As governments head to Abu Dhabi for the 13th WTO Ministerial Conference (MC13) on February 26-29, 2024, agricultural negotiations are once again high on the agenda. Rising food insecurity and other challenges confronting the agricultural sector — not least climate change — have forced WTO Members to reconsider the role trade plays in these contemporary challenges. WTO Members are also highly frustrated. Except for a resolution on the use of export subsidies in 2015, there has been no substantive progress on the core agriculture issues since negotiations were launched at the Doha Ministerial in 2001. There are many ongoing disagreements, but at the heart of the current deadlock is the issue of public stockholding (PSH). This paper looks at why the issue remains so conflicted, now more than one decade since the first public stockholding reforms to the WTO Agreement on Agriculture (AoA) were proposed in the lead-up to the 9th WTO Ministerial Conference, held in Bali in 2013.

Public stockholding is a commonly used public policy tool employed to limit price volatility and smooth supply. Stocks are a necessary feature of agricultural distribution, whether they are held by farmers, traders or the state. When the government holds stocks, it is usually to protect farmers, consumers or both. Stocks are used to protect access to food when supplies are tight and to limit price falls for farmers when the harvest is especially bountiful. While powerful in theory, PSH programs are hard to get right in practice. Governments dislike the fixed operating costs they incur, while traders object to the limits they place on profit margins. Nonetheless, public stocks offer an effective risk management tool and political appeal in countries where food scarcity is a recurring problem.

Broadly, three kinds of PSH can be distinguished: (1) emergency stocks to shield consumers from supply disruptions or food price shocks in event of emergencies; (2) buffer stocks to stabilize prices in the domestic market and reduce volatility for both producers and consumers; and (3) stocks for domestic food distribution or food aid targeting vulnerable population groups. In practice, however, the categories may be hard to distinguish as countries often pursue multiple goals simultaneously. In support of food security, PSH can encourage productivity gains and greater investment in domestic production through higher and more stable prices than markets support, especially in remote areas or places where storage and distribution infrastructure is limited or purchasing power is low.

Goal 2 of the U.N. Sustainable Development Goals (known as SDG2) targets a world free of extreme hunger, with lower environmental costs and higher returns for smallholder producers, by 2030. Despite this ambition, and after decades of steady gains in the global effort to reduce food insecurity, hunger has
been on the rise since 2015. The causes of this reversal are many and complex, but the COVID-19 pandemic, conflict and climate change all feature high on the list.\(^4\) In the last two years, price shocks have roiled international grain markets. Russia’s invasion of Ukraine increased food prices and volatility because Russia and Ukraine are top suppliers of several commodities in international markets. Both countries lost access to export markets due to the war, while Ukraine has seen its productive capacity shrink significantly. More recently, drought is severely limiting shipping access through the Panama Canal, while violent attacks on ships crossing the Red Sea have added to high and volatile prices.

This most recent bout of international food price instability comes 15 years after the severe food price crisis of 2007-08 and its aftershocks.\(^5\) Then, many of the countries exporting to international grain commodity markets suddenly imposed export restrictions and bans, thereby exacerbating the price spikes initially triggered by supply shortages. Their actions severely shook the confidence of net food-importing countries that had assumed international markets would be a reliable source. Stocks of staple crops have remained relatively tight since, even with some years of record-setting production, both due to economic shocks and because consumption continues to rise (for trends on production and stockholding, see the Agriculture Market Information System website).\(^6\) The International Grains Council (IGC) forecast for grain stocks in 2023-24 (584 million tons), especially wheat stocks, was the lowest since 2014-15.\(^7\) The low inventory of buffer stock worldwide severely constrains the ability of countries to limit price volatility. The end of public stocks in the United States and Europe has also significantly increased the stockholding by private companies, which do not release any information on their holdings for commercial reasons. Given the extent of vertical and horizontal integration in grain markets (four companies are estimated to control upwards of 80% of cereal markets), market price discovery is also compromised.\(^8\)

**MAKING THE TRADE CONNECTION**

The relationship between trade and food security is contested.\(^9\) Proponents of liberalizing agriculture trade claim that increased free trade increases the accessibility and availability of food globally. Trade critics argue that trade liberalization has not delivered food security, particularly not consistent supply nor predictable prices. Trade liberalization is also associated with new food security challenges, as domestic price and supply volatility has been displaced by less frequent but much greater unpredictability in international markets. Trade liberalizers find themselves on the defensive at this moment, with many governments pushing to be able to pursue food security policies without having to prove the policies do not restrict trade.\(^10\)

Although PSH is not a trade policy *per se*, the various policies governments typically use to establish and run PSH have trade effects. Many food-importing developing country Members consider WTO rules a barrier to plans to introduce or expand PSH because existing exemptions do not extend to new programs and do not overrule the constraints on domestic support for agriculture or limits on import restrictions. Conversely, Members with grain export interests (whether developed or developing countries) are concerned by the effects that policies introduced to support PSH can have in practice, including public procurement of stocks at high administered prices, stock procurement that is limited to domestic producers, the use of tariffs or other import barriers to protect higher domestic prices, and the sale of excess or out-of-date stocks on international markets at lower than prevailing market prices.

