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Trade: Expert panel stresses on food security in run-up to Bali

Geneva, 4 Oct (Kanaga Raja) -- An expert panel session at the World Trade Organisation (WTO) Public Forum on Thursday discussed the issue of agriculture, in the context of food security and the human right to food, and laid stress on its inclusion in the 'Bali package'.

The session, held on the last day of the 1-3 October Public Forum, was titled "Agriculture: A Development-oriented Outcome at Bali?" and was sponsored by the French NGO Solidarite.

The speakers on the panel included Ambassador Jayant Dasgupta of India, Ms Deborah James of the Washington-based Centre for Economic and Policy Research (CEPR) and coordinator of the Our World is Not for Sale (OWINFS) CSO network, and Mr Jacques Berthelot, an agricultural expert with Solidarite.

Another panel member, the United Nations Special Rapporteur on the Right to Food, Mr Olivier de Schutter, was unable to make it to the panel in time for the early morning session.

The discussion at the Public Forum took place just as the WTO has intensified consultations since September on the three potential Bali issues of trade facilitation, some elements of agriculture and development/LDC issues.

Kicking off the expert panel session on Thursday, Deborah James said that agriculture is one of the key pillars of the Doha Round, adding that developing countries only agreed to launch a new round on the basis that developed countries would finally agree to fix decades-old unfair trade practices in agriculture.

And for 12 years now, even as developing countries have demanded that developed countries reduce their subsidies and tariffs on agriculture, the European Union and the United States have continued to extensively subsidise their exports, and in the case of the US, have actually increased them.

Unfortunately, after all of this time, she said, the proposals of the G-20 and the G-33 to reform these agriculture rules are at a stalemate due to the intransigence of the US.

Recently, however, she noted, there is some light at the end of the tunnel because the issue of the human right to food and the need for countries to pursue policies of food security have arisen in the context of the global economic and food crises, which have left millions more people (in hunger) in addition to the millions already who do not have enough to eat.

In his presentation on existing WTO disciplines and food security in developing countries, Ambassador Jayant Dasgupta of India said that the topic of food security and food has been in existence since the dawn of civilisation and the birth of mankind. This is something that is a real world issue - it has been an issue in 5,000 BC, it is a 20th century issue, it is a 21st century issue and will be a very topical issue in the 22nd century as well.

Focusing on the WTO disciplines and how they encourage, inhibit or prohibit the solution to food security in developing countries, he said that there are only two mentions in the WTO Agreement on Agriculture (AoA), one is in the chapeau where it speaks about food security being a non-trade concern.

He said that the whole AoA was based on a vision of reform, and the reform programme is outlined in the chapeau and it says very clearly that non-trade concerns including food security and special and differential treatment (S&D) for developing countries will have to be an integral part of that.

On the provisions in the WTO Agreement to address food security, Ambassador Dasgupta said that there is only one other mention in the Agreement and that is in Annex 2 which deals with the Green Box, where there is public stockholding for food security purposes in paragraph 3 and there is a complementary paragraph 4 that talks about domestic food aid.

"Now, as long as governments buy from the market at whatever price, it is considered WTO-consistent, no questions asked. If any country wants to build up a public stock, it can do so to any extent based on current market prices," he said, adding that one of the issues is what is the ‘current market price' and how can it be discovered.

The second issue in this context is that for developing countries, there is a provision that enables governments to have administered prices because the markets may not be perfect, and there may be cartelisation and imperfect market conditions, so that administered prices have been allowed.

But - and this is one of the most important things here - there is a direct linkage between the Green Box and the Amber Box only for this provision, which says that if any country has an administered price for procurement or acquisition of stocks, it will have to be accounted for in the AMS (Aggregate Measurement of Support). For that, there is a particular formula that is to be followed, but that formula does not relate only to food security, but also relates basically to the market price support system.

Ambassador Dasgupta explained that the market price system is based on providing prices at much above market prices - providing administered prices at much above market prices - which is what was prevalent in the EU in the 1980s and many other developed countries to give a boost to production and it ended up in countries sitting on large piles of stocks and they did not know what to do with it, and so, they ultimately dumped it on the international market. They could not do it without providing export subsidies and so they provided huge export subsidies as well.

