



## **A permanent solution to the crucial issue of public stockholding for food security purposes which would benefit also to the developed countries**

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The concept of agricultural *support* is broader than that of agricultural *subsidy* as it encompasses "market price support" (MPS) through import protection and export subsidies, albeit in different ways for OECD and the WTO Agreement on Agriculture (AoA). For OECD the MPS represents the gap between domestic farm prices and current world prices (the border price of each country) rendered at farm gate, encompassing import protection as well as export subsidies. The MPS is "financed" essentially by consumers, considering that they are entitled to buy their food and other agricultural products at world prices and that import duties prevent them to do it. However, in the OECD approach, a part of the MPS may be financed by taxpayers when there are explicit export subsidies, but this has always been the minor part of the MPS, particularly in DCs where they have hardly existed and they have also been eliminated since 2014 in the EU and earlier in other developed countries.

However the AoA definition of MPS is totally absurd for three reasons: 1) it is calculated as the gap between the present administered price and the border price of the 1986-88 period, multiplied by the eligible production; 2) it does not imply any actual subsidy; 3) it does not bring any additional support to that of other policy measures: import duties, export subsidies and restrictions, land set aside, production quotas, foreign and domestic food aid.

It is why SOL proposes to make minor changes in the AoA rules to put an end to this absurd definition of MPS. These modifications would find a permanent solution to the crucial issue of Public stockholding for food security purposes and the developed countries would benefit even more of the changes in the AoA Annex 3 as this would almost eliminate their notifications of MPS which is, for most of them, the bulk of their current AMS<sup>1</sup>.

### **1 – The modifications to make in the AoA Annex 3**

It would be enough to delete, in the AoA Annex 3, the words that we have underlined and not put in italics below: "fixed" in paragraphs 8 to 11, "for the base period" in paragraph 5, "shall be based on the years 1986 to 1988 and" in paragraphs 9 and 11, and "in the base period" in paragraph 9:

- Paragraph 5: "*The AMS calculated as outlined below for the base period shall constitute the base level for the implementation of the reduction commitment on domestic support.*

- Paragraph 8: "*Market price support: market price support shall be calculated using the gap between a fixed external reference price and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price. Budgetary payments made to maintain this gap, such as buying-in or storage costs, shall not be included in the AMS.*"

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<sup>1</sup> The AMS or Aggregate Measurement of Support is commonly called the *amber box* of coupled trade-distorting domestic supports. It encompasses the product-specific (PS) AMSs and the non-product-specific (NPS) AMS.

- Paragraph 9: "*The fixed external reference price shall be based on the years 1986 to 1988 and shall generally be the average f.o.b. unit value for the basic agricultural product concerned in a net exporting country and the average c.i.f. unit value for the basic agricultural product concerned in a net importing country in the base period. The fixed reference price may be adjusted for quality differences as necessary*".

- Paragraph 10: "*Non-exempt direct payments: non-exempt direct payments which are dependent on a price gap shall be calculated either using the gap between the fixed reference price and the applied administered price multiplied by the quantity of production eligible to receive the administered price, or using budgetary outlays*".

- Paragraph 11: "*The fixed reference price shall be based on the years 1986 to 1988 and shall generally be the actual price used for determining payment rates*".

On the other hand there would be nothing to change to the Article 1(d) of the definition of the "equivalent measurement of support" in the first part of the AoA: "*Equivalent Measurement of Support*" means the annual level of support... (ii) with respect to support provided during any year of the implementation period and thereafter, calculated in accordance with the provisions of Annex 4 of this Agreement and taking into account the constituent data and methodology used in the tables of supporting material incorporated by reference in Part IV of the Member's Schedule". And there would be nothing to change in Annex 4.

## **2 – These modifications would find a permanent solution to the issue of Public stockholding for food security purpose**

Deleting these words would allow a positive interpretation of the footnote 5 of paragraph 3 of the AoA annexe 2 on "*Public stockholding for food security purposes*" without having to change the footnote itself as its last line on "*provided that the difference between the acquisition price and the external reference price is accounted for in the AMS*" does not mention that the reference price is a "fixed" one nor that it is the price of "the base period".

So that this would put an end to the on-going debate to find a permanent solution to this public stockholding issue. India and other DCs using such programmes would have just to notify in their AMS the gap between their administered price – the "minimum support price" (MSP) in India – and the current world price at their border, times the eligible production.