Procurement at fixed prices (the WTO refers to them as “administered prices”) can be a means of income support and reduced risk for farmers, reducing the price volatility they face as sellers.\(^11\) By providing a price floor, administered prices can be an incentive for farmers to produce larger quantities than they would otherwise. However, if governments cap procurement, this effect can be managed to some extent. Exporters, however, see the effect as reducing their potential market. In some cases, governments have also resorted to exporting surplus stock, which depresses prices in international markets.
WHAT DO THE WTO RULES SAY?

The WTO AoA acknowledges food security in its preamble and in Article 20 of the Agreement, which is focused on “non-trade concerns.” Public stockholding is also explicitly listed in paragraph 3 of Annex 2 of the agreement (the section often called the Green Box). The text reads as follows:

(3) Public stockholding for food security purposes

Expenditures (or revenue foregone) in relation to the accumulation and holding of stocks of products which form an integral part of a food security programme identified in national legislation. This may include government aid to private storage of products as part of such a programme.

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.

Crucially, the language of this exemption requires that stockholding purchases be made “at current market prices,” which constrains the level of administered prices. Arguments over this constraint have generated several formal trade disputes in recent years. Moreover, the WTO practice is to count procurement of any share of the total production of a given crop at an administered price as a subsidy affecting all of it. The resulting subsidy estimate is much higher than the actual budgetary outlay, let alone the gap between administered and market prices (the difference that is most precisely a subsidy). Although PSH is an accepted policy under the WTO rules, some of the objectives that a PSH program might include — notably, price stabilization — are not accepted. Administered prices must be counted in Members’ domestic support notifications.

ORIGINS OF THE PSH DISAGREEMENTS

The PSH negotiations started in the months leading up to the 2013 Bali WTO Ministerial conference with a proposal from the G33 (the G33 is a group of now 47 developing countries that share a concern about the effects of imports on their domestic agriculture). In the wake of the 2008 food price crisis and the waves of price volatility that followed, net food-importing developing countries saw exporters resort to export restrictions and even bans. These actions worsened international price shocks and persuaded the importers that they needed additional protection. Many developing countries responded by restarting food stockholding and subsidy programs that they had abandoned or curtailed in the 1980s and 1990s. This renewed public spending, however, left them vulnerable to breaching the allowed WTO limits on domestic support spending, especially in the most populous countries where the staple food was a single commodity (as rice is in much of Asia).

Thus, the G33 wanted to amend the AoA to prevent legal challenges being brought against PSH programs even if they cost more than the WTO domestic support limits allowed. The issue was controversial. One of the G33 members was India, which at the time was negotiating new domestic food security legislation that was to significantly expand its domestic food safety net (called the Public Distribution System, or PDS), linked to expanded PSH policies. Even before Bali, India broke away from the G33 consensus and made its own proposal for even broader exemptions for PSH programs than the other G33 members sought. WTO Members with large exporting interests such as the U.S. and Cairns Group rejected these PSH proposals.

Negotiators at the Bali Conference failed to reach agreement on the issue of PSH. Some months later, WTO Members arrived at a temporary “Peace Clause” in 2014, which exempts existing PSH programs from legal challenges at the WTO (if certain other conditions are met) until a “permanent solution” is achieved. The Members covered by this Peace Clause include Bangladesh, China, India, Indonesia, Pakistan, Philippines and Chinese Taipei. Negotiators have been looking for a permanent solution on PSH for food security purposes ever since, an ambition reaffirmed at both the 2015 and 2017 WTO Ministerial Conferences.
The two sides of the PSH debate can be oversimplified as either net food importers or exporters of agricultural commodities (and to an even looser extent, as developing countries and Least Developed Countries (LDCs) on the import side of the argument and developed countries with some developing countries on the export side). The latter group includes the U.S. and the Cairns Group — a group of 19 agricultural exporting countries committed to reducing state spending and tariffs in agriculture. The Cairns Group (prominent members include Argentina, Australia, Brazil, Canada and South Africa) together account for more than 27% of the world’s agricultural exports. On PSH, the Cairns Group propose a cap on public procurement within existing WTO spending limits. For some 30 or so countries that joined the WTO with pre-existing domestic support programs, this spending allowance includes the Aggregate Measure of Support (AMS); for all WTO Members, it also includes the de minimis allowance of 5% of the value of production for developed countries and 10% for developing countries (with some exceptions for newly acceding countries that include 8.5% for China and 5% for Chinese Taipei and South Africa).

