Agriculture on the Road to Bali

FOOD SECURITY, LIVELIHOODS AND TRADE

There are several proposals on the WTO's agricultural negotiations table, but the dominant discussion ahead of December's Bali Ministerial Conference is the November 2012 proposal put forward by 46 countries under the auspices of the G-33. The G-33 is a group of developing countries united by primarily "defensive" interests in agriculture, either as net-importers of food, or with many livelihoods tied up in agriculture, or both. Since 2007, net-food importers have suffered three major price spikes on international markets—the first (and worst) in 2007-08. Since that first spike, food prices have remained high and volatile, a particularly difficult combination for food-importing governments to manage. Some 35 countries experienced food riots when the prices first spiked. In that first crisis, food exporters turned to export bans, further disrupting markets. In the aftermath, although export bans became much less common, a number of food exporting countries have blocked attempts to change WTO rules to constrain export bans even as they continue to push importers to continue restricting any blocks on imports.

This context has renewed interest in public grain reserves. Many governments, especially in Asia, have long used grain reserves (countries such as India, Indonesia and Thailand). African countries almost universally abandoned their grain reserve programs in the wake of structural adjustment policies in the 1980s and 90s. Reserves serve many purposes, some better than others, but in a context of unsure or disrupted trade, net-importers see food reserves as an obvious and even necessary step to avoid being forced to buy when prices are spiking. From an economic standpoint, it would be preferable for the exporter to play the role of guarantor in the market by reassuring buyers that they have enough stock to meet demand without sharp price spikes—just as banks hold reserves rather than individual savers (there are many fewer exporters in world markets than there are importers). Post-World War II, the dominant exporters did hold reserves, but since the 1980s, these have been disbanded and most exporting countries have refused to countenance the thought of renewing the practice, not least because of the lack of trust among exporters that a country with reserves might then use their supplies to flood the market and depress prices. This leaves importers with little choice but to build reserves of their own.

The heart of the G-33 proposal is to change what is counted in the Aggregate Measure of Support (AMS) so as to allow governments more policy space to create and operate food reserves. The AMS is a convoluted calculation meant to capture in dollars the sum countries spend on public support for agriculture. "Non-trade-distorting" programs (as listed in Annex 2 of the agreement and known as the Green Box) are exempt from the AMS calculation, as are certain production-limiting programs (referred to as the Blue Box) that the U.S. and European Union refused to include in the AMS when the agreement was finalized

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in 1994. Everything else a government does for agriculture is automatically included in the AMS.

Food security stocks do get a mention in the Green Box as an "allowable" expenditure. So where is the problem? The language on food security stocks reads as follows:

> The volume and accumulation of such stocks shall correspond to predetermined targets related solely to food security. The process of stock accumulation and disposal shall be financially transparent. Food purchases by the government shall be made at current market prices and sales from food security stocks shall be made at no less than the current domestic market price for the product and quality in question. (AoA, Annex II, paragraph 3)

The G-33 wants more leeway. They propose to allow developing countries to exempt the cost of public purchases of commodities for public stocks even if they are bought at prices above "market prices" or disposed of for less (for example distributed through public distribution programs) and not have that cost count in their AMS. The G-33 say if these programs support "low-income resource-poor" farmers, they make a valuable contribution toward protecting livelihoods. For most developing countries, the levels of expenditure involved are too small to worry about, but for some big countries with widespread hunger—as India—the constraints are a problem.

