Food security - Public stockholding and WTO domestic support discipline: issues for post-Bali negotiations

By

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.
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UNCTAD Multi-Year Expert Meeting on Commodities and Development
15-16 April 2015
New global agricultural market context

Up to early 2000s: demand constrained food markets
- Developed countries: excess supply
- Developing countries: production below their needs

Followed by: supply constrained markets
- Biofuels, stocks down, climate change, speculative funds, etc
- Export restrictions by many countries

Implications
- Higher/volatile prices since 2008
- Increasing food import bills
Policy challenges for food insecure countries in a context of high food prices

- Greater focus on domestic markets in pursuit of national Food Security objectives as the trust in the world markets declined. **Food is not “cheap” anymore.**
- Increasing productivity key to longer-term food security
  - Need for global food production to increase 60-70% by 2050 (9 bn people by 2050)
  - Most of the extra demand is from food insecure countries while global supplies uncertain

- Trade reforms is an important factor affecting food security especially with regard to the effort to boost productivity.
  - Food Security debate broader than MPS
Challenging practices on MPS calculation leading to need for a decision in Bali

2011: US sponsored DTB study

- All four countries breach their DS commitments
- MPS in 24/25 commodities >> 10% de minimis

<table>
<thead>
<tr>
<th>Country</th>
<th>AMS Limit ($ billion)</th>
<th>Estimated Total AMS ($ billion)</th>
<th>Number of commodities examined</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>zero</td>
<td>37.3 to 91.5</td>
<td>7</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.912</td>
<td>3.9</td>
<td>4</td>
</tr>
<tr>
<td>Turkey</td>
<td>zero</td>
<td>9.2</td>
<td>10</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.634</td>
<td>15.3 to 17.1</td>
<td>4</td>
</tr>
</tbody>
</table>

The study was revisited at the beginning of 2015 with the inclusion of calculations for China, with the same conclusion.
Domestic Support: AMS calculation and Market Price Support (MPS) Road to Bali: Main concerns expressed

Problem of India and other countries

- Near to breaking its *de minimis* limit thus breaching its commitments...
- .. even when interpreting the parameters for the MPS calculation in a favourable way (currency of notifications, eligible production, impact of inflation)
- Methodology uses *prices that are outdated (very low)* and thus the MPS calculated is over-estimated and does not correspond to the real DS expenditures.

G-33 argumentation

- *imbalance in agreed rules*
- AoA *systemic weaknesses* if many developing countries face problems
- commercial operation vs *small-scale* resource poor farmers with no other source of livelihood

Main concerns of the non-proponents

- Lack of in-built policy *constraints* and of adequate *targeting* to limit the potential distortiveness, notably:
  - allowing the procurement to continue even when stocks are enough to achieve the stated policy objectives
  - the procurement does *not* always benefit only low income and resource-poor farmers
- The *systemic impact* of loosening the AoA disciplines in general, and the Green Box disciplines in particular.
Potentially plenty policy space for developing countries, but not in AMS (MPS)

14 - AMS (Argentina, Brazil, Colombia, Costa Rica, Israel, Jordan, Korea, Mexico, Morocco, Papua New Guinea, S. Africa, Thailand, Tunisia, Venezuela)

13 - Only Green Box (Botswana, Dom Republic, Guatemala, Guyana, Indonesia, Jamaica, Kenya, Mongolia, Nicaragua, Oman, Trin&Tobago, Zambia, Zimbabwe)

15 - No Support (6 LDCs: Benin, Haiti, Madagascar, Maldives, Myanmar, Uganda plus 9 others: Bolivia, Equador, El Salv, Gabon, H Kong, Macau, Nigeria, Qatar, Singapore)

10 - Green Box, Art. 6.2 & de minimis (Bangladesh, Barbados, Chile, India, Pakistan, Panama, Philippines, Peru, Turkey, Uruguay)

10 - Green Box & Art. 6.2 (Bahrain, Cuba, Egypt, Fiji, Honduras, Malaysia, Namibia, SriLanka, Paraway, UAE)

3 - Only Art. 6.2 (Burundi, Gambia, Malawi)

10 - Green Box & Art. 6.2 & de minimis (Bangladesh, Barbados, Chile, India, Pakistan, Panama, Philippines, Peru, Turkey, Uruguay)
When AMS=0, then MPS bound by *de minimis*

- MPS/VoP < 10% for all products (CHN: 8.5%)
- **but, MPS common policy instrument for targeting specific crops either to increase production or stockholding**
- constraining MPS could imply lose of policy space for such measures

Calculation of MPS in WTO context

- \( MPS = (\text{admin farmgate price} - \text{fixed ERP}) \times \text{eligible production} \)
- \( \text{VoP} = \text{farmgate price} \times \text{total production} \)

- actual practices on MPS calculation vary and resolution of these differences necessitated the Bali Decision

