



## WTO and Global Food Security

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# 1 Introduction

- Governments around the world, work hard to manage their agricultural production and trade sectors to create an ideal balance of agricultural imports, exports, and food for domestic consumption so that their populations can have stable access to affordable and nutritious food. This often includes complex agricultural subsidies, as well as social safety net programs, such as the Supplemental Nutrition Assistance Program (SNAP) in the U.S. Food assistance programs.
- Most developed countries provide direct assistance to eligible recipients in the form of food stamps or debit cards to purchase food items, and therefore, these programs are not considered trade distorting under the WTO rules. In contrast, many developing countries procure food for the needy by subsidizing farmers, aggregating, stockholding, transporting and selling staple foods to the needy at subsidized prices through a public distribution system.
- The World Trade Organization (WTO) Agreement on Agriculture (AOA) allows developing countries broad authority to provide price support and public stockholding for food security, if the stocks are acquired to support low income and resource poor producers. The WTO rules allow subsidization of these food security programs as long as total domestic agricultural subsidies by developing countries do not exceed 10% of the total agricultural output.
- When countries are concerned about their ability to provide steady access to staple foods, they often stockpile their supplies rather than maintaining normal trade levels, which exacerbates shortages, leading to widespread panic and instability. In 2007-2008, shortages caused food riots in more than 30 countries. As a result, the issue of food security has drawn the attention of world leaders at the G-20, G-8, FAO and WTO.
- The National Food Security Law enacted in India has intensified the debate surrounding the clauses in AOA have become bone contention between Developed countries and India led G-33 group.

# 2 Timeline of Negotiations

- The history of international agricultural negotiations is not promising. The **Uruguay Round of trade negotiations**, launched in Punta del Este in 1986, was the first to even try to address the array of trade-distorting agricultural policies in a serious way. Those negotiations succeeded in creating an elaborate framework of rules, but they largely failed to rein in subsidies or trade protection in industrialized countries.
- **The Doha Round** was supposed to change that, but it collapsed around the time that food prices peaked in mid-2008. India, home to one-quarter of the world's undernourished people, took a hard line against any significant constraints on developing countries' freedom of action to address food security.
- When food prices began to rise and things changed dramatically after Doha Round. This shifted global attention from the effects of low commodity prices on poor producers to the effect of high food prices on poor consumers.
- Many developing country governments tried to insulate consumers from price spikes. According to the FAO, 25 countries imposed restrictions on food exports in 2007-08; import-dependent countries also lowered tariffs and taxes on food.
- Russian restrictions on wheat exports contributed to a second round of price spikes in 2010. These policies made sense to each country individually, but in the aggregate they drove global food prices even higher and left everyone worse off.
- Export restrictions also tend to undermine food security in the long run because they reduce incentives to expand production. Unfortunately, export restrictions in agriculture, like export subsidies, have few constraints under WTO rules.
- Although it lingers on life support, the Doha Round effectively died at a ministerial meeting in August 2008. Paradoxically, the 2008 ministerial broke down largely because American and Indian negotiators could not resolve a disagreement over how much latitude developing countries should have to raise tariffs when prices are falling and imports are surging.
- In essence, India's negotiating stance since then has been that the WTO should permit developing countries to do pretty much anything in the name of food security, whatever the costs to their own or other countries.
- The changing agricultural landscape is further complicating the WTO negotiations, and an agreement to constrain and reduce agricultural subsidies seems as elusive as ever.

### 3 Current Issue

- India, both an agricultural powerhouse and a country that struggles to feed its own rapidly growing population, faces particularly complex challenges in achieving this balance. Recently it was believed that India and a handful of other developing countries were likely to exceed or had already exceeded the 10% subsidy threshold in 2013.
- Instead of reforming their food assistance programs, the G-33 group of developing countries under the leadership of India submitted a proposal in late 2012 to exempt developing countries' food security programs from the 10% threshold enshrined in the WTO Agreement on Agriculture.
- About the same time the G-33 proposal was being debated in Geneva in preparation for the WTO Ministerial meeting in Bali in December 2013, a political storm was developing in India. Many in India believed that the WTO and the developed countries were dictating India to curb its food security program for the poor.
- Indian Parliament in September 2013 passed the food security law guaranteeing access to staple foods at subsidized rates to nearly two third of India's population. This meant nearly doubling the size of its massive food acquisition and stockholding program at an annual cost of about \$19 billion, potentially violating WTO commitments under the Uruguay Round.
- While the Indian Delegation to the WTO claimed that India did not need WTO's permission to expand their food security program, it began pushing hard either to relax rules on subsidies to farmers in the WTO Agreement on Agriculture or for a permanent waiver of the 10% subsidy limit.
- In Dec 2013 at Bali summit, deadlock in WTO negotiations was resolved with a temporary arrangement known as 'Peace Clause.' The 'peace clause' said that no country would be legally barred from food security programs even if the subsidy breached the limits specified in the WTO agreement on agriculture. This 'peace clause' was expected to be in force for four years until 2017, by which time the protagonists hoped to find a permanent solution to the problem.
- The outcomes of the WTO's Nairobi meet include ministerial decisions on agriculture covering a Special Safeguard Mechanism for developing countries (to counter import surges of farm items) and public stockholding for food security purposes. It also includes a commitment to abolish export subsidies for farm exports and measures related to cotton.
- Developing countries including India want a clear outcome to the pending Doha Round issues like commitments to cut farm subsidies by the rich nations.
- Developed nations led by the US and European Union on the other hand, want the WTO to discuss new issues like investments, e-commerce and government procurement.