"Now that is a very distorted system of providing support and it, of course, led to many distortions and that is why this provision came in of market price support,"said Ambassador Dasgupta, asking what happens if the administered prices are at current market prices or just below current market prices?

He pointed out that in the case of India, what is seen is that the acquisition or procurement is confined to a very small or short window of only three months after the harvest, and that is when the farmers are at their most vulnerable, and if there is no price guarantee, the smaller farmers or marginal farmers are forced to make distress sales, and the prices go down for their sales to the consolidators or wholesalers, and then the prices keep going up.

If one looks at the prices in India, for instance, one will find that the market price irrespective of when the sales is taking place between a farmer and a wholesaler, or in the market, it is around or above the administered price but after that for the next nine months of the year, it is much above the acquisition price.

"So this fallacy that every administered price mechanism will be much above market prices does not stand careful scrutiny," he said.

He also noted that there are other Green Box provisions which he said have been proved to be trade-distorting through the creation of income and wealth effects. One of the first and foremost is the decoupled income support programme, he added.

As to why developing countries need to have public stockholding programmes and not buy it from the market in times of need, Ambassador Dasgupta explained that firstly, it is to provide food for the poor, highlighting that in India, as well as in many other developing countries, the public stocks are meant to provide domestic food aid, which is a Green Box provision and is completely free of any restrictions.

Secondly, in large countries that are prone to many kinds of natural disasters and emergency situations, there is need to have stocks from which to provide the needy and to feed the population in times of distress. And there are market imperfections, problems of regional stocking and transportation, "so we need to have public stockholdings to take care of this factor as well."

Third, he said, is that not all the food that the poor need can be given through the domestic food aid programme, highlighting that in the case of India, there is a national food security act which has been passed and is now under implementation from 10 September 2013. This provides food to the poorest people, which is the 10% or the lowest decile of the population, for the full requirement.

But for the rest of the poor, and there are a large number of poor - hundreds of millions - the food provided takes care of more than half of their requirements, but not to the full extent, so they have to buy from the market.

"So, that is another consideration that we can't allow food prices in the domestic market to go beyond reasonable limits. So we have to keep them restricted or prevailing at reasonable levels. And if the prices show volatility, they show a sharp upward trend, we need to release food from the public stock to bring down the prices, [and] to curb this volatilty."

Lastly, he said that food banks have been a concept that the UN Food and Agriculture Organisation (FAO) has been dealing with for the past thirty years, and it has been saying that regional food banks are one of the best means of tackling the problems of food security in a region, adding that the public stock that India maintains has been used very frequently to provide government-to-government food on-purchase basis.

On why an administered price mechanism is needed, Ambassador Dasgupta referred to paragraph 7 of the Green Box provisions which talks about providing income support, income safety net programmes and income insurance programmes.

If incomes dip below a certain level, farmers are compensated, he said, noting however that this is not possible in a developing country because of resource constraints and certain other administrative reasons. But the main problem is resource constraints.

There is also the question of large incidence of indebtedness, he noted, adding that according to statistics published in India, "last year, we had an incidence of 65% of the farmers being indebted."

When they are investing in seeds, fertilizer, pesticides, in buying water and electricity, and in hiring transport to take their produce to the market, they are taking a risk, and if they don't have an income insurance scheme or a safety net programme, and if they have no assurance, they are left to the mercy of the market forces which in many cases, because of imperfect market conditions, could be very exploitative; if this is so, they need some kind of an assurance.

But if you have a mechanism that is way above the market prices – the administered prices are way above the market prices - it will obviously lead to distortions, he said, adding that "we have heard that Thailand is sitting on a huge pile of rice, [and] the US is sitting on a huge pile of sugar. That is just the kind of thing which should not have been happening."

But in the case of India, in 2012, its rice procurement fell way below the target because the administered price was not good enough. It was not just below the current market price, it was way below the current market price, so the farmers did not offer their produce to the government.

In the case of the recently concluded wheat procurement season, Ambassador Dasgupta said that "we fell short of the target by about 40% because the government couldn't provide that kind of money which the other people were willing to provide, so we fell short."

