

PUBLIC FOOD STOCKHOLDING AND THE WTO

WHAT IS THE WIGGLE ROOM FOR GLOBAL SOUTH COUNTRIES?

Executive summary analysis note



INTRODUCTION

Since the establishment of the World Trade Organization (WTO), the liberalization of international agricultural trade has steadily increased. While this trade has improved food availability, it has not solved the challenge of food accessibility nor the task of supporting farm incomes. In addition, the financialization of agricultural markets has continually destabilized food supplies. **Overall, the liberalization of agricultural trade has failed to provide a suitable response to the issue of food insecurity.**

Moreover, the world's richest regions finance their agriculture on a massive scale: direct payments, aggregate measurement of support, safeguard clauses... Numerous WTO mechanisms enable them (or have enabled them) to enjoy one of the world's most productive agriculture, with sometimes disastrous consequences in terms of food security in third countries and without having protected many European farmers' incomes. And yet, **Global South countries are still negotiating to obtain the necessary room for maneuver they need to develop their agricultural systems** and meet the challenges of food insecurity they face. In the name of the trade impediments it could represent, this right is denied to them, which is why it is necessary to support the struggle of Global South countries.

It is therefore necessary to **explore regulatory mechanisms that can address the challenges of farms incomes, food security and move food systems towards greater sustainability**¹. These issues are all the more pressing in the wake of recent agricultural protests around the world, as well as on account of the food inflation following the war in Ukraine, which in some respects is reminiscent of the 2007 and 2011 food crises.

Public stockholding is an undeniable solution for improving food security. They are partly included in the WTO's domestic support measures and are therefore limited on the basis of a calculation with numerous biases. The Global South has been campaigning for years to demand the political space needed to develop such programs, but the solutions proposed today are provisional and unsatisfactory. Numerous examples of regional and national public stocks demonstrate the potential of such regulatory tools in terms of cooperation, inflation control, and response to food emergencies. It is high time we gave Global South countries the room for maneuver they need to protect their populations from hunger.

1 Weber, I. and Schulken, M., 2024. "Towards a Post-Neoliberal Stabilization Paradigm for an Age of Overlapping Emergencies: Revisiting International Buffer Stocks Based on the Case of Food", working paper no 602, Political Economy Research Institute (PERI).

1. PUBLIC STOCKS AS A REGULATORY TOOL

Public stock for food security reasons (or PSH for public stockholding) are of particular interest for market regulation: these are **programs set up to purchase, store, and distribute foodstuffs**. The products concerned are foodstuffs containing calories or nutrients essential for food security. Stocks are usually managed by a national, local or regional public entity².

Depending on the direction chosen, PSHs can therefore **1. support agricultural prices** by offering minimum purchase prices to farmers; **2. improve the availability and accessibility component of food security** by offering foodstuffs at subsidized prices; **3. improve price stability and limit inflation and speculation** on agricultural commodities³.

Before the establishment of the WTO, developed countries^{*4} set up support mechanisms that enabled their agriculture to gain in productivity. Today, however, this right is denied to developing countries*, as it is assimilated by the WTO as form agricultural trade distortion and therefore market disruption.

2. PUBLIC STOCKS AND THE WTO

The Agreement on Agriculture (AoA) is one of the agreements signed at the end of the Uruguay Round in 1994, which gave rise to the WTO. The AoA categorizes agricultural subsidies into 3 boxes (green, blue, amber), enabling subsidies to be limited or not, depending on their market-distorting effects.

When supporting agricultural prices through an administered purchase price – rather than at market price – PSHs *de facto* enter the amber box, which imposes financial limits on them. If these limits are exceeded, members risk legal action before the Dispute Settlement Body⁵. The nub of the problem lies in the way these subsidies are calculated by the WTO, which leads to a substantial overestimation of the assistance actually provided by the countries concerned, thereby reducing the wiggle room available to finance their agricultural sector.

2 European Commission, 2018. "Food reserves. Using food reserves to improve food and nutrition security in developing countries", summary report, Directorate-General for International Cooperation and Development.

3 Mellal A., Derbal A., 2020. "The WTO and public storage programs for food security purposes in developing countries: progress and prospects", *Dirassat review*; Sachin Kumar Sharma, 2016. "The WTO and Food Security. Implications for Developing Countries", Springer.

4 *: we use the terms "developed" and "developing" countries, as these are the official categories used in WTO jargon. However, we remain critical of terms that are based on a Western development-centered ideology. We will therefore keep placing an asterisk every time this term is used.