The PSH negotiation is complicated by a general lack of transparency around notifications. Too few WTO Members provide adequate information in their regular notifications to the WTO. Some, including some of the largest trading economies, do not file any notifications or do so only sporadically, and sometimes years late. It is also hard to calculate how domestic spending maps with PSH policies — between spending exemptions and different treatment for certain categories of domestic support, the complexity of measures that might be used for a PSH program make it hard to isolate them from other agricultural programs.

A submission to the WTO Committee on Agriculture by Australia, Canada, U.S. and six other Members provides some data on the issue: Since 2001, 20 developing country Members have notified expenditures under Annex 2, paragraph 3 (the paragraph that addresses PSH) at least once. Since the Bali Ministerial in 2013, just 13 Members have reported expenditures for PSH. Four Members have reported no expenditures since 2013, and three Members have not submitted a notification since 2013. Just five Members have notified spending on stocks acquired at an applied administrative price for PSH since the Bali Decision in 2013 (see Table 1). Among the five, only India exceeded its domestic support limit with its spending on buffer stocks, and only for rice. (India also purchases wheat for its PSH.)

The central disagreement among WTO members is whether the solution on PSH should be stand-alone or part of a broader package of proposals that would also deepen cuts to domestic support. About 80 developing country Members, including the African Group, G33 Group, and the African, Caribbean, and Pacific Group, argue for a stand-alone permanent solution for PSH as a necessary step before further binding disciplines on spending. They also want to change the methodology used to calculate market price support to better account for the high levels of inflation they face, which reduces public spending power and increases the cost of procurement. Members with Aggregate

Table 1: Developing Members, products and years, for expenditures under Annex 2, Paragraph 3 notified for stocks that were acquired at applied administrative price since the Bali Decision (after 2013)

<table>
<thead>
<tr>
<th>Members</th>
<th>Products</th>
<th>Years</th>
<th>Reported in last notification</th>
</tr>
</thead>
</table>

Source: WTO Committee on Agriculture. Observations on Public Stockholding for Food Security Purposes, Communication from Australia, Canada, Chile, Colombia, New Zealand, Paraguay, Thailand, the United States and Uruguay, 11 May 2022. Available online at https://docs.wto.org/
Measurement of Support (AMS) allowances are also finding that policy space curtailed because the AMS levels were negotiated in the 1980s, when global commodity prices were low. The AMS methodology uses a “fixed external reference price” (FERP) based on a baseline that uses an average of 1986-88 prices. Some studies show current de minimis AMS policy is restrictive on PSH for food security and argue for expanding the policy space for stockholding in developing countries.

It is important to note, however, that spending allowances of the de minimis rules are considerable. For example, given a total agricultural production of 5,777 billion RMB in 2010, China (8.5% de minimis) could in theory provide price support up to a maximum 982 RMB billion (combining product-specific and non-product-specific allowances). Very few developing countries are rich enough to spend their de minimis allowance. LDCs’ most pressing constraint on domestic support is not WTO rules but revenue. Only a few developing country Members are at risk of exceeding their product-specific AMS limits or have exceeded them, including India, China, Pakistan, Egypt, Turkey and the Philippines.

**WHAT IS PROPOSED ON PSH FOR MC13?**

In the lead-up to MC13, two central proposals on PSH were submitted, both building on previous submissions. The first was a nine-page joint proposal for a permanent solution on PSH from 80 Members of the African Group, the ACP and G33 countries, coordinated by Indonesia. The 80 co-sponsors propose that domestic support provided by a developing country Member pursuant to PSH programs for food security purposes shall be deemed to be in compliance with the allowed exceptions from domestic support limits (detailed in Articles 3.2, 6.3, and 7.2(b) of the AoA), provided that the conditions set out in paragraphs 5 to 9 of their proposed Decision are met. Where PSH programs for food security purposes of a developing country Member include programs under which stocks of foodstuffs are acquired and released at administered prices, then, for the purposes of footnote 5 of Annex 2, the AMS would be calculated based on the actual quantity of foodstuffs acquired at administered prices, and the external reference price would remain an average of recent rather than historic prices.