Asking what happens if this kind of price guarantee is not given, he noted that the average size of land-holdings taken about six years ago was about 1.21 hectares, not to speak of the hundreds of millions of landless labour who also depend on rural incomes.

If there is nobody to take that decision or risk to cultivate a plot of land, it lies fallow, and what the family does is it tries to take to some subsidiary occupation or it migrates to the cities and it can lead to two problems which are real problems - one is about reducing food availability because the land remains fallow, and second, endangering rural livelihoods and leading to a greater number of unemployed.

"So it can lead to a real life problem in terms of civil strife, in terms of higher rates of unemployment, [and] in terms of lower food production."

On the formula that has been given in the market price support system which has been premised on the basic fact that the administered price will be far above the current market price, Ambassador Dasgupta pointed out that this is the AMS entitlement, which is also the Amber Box entitlement, (which) should be greater than or equal to - and this is the limiting factor - the quantity of production eligible multiplied by the difference between the administered price and a fixed external reference price.

As far as the Amber Box entitlements are concerned, there is a de minimis which is available to all countries - developed and developing - on different scales, but only 16 out of approximately 100 developing country members have an Amber Box entitlement.

(In an accompanying powerpoint presentation, Ambassador Dasgupta listed these 16 countries as Argentina, Brazil, Chinese Taipei, Colombia, Costa Rica, Israel, Jordan, Korea, Mexico, Morocco, Papua New Guinea, Saudi Arabia, South Africa, Thailand, Tunisia and Venezuela.)

Noting that China, India, Indonesia, the Philippines, Nigeria and Kenya are not amongst them, he said that they do not have an Amber Box entitlement. What it is that they can use for their public stockholding is the 10% product-specific de minimis entitlement (except for China, according to the powerpoint presentation, which has 8.5%).

On the quantity of production eligible, he referred to one interpretation that had been given in passing in the Korea beef case of 2001, which says that the total volume of production which is there in a particular crop will be the quantity taken into account in the equation.

"The practical implication is that if you are growing rice and if you procure even one kilogram of rice by declaring an administered price in advance, then the whole production of the country will be figuring in the equation as a multiplier. That is one of the implications and there is nothing that we can do short of amending this or having an understanding on what will be an eligible volume of production."

On the external reference price, the Indian trade envoy indicated that it is keeping with the economic rationale of subsidies. "If you are buying something below the market price, it is not a subsidy. If you are buying something above the market price, giving that price to the producer, it is a subsidy."

So, the question of the subsidy has to be related to the current market price, and it can't be related to something which is fixed and refers to the 1986-88 average figures.

This is what the external reference price does, he said, going on to cite World Bank Commodity Bank figures to point to the kind of inflation that has taken place even on traded commodities like rice of a particular kind, and wheat of two different kinds.

The average rate of inflation over the past 27 years has been approximately 225% (for rice, according to the powerpoint presentation) and 270% (for one particular kind of wheat).

"So, this is one of the problems that comes in when you try to operate this formula," he underlined.

Turning to the question of administered prices, he said that the administered price is this year's acquisition price. But what is the current market price? What is the average market price prevailing in the country for that year? Are you buying it below that? Are you buying it at that price? Are you buying it much above that price?

In the case of India, the administered price is much lower than the average market price prevailing for the entire year. "But there is no consideration given to this. No reference to current market prices."

Citing World Bank indicators with respect to the Index of Inflation, taking 1986-88 as a base, and the base figure of 100 for that period, for China, the Consumer Price Index (CPI) has gone up to 372; Egypt, 1,022; El Salvador, 581; India, 638; Indonesia, 1,078; and Kenya, 2,134. But the main thing is that Nigeria, for instance, the CPI has gone up to 11,104. It has suffered massive inflation.

In France, the CPI is 161 taken against an index of 100, the US - 202. If you take the OECD country average, it is less than 3% annualised inflation over the last 25 years, he noted.

As for possible solutions, he called for a revision of the External Reference Price to a more updated figure, or to use a deflator on the Administered Price for excessive rates of inflation.

On the current status, Ambassador Dasgupta said that the G-33 group of 46 developing countries (barring one exception) has endorsed the two options - revising the external reference price to a more updated figure or to have a deflator mechanism to compensate for excessive rates of inflation.

