



POSITION PAPER ON
PUBLIC STOCKHOLDING, FOOD
SECURITY AND INDIA

11TH WTO MINISTERIAL CONFERENCE,
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CONTENTS

I.	Introduction.....	3
II.	Issue	5
III.	Opinion Pertaining to India's Position	7
IV.	Conclusion	9

PUBLIC STOCKHOLDING, FOOD SECURITY AND INDIA

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I. INTRODUCTION

Eleventh World Trade Organization (WTO) Ministerial Conference (MC11) is scheduled in Buenos Aires, Argentina during 10-13th December, 2017 and is critically important from India's perspective as it is necessary to safeguard her interests in the field of agriculture, e-commerce and investment.

Wide concerns are being raised about finding a permanent legal solution to India's purchasing and public distribution of food grains at reasonable prices and is a priority issue for the 11th WTO Ministerial Conference.

Public Stockholding is a kind of policy instrument used by a Government to procure, stock and distribute the food whenever the need arises. Minimum Support Price (MSP) is one of the instruments of Public Stockholding.

Stockpiling and distributing food is permitted under WTO Rules, however, purchasing of food at fixed prices or “administered” prices which are higher than market is considered to be subsidized. This kind of support for purchasing food at fixed price is counted towards the Country’s overall ceiling on trade-distorting support under the WTO Rules².

Currently, there is cap of 10% (fixed subsidy) for procurement of food from farmers in order to feed the needy and the poor. This cap can constrain procurement of food grains and also implementation of food aid programs in developing countries³. As per the Agreement on Agriculture (AoA) of WTO, purchase of farm produce at higher prices than the market is considered as subsidizing the farmers. The methodology that is used

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² https://www.wto.org/english/thewto_e/minist_e/mc11_e/briefing_notes_e/bfagric_e.htm

³ Information Bulletin, Lok Sabha Secretariat, Research and Information Division, India’s Stand at the WTO: Trade Facilitation Agreement vs. Public Stockholding For Food Security Purposes, December 2014.

for subsidy calculation is based on price index of 1986-1988 and that does not take into consideration the inflation.

WTO has a provision that Member countries may give subsidy in order to maintain the local market. For example, Agreement on Agriculture (AoA) excludes certain policies from reduction commitments. Going by the WTO terminology, Subsidies in general are identified by “boxes” which are given the colors of traffic lights: Green (permitted), Amber (slow down — i.e. need to be reduced), Blue (forbidden)⁴. Research, Pest & Disease Control, Training Services, Extension and Advisory Services, Infrastructural Services etc. is included in Green Box and thus do not have any reduction commitments⁵. Blue Box is like a Traffic Signal turned Red and thus is an exemption from the general rule that all subsidies linked to production must be reduced. In case of agriculture, all domestic support measures considered to distort production and trade (nonetheless with some exceptions) fall into the Amber Box. The total value of the Amber Box measures must be reduced.

Public Distribution programs of developing countries are included in the trade distorting Amber box measures which requires reduction in the commitments.

The developing countries are insisting that the subsidies that are being given for the purchase of agricultural goods higher than the market prices should be included in the Green Box subsidies i.e. these subsidies should be exempted from reduction in the commitments as stipulated in the Agreement on Agriculture of WTO.

⁴ https://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm

⁵ https://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm#annII

II. ISSUE

With the launch of the Doha Round of Negotiations in 2001, developing countries hoped for a positive stimulus in the continuous reform process in agriculture, which is structured around the three pillars comprising – market access, domestic support and export subsidies⁶.

Public Stockholding is one of the major agricultural issues selected out of the broader agenda of negotiations held during Doha Round in 2001.

The issue has come up because some developing countries fear they could breach the limits they have agreed on trade-distorting domestic support — i.e. support that influences prices and quantities⁷. The stockholding programs are considered to distort trade when they involve purchases from farmers at prices fixed by the governments, known as “supported” or “administered” prices and when these fixed prices are higher than the market prices.

G33 Countries (a group of 47 nations) of which India is a prominent member are demanding that the programs for food security measures should be exempted from subsidy reduction commitment of WTO. These food security measures, Public Stockholding programs should be removed from amber box to green box subsidies which are exempted from reduction commitments.

However, there is strong opposition from US, EU and such other developed countries to provide unrestrained or unlimited market price support under the banner of Food Security Measures or Public Stockholding.

In 2013, at the ninth Ministerial Conference of WTO held at Bali, Indonesia, an interim measure was adopted which is referred to as the Peace Clause. Paragraph 2 of the Bali Ministerial Decision on this issue is as quoted below:

“Members shall refrain from challenging through the WTO Dispute Settlement Mechanism, compliance of a developing Member with its obligations under Articles 6.3

⁶ Blandford et al., How Effective are WTO disciplines on Domestic Support and Market Access for Agriculture, p. 1471.