Secondly, the G-33 is arguing the rules that govern the AMS calculation are out of date and inappropriate for developing countries. Many developing countries have low or no AMS, because when the Uruguay Round Agreements were signed, the governments were not supporting agriculture (more often, they were effectively taxing agriculture by paying less than open market prices for grains). As countries' agricultural

Rice fields in Bali, Indonesia. CC image courtesy of John Yavuz Can via Flickr.

production is changing, and as the overall costs of agricultural production are rising (with higher energy costs, rapidly growing demand and significant constraints on production increases), the fixed reference prices (which use 1986–1988 as their basis) are no longer appropriate. Indeed, the whole notion of a fixed reference price is highly problematic from a theoretical perspective, as the point of open markets is to allow the market to signal trends—a signal that fixed prices block. Yet developed countries locked in very high levels of domestic support for agriculture as their baseline, and they have never really felt constrained by their commitments (though the U.S. does pay an annual fine of $147 million to Brazil for the continuing non-compliance of its cotton program). This has created an inequality in favor of richer countries that is now even more glaring, as 2013 prices are far in excess of those that prevailed in 1986 through 1988, and as a handful of developing countries now have the means to spend significantly more on their agriculture than they did when the agreement was signed in 1995.

Third, the G-33 wants to change the assumption that any purchase of public stocks, no matter how small a share of the total production of the commodity, affects the whole market. The AMS calculation assumes that any purchase at a price that varies from the reference price should be multiplied as if the whole production of the crop in question were bought. So if a government buys 20 tonnes out of total production of 1000 tonnes of a grain at a price X + $100 per tonne, where X is the world price, then the AMS would not just calculate the $100 times the 20 tonnes bought ($2,000) but $100 times the entire production, or $100,000. Some countries buy just 2 or 3 percent of total production, and argue the AMS calculation should be based on the actual purchase, and not include the other 97–98 percent.

Developed countries have accepted none of the proposals in the G-33 document. The U.S. has been especially outspoken in its rejection. Some developing countries have also raised concerns, more quietly, because they fear that a large producer (and growing exporter) such as India could disrupt international markets (and local markets in importer countries) if their relatively large stocks already under public administration were exported. India's food stocks are notoriously of poor quality (their best grains are already traded openly), but they would still potentially depress prices in importing markets, especially in some of the poorer neighboring countries. One way around this concern

would be an agreement that the stocks stay in the domestic market, or an incentive to keep the stocks there. Would-be exporters to the G-33 markets, however, continue to object that this will displace potential imports and affect the prices of the exported grains, even if those grains are not taken from the stocks. If stocks meet part of domestic demand with cheap grains, export firms are encouraged to look outside the domestic market for their sales, to find high prices. The result is more export competition for others in the international market. All of this commercial consideration has to be weighed against the needs of farming sectors that still employ half or more of the population in many even larger developing countries—sectors that are still overwhelmingly composed of very small-scale and economically vulnerable producers. Moreover, the commercial concerns have to be weighed against the fact that a very large share of India's population lacks the purchasing power to buy adequate food in open markets.

There won't be a quick fix. The G-33 proposal is challenging some fundamental aspects of the AoA. Most delegates acknowledge the Green Box is a mess, and includes trade-distorting programs (actually, the whole notion of non-trade-distorting support is a bit of nonsense, as experts will also agree). Nonetheless, the common refrain in Geneva is that opening one aspect of the existing categories will pave the way for everything to open—the argument is partly what undid negotiations in 2008, when the G-33 wanted to be allowed to raise tariffs, possibly above bound levels, if a sector of domestic agriculture was threatened by a spike in imports. It is obvious to all that the Green Box must be redefined, and tightening some spending while loosening other programs will have to be a part of that, but probably not in the little time left ahead of Bali.

The latest news from Geneva suggests that instead of new rules, which could help a lot of developing countries, the negotiations will end up with a kind of "peace clause" that allows more flexibility to countries that seek dispensation for their programs, on the understanding that the over-spend on AMS will be short-lived. This is regrettable. Big countries such as India might well be able to negotiate the flexibility they need, but it will leave all the real problems brought into focus by the G-33 proposal unresolved. The vast majority of the WTO members are net-food importing countries, many of them low-income. Without changes in the rules to ensure exporters also take responsibility for protecting predictable and transparent markets, and better reflect current realities (high and volatile prices in international markets and demand for food that competes, often unsuccessfully, with demand for biofuel feedstock and feed) more countries will resort to less efficient but more secure strategies, including national food stocks.