Referring to the opponents, who he said are mainly those who have a primary export interest, Ambassador Dasgupta asked that if there is a food shortage in a developing country, where will it buy from? It is most likely to buy it from the major exporters of that and they are armed with export subsides, export credit guarantees, domestic support, and decoupled income support in the Green Box, which enable them to sell things at lower than the cost of production.

"So that is their interest. They want to sell it and they are looking at it from a mercantilist angle, not from a dispassionate economist angle or from the angle of providing food security to hundreds of millions of people in the developing world.

But we have offered on behalf of the G-33 a ‘peace clause' till the time a permanent solution can be found to this major very important issue afflicting a large number of poor in the developing world," Ambassador Dasgupta concluded.

Addressing the G-33 proposal on food security stocks, Jacques Berthelot said that the core issue is to allow WTO Members the policy space to feed their poorest population whilst paying a fair price to their farmers providing the food, and this is a particular concern in the largest developing countries where the population would rise, according to the UN, by 414 million in India, 281 million in Nigeria, 98 million in Pakistan, 82 million in Indonesia, 64 million in the Philippines, and 51 million in Bangladesh from 2010 to 2050.

China's population would rise by 93 million in 2030, but then it will decrease, he said, adding that the population of the EU will remain flat, and in the US it will rise by 80-90 million.

So, the real challenge for the 40 years to come is really India. It will have to feed 400 million more people and that all the land available in India is already cultivated, he said, adding that there is also a problem of water availability, and "we will face climate change."

Already one-third of India's population, i.e. 400 million, live below the poverty line of $1.25 per day and 59% of rural children under five are stunted.

"So it is really absurd to put in the AMS, in the Amber Box, the gap between the administered prices and the border prices of the 1986-88 period," he said.

As to why it is absurd, he explained that first because an administered price alone cannot support the domestic market price, unless other most powerful mechanisms are at play: high import protection, subsidies to exported products, production quotas, land set aside, domestic and foreign food aid.

Without all these mechanisms, an administered price will not change anything to the market price, he added, pointing out that this market price support – the difference between the administered price and the price of the 1986-88 period - "is really a fake market price support" and this fake market price support has allowed the US and EU to go on massive shifting from the Amber Box (AMS) to the Blue Box and then to the Green Box without really diminishing their actual (agricultural) subsidies.

He asked how many Members of the WTO know that in the 1995-2000 base period for the Uruguay Round implementation commitments, the EU actual average subsidy represented only 11.5% of its notified AMS of 48 billion euro, and this proportion was 44% for the US AMS of $10 billion? And this share did not change much.

Berthelot noted that there is a real inconsistency of putting the gap between the administered prices and the reference prices of the 1986-88 period in the AMS and that this inconsistency has been acknowledged by many trade experts of the OECD, World Bank, FAO, and by W. K. Cline, H. De Gorter and Tim Josling, the father of the OECD's Producer Support Estimate (PSE).

The second reason, said Berthelot, is the very low level of 1986-88 world prices. Taking the example of wheat, this very low level is due entirely to the EU and US combined massive dumping rate on wheat. The export value of wheat for both during that period was $5.7 billion, and the total subsidies to exports was about $100 million higher. So, the dumping rate (combined) was more than 100%.

For the US export of wheat and flour (during the period 1986-88), total subsidies were lower at 88% of the value of its wheat exports, with the main component being domestic subsidies to wheat. For the EU, the rate of dumping was 130% of the value of the export of wheat, the main component being export subsidies proper or what is called export refunds.

With respect to the Green Box, he said that there was a huge expansion of the US Green Box. Up to now, the total Green Box of the US is $120 billion, and the Amber Box is $4 billion. Domestic food aid is by far the largest component of the US Green Box. In the last notified year of 2010, domestic food aid was notified at about $95 billion.

As for the EU, he said that the subsidies component of the EU's AMS (Amber Box) is very low but it has decreased a lot after 2006 because at that time the EU implemented "allegedly fully decoupled income support" due to the ‘peace clause', explaining that in the AoA, there was an Article 13 on ‘due restraint' that prevented other countries to sue developed countries' AMS or even Blue Box during a period of nine years (till 2004).

