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G-33 proposal: early agreement on elements of the draft Doha accord to address food security

I C T S D F A O

1. Introduction

In November 2012, a group of developing countries tabled an informal proposal¹ at the World Trade Organization (WTO), seeking additional flexibility in the global trade body's rules on agriculture. The group - known as the G-33, a coalition² of developing countries with large populations of smallholder farmers - proposed that WTO members seek to fast-track agreement on three paragraphs of the draft Doha accord³, at the Organization's Ministerial Conference in Bali, Indonesia, in December 2013⁴.

The WTO membership is currently negotiating a draft accord in this area to be fast-tracked as the possible centrepiece of a 'small package' of measures for agreement at Bali, as a down-payment towards a broader deal on the long-running Doha talks on trade⁵. A number of developing countries have argued that progress on agricultural trade issues is needed in order to 'balance' concessions on an eventual deal on 'trade facilitation' - easing restrictions and red tape at customs, in order to make it easier for goods and services to cross international borders⁶. Focusing on one of the elements of importance to developing countries - namely food security - could help to advance negotiations so as to achieve at least some outcomes in agriculture, the group suggested.

The G-33 proposal involved three elements, all of which relate to domestic farm support payments that are exempt from any cuts or ceiling under WTO rules, on the basis that they cause no more than



International Centre for Trade and Sustainable Development

1 JOB/AG/22, 13 November 2012.
 2 The group includes 46 members: Antigua & Barbuda, Barbados, Belize, Benin, Bolivia, Botswana, Côte d'Ivoire, China, Congo, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Republic of Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts & Nevis, Saint Lucia, Saint Vincent & the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad & Tobago, Turkey, Uganda, Venezuela, Zambia, Zimbabwe.
 3 TN/AG/W/4/Rev.4, para 1-3 of Annex B (p.39): http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_a_e.doc
 4 See "Developing Countries Table Food Security Proposal at WTO", Bridges Weekly Trade News Digest, Vol. 16, No. 39, 14 November 2012. <http://ictsd.org/i/news/bridgesweekly/149960/>
 5 The WTO Doha Development Agenda, which was launched in 2001 with the aim of lowering barriers to trade in a wide range of areas, was recognised by trade ministers in 2011 to be in an 'impasse'.
 6 The G-20 developing country group, which favours reform of developed country farm trade policies, made a similar argument in a separate proposal tabled a month earlier. See "New Proposals Boost WTO Farm Trade Talks", Bridges Weekly Trade News Digest, Vol. 16, No. 33, 3 October 2012. <http://ictsd.org/i/news/bridgesweekly/146511/>

minimal trade distortion - known as 'green box' subsidies by negotiators⁷. Two proposed changes would ease current requirements on domestic food aid and food stockholding programmes, by allowing food purchased at administered prices (above prevailing domestic market prices) from low-income or resource-poor producers to be exempt from countries' maximum permitted ceiling on trade-distorting support at the WTO⁸. The group also proposed that a range of schemes primarily used by developing countries - such as farmer settlement, land reform and other programmes to promote rural development and poverty alleviation - could be classed as green box payments under a new clause.

In early May a sub-set of G-33 members circulated an unofficial 'non-paper' to facilitate further discussion among WTO members⁹. The proposal, which the co-sponsors indicated was without prejudice to the G-33's November proposal, identified four variables that could potentially be modified or clarified so as to provide developing countries with greater flexibility under WTO rules. These included the '*de minimis*' ceiling (which is set at ten percent of the value of production for most developing countries)¹⁰, and three elements used to calculate countries' levels of market price support: the external reference price, which is based on a 1986-88 benchmark; the volume of eligible production; and the level of administered prices.

More recently, in another non-paper circulated in September, a sub-set of some G-33 members proposed three options that they indicated could also help address their concerns¹¹. The first option would be to agree that developing countries could use a three-year rolling average to calculate how much their food stockholding purchases contributed towards their overall farm subsidy limit, instead of benchmarking support against the external

reference price. Countries should also be allowed to use last year's average price in the largest 1-3 suppliers of foodstuffs in the country, the group suggested. The second option would be to agree a draft decision allowing WTO members to take into account excessive rates of inflation - higher than 4 percent, the group suggested - in calculating the contribution of food stockholding programmes towards overall farm subsidy commitments at the WTO. Finally, a third option would be to agree a 'peace clause' exempting these programmes from legal challenge.