### 4 India's Stand

- India faces huge food-security challenges. It is home to 1/4 of all undernourished people worldwide. India demanded a broad exemption for public stockholding programs from the definition of trade-distorting support. Specifically, it wants to move these programs to the green box, even when they employ administered procurement prices that clearly have the potential to be trade-distorting.
- India claims that the exemption from any legal challenge would last until a permanent solution is found to the food security concerns of developing countries; whereas others WTO members want the exemption from a legal challenge was good until the WTO Ministerial meeting in 2017.
- India agreed to phase out its agriculture export subsidies (including flexibilities allowed in transport and marketing) by 2023, at the recent WTO's ministerial meeting in Nairobi.
- It, however, did not agree to a demand from developed members such as the EU and the US that emerging economies like India, China and Brazil not be extended special and differential treatment (more favourable treatment than developed countries) so far given to all developing countries.
- India also did not agree to the discontinuation of the Doha round and introduction of new issues that most developed nations, especially the US and the EU, have been pressing for.
- India has said that it was important for the Doha agenda as it addresses the legitimate interest of poor farmers and food security of millions of people of developing countries.

## 5 International Response

- India blocked the first steps toward implementation of the trade facilitation agreement because it did not think progress on a permanent solution for its food security concerns was fast enough. American and other negotiators agreed to shift the deadline for finding a solution from 2017 to the end of 2015.
- The protocol of ratifying the Trade Facilitation Agreement began in July 2014, India refused to support it unless the WTO member countries agreed to grant permanent waiver against legal challenges to developing countries' food stockholding program by the end of this year.
- India is set to ratify at the "earliest" the World Trade Organization's (WTO) trade facilitation agreement (TFA) on goods, aimed at relaxing customs rules for smoother trade flow, but the country will also seek a similar pact on services which should be of particular interest to developing nations.
- The United States was eventually able to work out an agreement that was satisfactory to the Indian Government.
- The US may not mind India's procuring and stocking food grains, so long as these do not end up distorting global trade. In the last two years, India has exported over 12 million tonnes of wheat worth \$ 3.5 billion – all of this from its public stocks.
- During the upcoming negotiations, US could insist that India refrain from exporting grain procured ostensibly for domestic food security purposes.
- Pressuring developing countries, particularly India, to make concessions that go beyond the negotiating mandate is a part of strategy effectively deployed by the developed countries in the course of the Doha Round whereby they have deflected attention from their own repeated failures to do their part for a possible trade deal.
- From 2005 onwards, the U.S. has successfully diverted attention from its inability to cut cotton subsidies – a crucial element in the negotiating template - and shifted the blame on India for a lack of progress in negotiations.

## 6 Future Course of Action

- India's strong stand on food security at the World Trade Organization (WTO) has threatened to derail the first multilateral trade agreement reached in the last two decades. Developed countries have complained that India is going back on its promise made at Bali last December where it was agreed that the Trade Facilitation Agreement will be made a WTO rule by 31 July, while a permanent solution to the food security issue will be found only by 2017.
- India has maintained that different timelines for various elements of the Bali package is against the WTO rules of a single undertaking where everything need to be implemented simultaneously.
- For most of the developing countries including India, public stockholding for food security is a livelihood issue, a matter which should not be even debated at WTO.
- Developed countries lose nothing if they allow higher public stockholding by developing countries after putting in place a mechanism with reasonable limits to ensure developing countries do not dump their excess cereals at rock bottom prices in the international market.
- Allowing developing countries to continue to provide price support to their farmers will be a big confidence booster in multilateral trade, given that the focus of the ongoing Doha round of negotiations is supposed to be on "development". Developed countries can claim moral victory and fast-track the remaining issues of the Doha round once they oblige the food security demand of the developing countries.
- Food security is the foundation upon which the United Nations' Millennium Development Goals to eradicate extreme poverty and hunger stand. Forcing developing countries and Least Developed Countries to agree to anything which may compromise their right to food security will not only compromise basic human dignity but also go against the UN declaration to which all countries are a signatory.
- The government support to farmers in developed countries are way ahead of what developing countries can even afford to provide.

## 7 Steps for India

- First, at the WTO, India should unequivocally resist requests for concessions that are beyond the negotiating mandate. The government would need to replicate the resolve and firmness shown by it last year during the impasse on trade facilitation and food security issues. However, India could indicate its willingness to show movement within the confines of the mandate, provided the developed countries are willing to reciprocate by cutting their farm subsidies and addressing issues of food security and farm livelihood.
- India should also actively galvanise support from other developing countries for ensuring that the Doha Round is not concluded without the developed countries making meaningful cuts in their farm support. It should also seek simplification in the tariff structure of the European Union, which is extremely complex and impedes farm exports of developing countries.
- Second, the Department of Commerce and the Ministry of External Affairs should work closely to clearly articulate India's negotiating approach to the capital-based officials of its key trade partners. In the past, at crucial stages in the negotiations, considerable misinformation was circulated and an impression created that India was being rigid and difficult in the negotiations. India was also wrongly projected as being isolated. This pattern could be repeated in the coming few weeks. This needs to be forcefully countered.

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