This proposal would extend to new, not just existing PSH programs for food security purposes in developing countries. Paragraphs 5 to 9 of the Decision apply when a developing country Member exceeds its spending limits under the AoA, i.e., the Member’s Bound Total AMS, if they have one, plus the de minimis level as applicable. The Decision would open an additional avenue of domestic support exempt from limits for the purposes of PSH. The proposal includes safeguards intended to ensure that stocks acquired under PSH for food security purposes (described in paragraph 2 of the proposal) should not substantially distort trade or adversely affect the food security of other Members. In case of disagreement on this last point, the Peace Clause (a presumption of no-harm that cannot be challenged in the WTO’s dispute resolution system) would no longer hold and Members could seek a binding resolution.

The proposal would allow public stocks to be exported but only as international food aid, for non-commercial humanitarian purposes or following a request from a net food-importing developing country or LDC, or any Member facing food shortages and higher food inflation. Finally, the proposal includes language to simplify transparency provisions and would be open to PSH of all foods.

The second proposal was from Brazil. The proposal also creates an exemption for PSH spending, but the constraints are greater. Developing country Members’ whose PSH programs for food security purposes do not comply with the conditions set out in Brazil’s proposal would have to report their spending under the usual rules (Articles 6.3 and 7.2 (b) of the AoA detail the disciplines on domestic support). In terms of coverage and eligibility, Brazil includes traditional staple food crops purchased for PSH for food security purposes and that are notified to the WTO membership. Proposed eligibility covers the support that falls into one of the following categories:

(a) Support applied by a least developed Member; or

(b) Support applied by a net food-importing developing countries; or

(c) Support applied by WTO Members listed in the U.N. Food and Agriculture Organization’s “Crop Prospects and Food Situation” as “Countries Requiring External Assistance for Food” at least once in the past 2 years immediately before the year for
Support under (b) and (c) is further constrained by the Member remaining below a given threshold of the global export share of the product being stocked, and the amount held in stock not exceeding a given percentage of the total value of production of that crop (5% is Brazil’s first proposal), as notified in the recent notifications submitted by the Member to the WTO. The proposals have resulted in serious debate and division. G33 countries argue that PSH for food security is essential because exporting members create barriers to food exports during times of crisis exposing them to food insecurity. Members opposed to PSH exemptions argue that the proposed solution by developing countries will increase the level of subsidies to the producers in importing countries and resulting in trade distortions. Some food-exporting developing countries contend that domestic support under PSH might undermine food security and rural employment in non-participating countries of this proposal. The tensions are highest around just a few of the larger developing countries, particularly India. India was the world’s ninth largest exporter of agricultural commodities in 2020 and is today the world’s largest rice exporter. Rice is a staple food for roughly half the world’s 8 billion people. India maintains domestic stockpiles of wheat, rice and other commodities for programs that are available to over 800 million people.

The U.S., with several other major agricultural exporters, filed a “counter-notification” at the WTO in 2023, alleging that India’s notification concealed the full extent of its subsidy programs. The counter-notification alleges, “India appears to be providing significant market price support, both in terms of absolute value and as a percentage of the value of production, for rice and wheat.” The members contend that although India had agreed to limit its market price supports to 10% of the value of the crops, the subsidies amounted to 81% for wheat and 94% for rice in 2020/21. According to the counter-notification, India’s agriculture exports stood at USD 39 billion in 2020, and the country witnessed agricultural export growth of 65% from 2010-20. Most of that growth was due to India’s rice exports, which grew by 244% over the same period, and now account for 24% of all Indian agricultural exports. A bipartisan group of U.S. lawmakers introduced the “Prioritizing Offensive Agricultural Disputes and Enforcement Act” in September 2023 to put pressure on the Biden administration to lodge a WTO complaint against India. The U.S. Trade Representative (USTR) has not done so yet.

More broadly, the WTO Members opposed to PSH spending exemptions argue that exemptions for PSH should be offset with greater overall ambition to cut domestic support. Their main fear is that a large stimulus to production will tend to depress prices and make their exports less competitive. The effects could also destabilize prices in neighboring countries, undermining food security there. Rather than a PSH exemption, these Members would prefer to rely on the existing domestic support provisions of the AoA, using only the de minimis exemptions.

IN SEARCH OF A PERMANENT SOLUTION

PSH is not a miracle policy. The effectiveness of public stockholding depends on a wide range of factors, including transparent and predictable trade rules. Yet public investment in a food collection, storage and distribution system can be a powerful engine for rural development and economic growth. When they are well planned and executed, stocks can be a powerful lever to raise productivity and build local and regional markets in countries where such infrastructure remains weak. Crucially, in a world facing mounting challenges to global food security, the onus is slowly but inexorably falling on exporting countries to be more persuasive in keeping the confidence of their customers: A little co-operation on this highly sensitive political issue would go a long way.