⁷ https://www.wto.org/english/tratop_e/agric_e/factsheet_agng_e.htm

and 7.2 (b) of the Agreement on Agriculture (AoA) in relation to support provided for traditional staple food crops² in pursuance of public stockholding programmes for food security purposes existing as of the date of this Decision”

This Peace Clause was to remain in force for four years to be conclusively decided in the eleventh WTO Ministerial Conference in 2017.

However, recognizing the importance of public stockholding for food security purposes for developing countries the General Council in November 2014, decided that⁸ –

“If a permanent solution for the issue of public stockholding for food security purposes is not agreed and adopted by the 11th Ministerial Conference, the mechanism referred to in paragraph 1 of the Bali Decision, as set out in paragraph 1 of this Decision, shall continue to be in place until a permanent solution is agreed and adopted.”

As the negotiations of WTO Ministerial Conference have approached, developing countries are set to insist on special and differential treatment on the issue of public stockholding.

⁸ https://www.wto.org/english/thewto_e/minist_e/mc9_e/nov14stockholding_e.htm

III. OPINION PERTAINING TO INDIA'S POSITION

So far, no substantial progress has been made on the issue of Public Stockholding since the tenth Ministerial Conference of WTO held in 2015 in Nairobi, Kenya.

While India and other developing nations have called for a simple exemption of such programs from WTO restrictions, there is a striking contrast in the developed countries position. Rather a typical hypocrisy on their part. On one hand, the developed countries particularly US are themselves dumping agricultural surpluses on global markets at prices below the costs of production⁹ and on the other hand, these countries are demanding more restrictive measures from developing countries. US Government which subsidizes wealthier farmers at higher rates for less compelling reasons, calling out a far poorer country for subsidizing its much poorer farmers for the purpose of feeding a large and hungry population¹⁰.

India has been repeatedly demanding permanent legal solution to this problem. India has agreed to WTO's Trade Facilitation Agreement on a promise that the public stockholding issue shall be resolved. There has to be a workable solution to the issue of public stockholding issue which is better than mere peace clause.

A proposal by India and China has called on developed countries to eliminate their “amber box” support with an argument that this type of support would remove one of the biggest imbalances in the current farm trade rules by obliging the biggest subsidizers to reduce their special entitlements¹¹.

India's Public Stockholding Program under the National Food Security Act (NFSA) is much more than a mere welfare program. India is being accused of giving high price to the procurement as compared to the market price. However, in fact, the procurement prices are not always higher than the market prices. Farmers generally sell their produce to the Government because of the stability of the prices.

⁹ According to a new research from the Institute for Agriculture and Trade Policy (IATP) in 2015, the United States exported corn at 12% below what it cost to produce it. “Dumping Margins” were significant for other crops as well; - 10% for Soybeans, 2% for Rice, 32% for Wheat, and 23% for Cotton.

¹⁰ <https://foodtank.com/news/2017/12/india-wto-food-security-part1/>

¹¹ https://www.wto.org/english/thewto_e/minist_e/mc11_e/briefing_notes_e/bfagric_e.htm

No further compromises should be made by India unless a permanent legal solution is offered on the issue of public stockholding. Developing countries should not be constrained from subsidizing the agriculture.

Since the WTO's establishment in 1995, we have not been able to arrive at conclusive solution to this issue.

IV. CONCLUSION

Domestic support in agriculture remains the key priority for the vast majority of WTO members. Despite excellent submissions made by many countries and NGOs over a period of time, there has been no substantial development on the issue of Public Stockholding which will lead towards a permanent solution to the issue and there are still significant gaps in the positions of members.

There is no sound logic and economic sense behind using the reference price of 1986-88 in calculating the subsidies in the present time. This is something just happens to be the case which has not been changed for over decades despite so many negotiations and deliberations all over the world.

Food Security Programs in developing countries are meant for much bigger things than mere welfare. It is a matter of survival for over hundreds of millions of poor and needy farmers and people. There are huge gaps between the subsidies given to the farmers in developing and developed countries. The agricultural subsidies cannot be equal all over the world given the fact of different economic and climatic conditions. Strategy has to be devised to calculate the agricultural subsidy for the developing countries keeping in mind all the factors that affect the prices and trade thereof. **Trade should be for the people and not of the people!**

Given the enormous significance of Agriculture vis-a-vis the role played by it in lives of farmers who account for more than half the population of a developing country, there must be a fruitful, meaningful and credible outcome from the negotiations taking place in the eleventh WTO Ministerial Conference.



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