For India for instance, according to the report of the Commission for Agricultural Costs and Prices of March 2015, "*MSP of paddy converted into rice has been consistently lower than both domestic and international prices*"<sup>2</sup> so that the AMS on rice would be negative, that is at zero. The same plays for civil year 2016 where the MSP for common rice was of \$315.2 per tonne<sup>3</sup> against a FOB price of \$391 for Thailand 100% grade B or \$371 for Thailand 15% broken<sup>4</sup>. As for wheat exports the same Commission states that "*Exports of wheat during 2011-12 to 2013-14 is attributed to lower domestic wholesale prices than international prices, thus making Indian wheat export competitive (Chart-3.2)*"<sup>5</sup>. And the USDA GAIN report of 24 February 2017 states that "*After nearly a decade of exporting wheat, India turned into a net importer in MY 2016/17*".

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<sup>2</sup> <http://cacp.dacnet.nic.in/>

<sup>3</sup>

[https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual\\_New%20Delhi\\_India\\_2-23-2017.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_New%20Delhi_India_2-23-2017.pdf)

<sup>4</sup> <https://www.ers.usda.gov/publications/pub-details/?pubid=81656>

<sup>5</sup> <http://cacp.dacnet.nic.in/ViewQuestionnaire.aspx?Input=2&DocId=1&PageId=40&KeyId=532>

on relatively weak international market prices. India's MY 2017/18 imports are forecast at 5 MMT, assuming weak international prices and no changes in the existing import policy (zero import duty and unchanged SPS requirements)... MY 2017/18 wheat and wheat product exports are forecast at 500,000 MT, mostly to Nepal and wheat products to African and middle east markets, as Indian wheat is likely to remain uncompetitive even in the major neighboring markets"<sup>6</sup>. So that the recurrent US accusation that India is dumping its rice and wheat on the world markets is totally unfounded.

### **3 – The developed countries would benefit even more of the changes in Annex 3**

These minor modifications to the wording of paragraphs 5 and 8 to 11 of annex 3 would be highly beneficial to the developed countries themselves, particularly the EU, as this would almost eliminate their notified current MPS in their Supporting table DS:5, so that they should not oppose the proposed modifications.

Indeed this MPS not implying actual public expenditures has accounted for 98.1% of the EU notified AMS for 2013/14 (last notified year): €5.860.3 bn over €5971.7 bn – of which €2.0164 bn for common wheat, €1.1349 bn for skimmed milk powder and €2.709 bn for butter – over a total AMS of €5.9717 bn. Canada's MPS of 2012 represented 97.2% (CAN\$485,4 M over CAN\$499.5 M) of its last notifications for 2013. Switzerland's MPS represented also 97.2% of its AMS for 2013 (CHF2.4821 bn over CHF2.556 bn) and in Norway it represented even 108.8% of its total AMS in 2013 (NOK11.6842 over NOK10.7387), a strange thing! The US might be more reluctant to delete the MPS in the AoA as the 2014 Farm Bill has already deleted the dairy MPS notified at \$2.9226 bn for 2012 over the \$4.328 bn MPS (which was of 63% of its \$6.860 bn of AMS) but it would have still to notify a MPS of \$1.406 bn for sugar.

### **Conclusion**

At the AoA Committee on Agriculture in Special Session of 8 March 2016 the Chair Vangelis Vitalis stated that "*domestic support has been identified by many of you quite explicitly as a key potential outcome for MC11*"<sup>7</sup>. Indeed adopting the present proposals would be a potential outcome for the WTO XI<sup>th</sup> ministerial conference in Buenos Aires in December 2017. It would put an end to the hot issue of Public Stockholding for food security purposes advocated by most developing countries for many years and already proposed in the Agricultural modalities of 6 December 2008, while benefitting at the same time the developed countries in getting rid of most of their notified current AMS. Furthermore this simplification of the AoA rules would satisfy all agricultural trade economists, including those pleading for open trade<sup>8</sup>, who have been complaining of the absurdity of the WTO rules on market price support. However this simplification would be only a first step in the necessary revision of all the WTO rules on agricultural domestic supports<sup>9</sup>.

<sup>6</sup>

[https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual\\_New%20Delhi\\_India\\_2-23-2017.pdf](https://gain.fas.usda.gov/Recent%20GAIN%20Publications/Grain%20and%20Feed%20Annual_New%20Delhi_India_2-23-2017.pdf)

<sup>7</sup> [https://www.wto.org/english/news\\_e/news16\\_e/statment\\_agng\\_09mar16\\_e.pdf](https://www.wto.org/english/news_e/news16_e/statment_agng_09mar16_e.pdf)

<sup>8</sup> William R. Cline, *The Doha Round, Agriculture, and the Developing Countries*, USDA, 2007 Agriculture Outlook Forum, USDA 01-02/03/07; Harry de Gorter et J. Daniel Cook, *Domestic Support in Agriculture: The Struggle for Meaningful Disciplines*, 2005,

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<sup>9</sup> *Analysis of the main controversies on domestic agricultural supports*, SOL, May 1<sup>st</sup>, 2017: <https://www.sol-asso.fr/analyses-politiques-agricoles-jacques-b-2/>