PSH programs have emerged as a tool that vulnerable food importers consider useful to reduce their exposure during international emergencies, stabilize prices and ensure reliable supply for domestic food distribution programs. PSH can be useful to exporting country interests, too, by smoothing supply shocks and reducing demand surges, which in turn reduces the political pressure on governments to impose export prohibitions or restrictions. Yet the largest exporting countries continue to oppose proposals that would reduce poor countries’ dependence on food imports to meet their food security needs, despite the desirability of this outcome for food security. Clearly trade-distorting support poses its own set of hazards for food security but the vulnerability of large, poor populations in net food-importing countries deserves special attention.
There will be no solution without the agreement of both India and the U.S. These two Members have been at the heart of the disagreement from the start. Both countries are facing national elections this year, and both have powerful political voices that rail against multilateral cooperation and champion a form of national sovereignty that leaves little room for compromise. Yet compromise they must — both want to end the uncertainty of the Peace Clause and the ongoing stalemate that gives neither side what it wants.

We agree with those who have proposed that Members should build on the Bali Decision and find a compromise from there (see Glauber and Tanvhi, 2021). In other words, Members should agree to protect procurement for PSH for food security from challenge but iron out some important technical issues at the same time. Those issues include finding agreement on:

(i) a revised base period for calculating the AMS;
(ii) an acceptable definition of “eligible production” for PSH purposes;
(iii) an exemption for all LDCs, as well as exemptions for small and low-income economies and net food-importing countries with few or no exports;
(iv) a safeguard mechanism to prevent PSH stocks being dumped in international markets; and,
(v) an exemption for spending on administered prices that are below international prices.

In addition to the PSH decision, Members should require greater accountability for exporting countries that resort to ad hoc export restrictions and even bans during international market shocks would help restore confidence in trade. They should also resolve an even older food security fight in WTO agriculture negotiations by finalizing a special safeguard mechanism (SSM) to deal with import surges or abrupt drops in food prices. An effective SSM would address concerns about the potential for PSH to distort international markets. To bridge the divergent views on the design of the SSM, Members will need more data and evidence on how the existing safeguard rules under the AoA are being applied. In the past, Members have disagreed on what should trigger the use of an SSM and by how much and for how long the import tariffs may be increased.

Some members propose to push the issue of PSH to MC14. We disagree. Confidence in the WTO is at an all-time low. As in so many other areas of the negotiations, the divisions surrounding agriculture are crying out for confidence-building measures — real compromises that would allay food security fears while continuing to push for trade reforms that reduce market instability. Taking steps towards a permanent solution for PSH is a critical outcome of MC13. Progress on this issue is urgently needed to help rebuild confidence in the WTO as a forum that can respond meaningfully to the complexity of challenges facing the membership.

ENDNOTES

1 See publications on Food Reserves and programs to manage market price volatility. Available online at https://www.iatp.org/keyword/food-reserves


6 The Agricultural Market Information System (AMIS) is an inter-agency platform to enhance food market transparency and policy response for food security. Available online at https://www.amis-outlook.org/home/en/


12. For the purposes of paragraph 3 of this Annex, governmentally sponsored programs for food security purposes in developing countries whose operation is transparent and conducted in accordance with officially published objective criteria or guidelines shall be considered to be in conformity with the provisions of this paragraph, including programs under which stocks of foodstuffs for food security purposes are acquired and released at administered prices, provided that the difference between the acquisition price and the external reference price is accounted for in the AMS.


16. The list of members that reported market price support (STDS5) and expenditures under Annex 2, Paragraph 3 include Brazil, China, India, Indonesia, Israel, South Korea, North Macedonia, Pakistan, Philippines, Saudi Arabia, Ukraine and Vietnam. The covered products include maize, rice, wheat, beans, coffee, sugar, cotton, rapeseed, potato, eggs, milk, tomatoes and pulses. See WTO Committee on Agriculture Observations On Public Stockholding for Food Security Purposes, Communication From Australia, Canada, Chile, Colombia, New Zealand, Paraguay, Thailand, The United States And Uruguay, 11 May 2022. Available online at https://docs.wto.org/

17. AMS represents trade distorting domestic support also known as the “amber box”. The AMS consists of two parts, namely, product-specific subsidies and non-product specific subsidies. The AMS constitutes the annual level of support (subsidies) extended to producers of an agricultural product (product specific) as expressed in monetary terms. Given its trade distorting nature, the AMS is categorized as a “reducible”, “non permissible” or “non-exempted” subsidy.