5 Multilateral system for settling commercial disputes that may arise between Member States of the Organization.

Among its main biases, the calculation method contains⁶ :

- **A fixed reference period** for calculating the fixed price (most often 1986/88) linked to the first AoA negotiations, but anachronistic today, as it does not take into account inflation in world prices or the disparity in the evolution of the currencies chosen;
- **Eligible production** based on total national production and not on the share that farmers actually sell to PSH, thus neglecting the production share that is self-consumed or sold directly on local/national markets, which overestimate the share sold to PSHs;
- The actual subsidy or price support is not based on the actual procurement from farmers which received the **administered price**, overvaluing open-market sales and farmers' incomes.

These biases need be corrected to give developing countries* more room for maneuver in supporting their agricultural sector, without exposing them to legal retaliation from other member states.

3. GLOBAL SOUTH'S CLAIM FOR A PERMANENT SOLUTION

Since the 2007 crisis, developing countries* have been seeking to increase the possibilities of financing such programs in order to reduce the risk of such crises recurring. Their negotiations culminated **in 2013 with the adoption of the Bali clause**, a temporary solution that prevents states from suing countries with ongoing PSH. But this is not a permanent solution. What is more, the Bali clause only applies to PSHs existing at the time of its adoption, and for a limited number of crops.

A **permanent solution has been promised** by member states but has yet to materialize. Groups of developing countries* (G33, African group, ACP countries) are relentlessly pushing for this permanent solution to support the fight against food insecurity. On the other hand, the big agri-exporting countries (Cairns Group, USA, EU) are lobbying to retain the advantages they gained in the AoA negotiations, and thus maintain their trade prospects.

With a view to supporting farmers' incomes, combating food insecurity and controlling the volatility of world grain prices, it is **vital to support developing countries*' struggle to achieve a permanent solution**.

6 Galtier, F., 2017. « Looking for a Permanent Solution on Public Stockholding Programmes at the WTO: Getting the Right Metrics on the Support Provided », International Centre for Trade and Sustainable Development (ICTSD) et World Economic Forum ; Galtier, F., 2023. « Take an inch for a mile. About an error of metrics in WTO rules and its impact on the ability of countries to build public stocks for food security », *Food Policy*.

4. NATIONAL AND REGIONAL PUBLIC STOCKS

Over 30 countries currently have PSH notified to the WTO⁷. Among developing countries*, India and China represent the most ambitious programs, due to the sheer size of their populations and the chronic food security problems they face.

Over the long term, these PSHs have **undeniable results in terms of reducing poverty and food insecurity**, stabilizing commodity prices and making agricultural produce more accessible. They **are also essential for countries with large populations**, to avoid drying up international markets in the event of crop failure. They are therefore both an opportunity and a necessity for other countries in terms of food security and international market stability.

However, a **lack of transparency on the state of stocks** raises questions about the risks for international markets. It is therefore necessary to place cooperation and transparency at the forefront of public stockholding principles.

The EU is not to be outdone, as Germany also has substantial stocks of around 800,000 t of cereals (wheat, oats, rye) and 100,000 t of rice, among others. Other European countries such as Switzerland and Finland also have several months' consumption in stock⁸. These stocks in rich countries show that, while they deny this right to Global South countries, the EU is well aware of the benefits of these stocks. Above all, the EU knows the cost of these stocks, even if high, is always lower than the cost of their absence⁹.

The **Economic Community of West African States (ECOWAS) and ASEAN+3 are interesting examples of successful multilateralism in stockholding policy**. Devised with the participation of each country and organized in levels of response according to the urgency of the crisis, these reserves make it possible, with varying degrees of success, to respond to sub-regional crises. In any case, they are inspiring models of cooperation and multilateralism.

7 Glauber, J. & Sinha, T., 2021. "Procuring Food Stocks Under World Trade Organization Farm Subsidy Rules: Finding a permanent solution", International Institute for Sustainable Development.

8 European Commission, 2021. "Contingency plan for ensuring food supply and food security in times of crisis", SWD/2021/317 final.

9 Courleux, F., 2024. "Une politique alimentaire et agricole européenne pour des temps de guerre", *Paysans & Société*.

5. OTHER REGULATORY TOOLS IN THE AGREEMENT ON AGRICULTURE

The AoA includes other projects designed to reduce inequalities between developed* and developing* countries.