This is the reason why the EU has changed its CAP (Common Agricultural Policies) subsidies. The prevailing subsidies were in the Blue Box before and so in order not to be sued, it said that after 2005 all its direct payments will be in the Green Box, i.e. decoupled.

The farmers will not have to grow anything to receive the same amount of subsidies they received in the 2000-2002 period, he said.

"It is absurd, but it is the way it has been," he remarked, adding that if up to now, this type of subsidy has not been challenged at the WTO, it could have been because of the precedent of the Appellate Body decision in March 2005 in the cotton dispute.

On the question of taking inflation into account vis-a-vis adjusting the AMS, Berthelot cited two prominent Indian trade experts (A. Hoda and A. Gulati in his accompanying powerpoint presentation) as saying that they "do not see any reason for making less than full adjustment for the rates of inflation".

He noted that the average rate of inflation in India from 1986-88 to 2012 was 8.0% per annum, so if the whole inflation rate of India is taken into account, the updating of the 1986-88 administered price would rise to $405 (per ton), much higher than the market price, so there will not be any AMS.

But if the inflation rate of the high income OECD countries is taken into account - 2.75% - in that case, the Indian procurement price of 1986-88 would rise to $218 (per ton), so that the wheat AMS will be limited to $11.8/t, which multiplied by 17.5 million tons of distributed food aid in wheat in 2012, would only be $206 million.

Comparing the US and Indian domestic food aid, Berthelot said that the total value of US food aid in 2012 was $100 billion, compared to the $9.4 billion of combined rice and wheat Indian food aid - that is, 10 times more by the US than by India.

He also noted that the number of beneficiaries in the US was lower at about 80 million people without double count, and about 475 million in India. Food aid was 6.3 times larger in the US than in India.

Comparing the cereals component in the US food aid, he said that the cereals component was quite large because you not only have the cereal product but also all the feed cereals included in the meat, eggs and dairy products consumed by the beneficiaries of the US food aid, which amounted in total in 2012 to 14.6 million tons of cereals. It was about three times less than the 41 million tons of cereals in India, where rice accounted for 24 million tons and wheat for about 15 million tons.

The cereals included in the US food aid by beneficiary was about twice the level of the cereals food aid received by India, said Berthelot.

In conclusion, he said that because the bulk of the food aid is in food stamps in the US and these food stamps are bought in agreed shops without passing through the public procurement channel like in India, "what is the logic that the WTO demands only to India and to all developing countries but not to the US that ‘the difference between the acquisition price' and ‘the external reference price of 1986-88' be ‘accounted for in the AMS'?"

He also said that all US food programmes other than the SNAP (food stamps), which account for about $25 billion in 2012, imply public procurement of food (on the market), and is notified in the Green Box, but this could even be challenged because the USDA itself acknowledges that: "These purchases also help to stabilise prices in agricultural commodity markets by balancing supply and demand."

Commenting on the proposed ‘peace clause', Berthelot said that from his point of view, the peace clause is a bad idea, for two reasons.

First, he said, the developing countries have already given on that issue because the peace clause has allowed the EU, and the US, to continue their massive dumping during nine years up to 2004 without being challenged at the WTO.

Second, he was of the view that the peace clause on the issue of food aid will be presented as a huge concession to the developing countries by the US and the EU which will demand in return a new peace clause for themselves in the finalisation of the Doha Round or in other plurilaterals in order to continue their dumping.

What should be agreed instead in Bali is a WTO decision once and for all that all domestic food aid should be notified in the Green Box for all Members, including the US, independently of the level of prices paid to farmers, either through public procurement or direct purchase at market prices, and independently of the means by which the food reaches the poor: is there a release in kind like in India or purchased by food stamps?

Indeed, he said, these distinctions are very futile, provided that other Members should not be harmed by dumping coming from their stocks of purchased food.

Such a decision to put all food aid in the Green Box from any country would be a strong signal to all the world's poor, including the US poor where we know that the House of Representatives refuses to finalise the Farm Bill unless the Senate follows its Bill to cut the nutrition part by $4 billion per year, he said.