- **Actual practices on MPS calculation vary and resolution of these differences necessitated the Bali Decision**
Table 4.1 Choices made by the sample countries in relation to the elements of MPS calculation

<table>
<thead>
<tr>
<th>Country</th>
<th>Commodity</th>
<th>Notified AMS?</th>
<th>ERPs specified in schedules?</th>
<th>Currency used in the schedules</th>
<th>Currency of subsequent notifications*</th>
<th>Eligible production notified</th>
<th>Market price used in the calculation of value of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>Rice</td>
<td>No</td>
<td>Yes</td>
<td>INR</td>
<td>US$</td>
<td>Procured</td>
<td>Admin.</td>
</tr>
<tr>
<td>Turkey</td>
<td>Wheat</td>
<td>No</td>
<td>No</td>
<td>TL</td>
<td>US$</td>
<td>Procured</td>
<td>Wholesale</td>
</tr>
<tr>
<td>Philippines</td>
<td>Rice</td>
<td>No</td>
<td>Yes</td>
<td>Pesos</td>
<td>Pesos</td>
<td>Procured</td>
<td>Wholesale</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Wheat</td>
<td>No</td>
<td>Yes</td>
<td>PR</td>
<td>US$</td>
<td>Total</td>
<td>Admin.</td>
</tr>
<tr>
<td>Egypt</td>
<td>Wheat</td>
<td>No</td>
<td>No</td>
<td>No MPS calculated</td>
<td>No MPS calculated</td>
<td>Procured (assumed)</td>
<td>Admin. (assumed)</td>
</tr>
</tbody>
</table>

Table source: [WTO domestic support disciplines: options for alleviating constraints to stockholding in developing countries in the follow-up to Bali](http://www.fao.org/3/a-i3819e.pdf)
## MPS-related constraints: India rice

Table 4.2. Market Price Support (MPS) for Rice in India

<table>
<thead>
<tr>
<th>Administered Price</th>
<th>10% de minimis threshold (15% in parenthesis)</th>
<th>Based on total production</th>
<th>Based on actually procured production (33%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MPS calculation in US$ (million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13 level</td>
<td>318</td>
<td>3,318 (4,977)</td>
<td>5,772</td>
</tr>
<tr>
<td>2012/13 level +20%</td>
<td>381</td>
<td>3,981 (5,972)</td>
<td>12,408</td>
</tr>
<tr>
<td></td>
<td>INR/MT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13 level</td>
<td>18,750</td>
<td>195,750 (293,625)</td>
<td>1,590,012</td>
</tr>
<tr>
<td>2012/13 level +20%</td>
<td>22,500</td>
<td>234,900 (352,350)</td>
<td>1,981,512</td>
</tr>
</tbody>
</table>

(1) US$-Rupee exchange rate = 1US$/59 rupees (2013 Average from the Indian Reserve Bank)
(2) External Reference Price in US$ from Indian Domestic Support Notifications
(3) External Reference Price in Rupees from Indian Domestic Support Schedule
(4) The administered price is set for paddy rice. To convert it to milled rice price a coefficient of 1.5 was used derived from India’s notification.

- **In breach of commitments if the notification is made in INR.** This conclusion holds true whether the MPS calculation uses total or procured production or with 15% de minimis.
- **Also in breach of commitments if the notification is made in USD if the MPS calculation uses total production.**
- **Not in breach if the notification is made in USD the actually procured quantity is used in the calculation of the MPS.**
Table 4.3. Calculation of the Market Price Support provided by Turkey for Wheat

<table>
<thead>
<tr>
<th>Administered Price</th>
<th>10% de minimis threshold (15% in parenthesis)</th>
<th>Based on total production</th>
<th>Based on actually procured production (8%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$/MT</td>
<td>MPS calculation in US$ (million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13 level</td>
<td>369</td>
<td>565 (847)</td>
<td>5,446</td>
</tr>
<tr>
<td>2012/13 level +20%</td>
<td>443</td>
<td>565 (847)</td>
<td>6,931</td>
</tr>
</tbody>
</table>

(1) US$-TL exchange rate = 1US$/1.8 TL (2012 Average from World Bank)
(2) External Reference Price in US$ from Turkish Domestic Support Notifications

- **No calculation can be carried out in Turkish Liras as ERPs were only available in USD.**

- **Similar conclusions to those of India highlighting the key importance of the definition of eligible production in the calculation of MPS.**

- **In clear breach of its commitments if total production is used to calculate MPS (10 times the de minimis).**

- **Not in breach if the actually procured quantity is used in the calculation of the MPS, but marginally so.**
Table 4.4. Market Price Support (MPS) for Rice in the Philippines

