restrictions on foodstuffs will need to give due consideration to the food security requirements of food importing countries and notify the WTO Committee on Agriculture in advance of any such measures. Arguably, developing country governments can utilize several of these exemptions to provide support to their agricultural communities, particularly given the climate change risk and the highly volatile nature of global agricultural markets today (Diaz-Bonilla, 2013). However, to date, there has been severe dissatisfaction, particularly amongst developing countries, regarding the recourse available to governments under the AoA to support their agricultural communities.

Several developing countries have expressed concerns that the existing provisions within the AoA are not adequate to address needs of farmers in poorer countries. During the 2013 Ministerial Conference in Bali, India raised the issue of food security in light of its National Food Security Act (Government of India, 2013) and its potential incompatibility with WTO rules. The Indian Commerce Minister, speaking in defense of India's food security programme, expressed that for many developing countries, public procurement of food at administered prices is the only viable method of supporting farmers and building stocks for food security (Donnan and Mallet, 2013). An interim measure was adopted in Bali, wherein WTO members agreed to not file complaints against other developing country members with public stockholding programmes for food security that were in breach of WTO rules (WTO Ministerial Decision, 2013). While a permanent issue is still being sought on this issue, some experts believe that it may also have increased likelihood of 'government-financed competition' in global agricultural trade (Häberli, 2014).

The Revised Draft Modalities, issued by the Chair of the WTO agricultural negotiating group in 2008, incorporated measures to provide more latitude to developing countries for food security programmes so as to procure stockholdings, support LIRP producers, provide monetary support to producers affected by natural disasters, and offer regional assistance payments and additional options to manage import protection, such as Special Products, the Special Safeguard Mechanism (SSM) and Sensitive Products, and provisions regarding monitoring and surveillance (WTO, 2008; Josling, 2013). The G33 proposal, tabled in 2012, extends the scope of the Revised Draft Modalities, and includes various amendments to current rules regarding domestic farm support payments. The G33 countries recommended exempting purchases of food stocks for food security or food aid programmes at market prices from LIRP producers. The group also called for a change in the rules for calculation of AMS, such as the calculation of external reference prices with respect to the 1968-88 period, and for amending the definition of 'eligible production', which would render several existing or potential food security programmes illegal under WTO rules, as they would constitute a violation of the de minimis ceiling under Article 6.4 of the AoA (Diaz-Bonilla, 2013). Furthermore, there was a demand for inflation over 4 per cent to be taken into account in the calculation of AMS.

**Implications of the Expansion of ‘Policy Space’**

The expansion of 'policy space' to support food security programmes within the WTO should be carefully evaluated in the context of poor and vulnerable populations, particularly among the net food importing developing countries and LDCs, and within larger policy goals to eliminate hunger and malnutrition (Ivanic et al., 2011). Existing mechanisms within the AoA permit the provision of decoupled income support to farmers, the
improvement of research and development support, and the supply of other forms of indirect support to farmers under Annex 2. It is therefore argued that negotiations regarding concessions for food security programmes, when avenues to do so are already in existence, are probably redundant (Diaz-Bonilla, 2013). Moreover, measures such as SSM would only increase prices within markets, providing benefits for few large domestic producers while adversely affecting many poor consumers (Diaz-Bonilla, 2013; Gifford and Montemayor, 2008).

The outcome of food security policy is unlikely to be consumer-oriented if it ultimately results in providing certain groups of producers with above-market prices at the cost of disadvantaging poor consumers (Tangermann, 2013). The political landscape in several developing countries has been sensitive to this issue in recent times, such as in India and Indonesia. Simultaneously, global civil society groups and key international organizations have been increasing pressure on the WTO to avoid unnecessary hurdles to the elimination of food insecurity in poor countries (De Schutter, 2011). Therefore, it appears inevitable that some changes may be imminent in WTO disciplines to prevent volatility and unpredictability in the global agricultural trading system.

To that effect, it may be desirable to begin addressing outdated mechanisms within the architecture of AoA, such as the method of calculation of external reference prices and the concept of ‘eligible production’ in Annex 3 and 4 respectively (WTO, 1994). Another possible solution is to introduce Green Box measures that make a distinction between the provision of public goods, such as through food security programmes, and income support to farmers placing a cap on the latter (Tangermann, 2013). However, this may be unrealistic to implement in light of the complexity of global food value chain today and the varying interests of individual developing countries (Diaz-Bonilla and Ron, 2011). Provision of clear, transparent and binding disciplines within the WTO for matters such as export restrictions and food aid may also be desirable, particularly given the global food crisis (Chatterjee and Murphy, 2013). While such incremental changes are necessary in the coming years, a wide expansion of the ‘policy space’ within AoA, as demanded by several developing countries, may not be an optimal or feasible solution to address domestic food insecurity (Tangermann, 2013). Therefore, developing countries should continue to pay greater heed to their domestic policies including providing greater research and technical support to farmers, constructing adequate storage and transportation infrastructure, and addressing the needs of the poorest through targeted social protection programmes.

**Conclusion**

While scholars continue to debate the relevance of trade policies for domestic food security issues, it should be acknowledged that a ‘one size fits all’ approach is impractical given divergent needs across developing countries. The issue of food security goes far beyond the food sovereignty versus agricultural liberalization debate, and is inextricably linked to sound domestic policies. Nonetheless, it is important that the WTO disciplines on agriculture allow for certainty and some degree of flexibility for developing countries, but an overhaul of the system is unlikely. In the near future, outdated provisions such as the method of calculation for AMS should be revised and disciplines on export restrictions and food aid should be developed. While increasing openness and fairness within the agricultural trade system should continue to inform negotiations on AoA, it would be judicious to shift the policy focus to facilitating domestic measures to enhance food security, reduce poverty and effectively utilize the existing ‘policy space’ within the WTO to improve investments in the agricultural sector and social infrastructure for poorer populations.
REFERENCES