The **Final Bound Measurement of Support (FBAMS)** are subsidies that go beyond the limitations of the Amber Box and were negotiated during the AoA, according to the support in force at that time (1986/88). Almost 90 % of these additional AMS are used for the benefit of developed countries* and 104 developing countries* do not even have access to them.

The **Special Safeguard Measures (SSM)** are a protection mechanism against import surges from third countries. Developed countries* benefit from such a mechanism via the Special Safeguard Clause (SSG), but the extension to developing countries* is still blocked (and has been since the promises made in Doha in 2004¹⁰). European powdered milk exports to West Africa is just one example of the topicality and urgency of these demands.

Green Box subsidies: theoretically decoupled from production, these subsidies would not distort international trade. However, this argument has been widely debunked¹¹ and the amounts involved are substantial: \$265.5 billion for all Green Box subsidies worldwide (compared with \$62.5 billion for Amber Box subsidies in the same year¹²). Concentrated on specific sectors, this support favors a production-oriented agricultural model and leads to overproduction (particularly in the dairy and cereals sectors), whose exports undermine food security in developing countries*.

10 Sengupta, R., 2024. "Agriculture and Food Security in the 13th Ministerial Conference of the WTO: Going forward or backward?", Third World Network.

11 Extensive literature has long demonstrated that green box subsidies have distorting effects on agricultural trade. Cf. UNCTAD, 2007: "Green Box Subsidies: A Theoretical and Empirical Assessment"; Rashmi Banga, 2014. "Impact of Green Box Subsidies on Agricultural Productivity, Production and International Trade", Centre for WTO Studies (CWS); Sharma, S.K., 2016. *Art. cité*.

12 WTO, "Domestic support. Communication from the African Group and Pakistan", JOB/AG/242/Rev.1, Committee on Agriculture Special Session, July 27, 2023 (restricted access).

CONCLUSION

Without being the only answer, public stocks are an all-around tool for regulating food systems. Depending on the direction chosen, they can stabilize agricultural prices by offering minimum purchase prices. This nagging question of farm incomes is the common ground that have sparked off the numerous agricultural protests in recent months. Public stocks also help to improve food security by increasing the availability and accessibility of food products at subsidized prices. In terms of regulating agricultural and financial markets, public stocks are a powerful tool for controlling inflation and thus limiting sudden variations in commodity prices at national, regional or international levels. They prevent herd behavior, which leads to financial market runaway, thus helping to stabilize international prices. This price stability benefits both consumers, who have better access to staple foods, and producers, who are guaranteed that their production costs will not exceed their incomes. This storage practice is all the more advantageous for small-scale farmers, who have very few infrastructures and are obliged to sell most of their produce immediately after harvest. Finally, at the level of farming practices, public stocks could provide incentives to foster the transition towards sustainable farming systems by promoting the adoption of agroecological practices.

This is becoming a burning issue, as climate change is a tangible, daily reality for almost the entire world population. The increasingly extreme turn of climatic events is greatly affecting harvest stability. Consequently, there is an urgent need to expand the practice of public storage on a massive scale, in order to limit the vagaries of harvests and prevent the recurrence of food crises as exhibited during the past decades.

Many examples bear witness to the success of public storage. Global South countries are fighting for it, but Northern countries know it too, because they too have implemented storage practices, and they still do. To be successful, storage must be implemented by public institutions that embrace values of transparency and cooperation, and that are independently managed. They must also adopt a vision based on food safety principles.

The organization of international trade through the WTO is fundamentally unfair, as it does not treat all countries equally. It is essential to correct these inequalities if we are to provide sustainable solutions to the issue of food insecurity. To that end, it is crucial to adopt a permanent solution to the issue of public stockholding, as called for by Global South countries. It is also essential to review the way these subsidies are calculated, as they do not correspond to current reality. More generally, the Agreement on Agriculture must be reviewed, and the Doha Round must be effectively concluded in order to provide countries with the necessary political space to ensure their populations' food security and the necessary agroecological transformation of their production systems.



Editing: Jonas Jaccard

Proofreading: François Grenade, Benoît de Waegeneer, Frank Galtier, Frédéric Courleux, Ranja Sengupta and Géraldine Higel. Many thanks for your comments and proofreading!

Couverture : © Serra, 2020.

Design : Studio Treize

Designated publisher: Benoit de Waegeneer - Rue aux Laines, 4 - 1000 Brussels



Belgique
partenaire du développement

With the support of the Directorate-General for
Development Cooperation and Humanitarian Aid (DGD).