<table>
<thead>
<tr>
<th></th>
<th>Administered Price</th>
<th>10% de minimis threshold (15% in parenthesis)</th>
<th>Based on total production</th>
<th>Based on actually procured production (2%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pesos/Kg</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13 level</td>
<td>26.2</td>
<td>34,870 (52,305)</td>
<td>253,056</td>
<td>4,963</td>
</tr>
<tr>
<td>2012/13 level +20%</td>
<td>31.4</td>
<td>34,870 (52,305)</td>
<td>314,357</td>
<td>6,169</td>
</tr>
</tbody>
</table>

(1) External Reference Price in pesos from the Domestic Support Schedule of the Philippines
(2) Paddy is converted into rice terms based on 65% milling recovery rate, derived from the Domestic Support notification of the Philippines

- **In breach of commitments if total production used in MPS calculation (8 times de minimis).**

- **Under actually procured MPS is within its de minimis. Also large policy space to increase procured rice supplies and/or to increase its administered price without breaching its de minimis threshold.**
### MPS-related constraints: Pakistan wheat

Table 4.5. Market Price Support (MPS) for Wheat in Pakistan

<table>
<thead>
<tr>
<th>Administered Price</th>
<th>10% <em>de minimis</em> threshold (15% in parenthesis)</th>
<th>Based on total production</th>
<th>Based on actually procured production (34%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MPS calculation in US$ (million)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13 level</td>
<td>321</td>
<td>777 (1,166)</td>
<td><strong>3,538</strong></td>
</tr>
<tr>
<td></td>
<td>385</td>
<td>933 (1,399)</td>
<td>5,093</td>
</tr>
<tr>
<td></td>
<td>PR/MT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012/13 level</td>
<td>30,000</td>
<td>72,600 (108,900)</td>
<td><strong>650,206</strong></td>
</tr>
<tr>
<td></td>
<td>36,000</td>
<td>87,120 (130,680)</td>
<td>795,406</td>
</tr>
</tbody>
</table>

(2) External Reference Price in US$ from Domestic Support Notifications
(3) External Reference Price in PR from Domestic Support Schedule of Pakistan.

- **In breach of commitments in all cases examined, regardless of the notification being made in US$ or in PR; total production or procured used in the MPS calculation.**

- **Not in breach only under an increase of de minimis to 15%. But still at the margins of breaching the commitments.**
Table 4.6. Market Price Support (MPS) for Wheat in Egypt

<table>
<thead>
<tr>
<th>Administered Price</th>
<th>10% de minimis threshold (15% in parenthesis)</th>
<th>Based on total production</th>
<th>Based on actually procured production (33%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012/13 level</td>
<td>418</td>
<td>356 (533)</td>
<td>2,718</td>
</tr>
<tr>
<td>2012/13 level +20%</td>
<td>502</td>
<td>427 (640)</td>
<td>3,074</td>
</tr>
</tbody>
</table>

MPS calculation in US$ (million)

(1) Purchase Price, Total Production and Procured Production from USDA
(2) The administered price was used for the calculation of the VoP
(3) US$-EL exchange rate = 1US$/6,06 EL (2012 Average from World Bank)
(4) ERP from the notification of Turkey.

- **In clear breach of its commitments. MPS nearly 8 times de minimis (when total production is used), 2.5 times (when procured production is used).**

- **Even with 15% de minimis, Egypt would not comply with each commitments.**
Overall on MPS compliance

- Purpose to illustrate compliance problems
  - conclusions sound qualitatively but not necessarily quantitatively

- Significance of the definition of eligible production
  - in no case de minimis adequate when total production is used
  - when procured used, situation improves considerably but not in all situations
  - countries may face compliance problems if they chose to increase their procured quantities

- Significance of inflation
  - MPS in national currencies >> de minimis; exceeded multi-fold, especially when total production used
  - common practice used to avoid problem was MPS in US$
Towards a permanent solution: possible compromises

- Eligible production
  - **Legal**: DSB ruling
  - **Practice**: de facto procured quantities
  - **Solution**: Exempt MPS from AMS if the actual procurement is less than X% of total production, defined in advance and based on clear food security objectives

- External Reference Price (ERP)
  - **Legal**: Annex 3 para 9 fixed ERP ave 1986-88; footnote 5 simply ERP
  - **Practice**: many used US$ instead of national currency
  - **Solution**: acceptance of US$ in notifications and setting mutually agreed ERPs when they do not exist

- Excessive Inflation Rates
  - **Legal**: Article 18.4 (---???)---
  - **Practice**: some countries resorted unilaterally to Art 18.4 (recently UKR, JOR)
  - **Solution**: agree on method for inflation-adjusted admin prices
Concluding remarks

- Food markets have evolved
  - but trade rules have not

- New market and policy realities
  - formerly poor developing advanced – able to look after their citizens and farmers better than before
  - world food markets: higher/volatile prices and lost trust

- G33 position
  - unable to live within the rules: systemic weaknesses of AoA
  - Food security objectives vs external commitments

- Developed countries’ & non–G33 position
  - distortion but also possibly result in more volatility in world market

- Constructive approach needed
  - convergence between these is what at stake post–Bali