2. Background to the proposal

Building on previous work aimed at establishing a fair and market-oriented agricultural trading system¹², the Doha Round of trade talks that was launched in 2001 committed members to substantial reductions in trade-distorting domestic support - as well as substantial improvements in market access; and reductions of all forms of export subsidies, with a view to phasing them out¹³. Three years later, members also agreed to review¹⁴ criteria for green box subsidies to ensure that these have "*no, or at most minimal, trade-distorting effects or effects on production*" - in other words, to ensure that they conform with the 'fundamental requirement' set out in paragraph 1 of the green box. At the WTO's 2005 Hong Kong Ministerial Conference, they added that this review should also ensure developing country programmes were effectively covered¹⁵. The language proposed recently by the G-33 first emerged as part of the green box review process.

Countries' proposals to modify green box criteria were eventually reflected in the Chair's draft Doha 'modalities' text, which set out formulas and figures for subsidy and tariff cuts, and exceptions to them. By mid-2008, when trade ministers made their last concerted attempt to conclude the round,

7 The WTO's rules on 'green box' subsidies are set out in Annex 2 of the Agreement on Agriculture: http://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm#ann1

8 The 'aggregate measure of support' (AMS) which countries have agreed at the global trade body not to exceed.

9 See "WTO: Ag Talks Chair Seeks to Reconcile Conflicting Visions for Bali", Bridges Weekly Trade News Digest, Vol. 17, No. 15, 2 May 2013. <http://ictsd.org/i/news/bridgesweekly/162239/>

10 Or 8.5 percent in China's case, under concessions made when the country negotiated its membership of the WTO.

11 See "Azevêdo Jump-Starts WTO Talks as Bali Ministerial Approaches", Bridge Weekly Trade News Digest, Vol. 17, No. 30, 19 September 2013. <http://ictsd.org/i/news/bridgesweekly/176196/>

12 A goal set out in article 20 of the Agreement on Agriculture: http://www.wto.org/english/docs_e/legal_e/14-ag_02_e.htm#articleXX

13 Para 13 of the Doha Ministerial Declaration (WT/MIN(01)/DEC/1), http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm#agriculture

14 Para 16 of the 2004 'July Framework', WT/L/579.

15 WT/MIN(05)/DEC, para 5.

the section of the draft on green box subsidies was widely seen as ‘stabilised’ - meaning countries mostly accepted it as a basis for consensus, subject to agreement on a broader deal¹⁶. The draft accord would also have established a new ceiling and reduction commitments for countries’ overall trade-distorting support (OTDS) - the sum of their amber box, blue box and *de minimis* payments¹⁷. Ceilings and cuts in the component parts of OTDS would also have been established (including for *de minimis*)¹⁸, although developing, least-developed and other groups of countries would have been granted greater flexibility than developed ones¹⁹. Changes to the green box, including those proposed recently by the G-33, were part of this package of measures.

The draft Doha text on green box support reflects the lengthy negotiations between different countries and coalitions. Developed and developing country farm exporters in the Cairns Group and G-20²⁰ sought tighter restrictions on green box criteria, while some developed country members - the EU and Japan - wished to expand them to new areas. Meanwhile, developing countries in the Africa Group and G-20 wanted greater recognition for farm support programmes they were using, or might want to use²¹. Without progress on the first two sets of demands, the review’s main outcome was to incorporate some additional elements of flexibility for developing countries, including those developed further in the recent G-33 proposal.

3. What do the proposals entail?

The G-33’s first proposed amendment is to include an additional sub-category for developing country programmes alongside other payments currently allowed under the existing category of ‘general services’ in the green box. This category is used by governments to report not more than minimally

trade-distorting support in areas such as research, pest and disease control, extension and advisory services, and certain kinds of infrastructure payments. The G-33 propose creating an additional sub-category to cover:

“policies and services related to farmer settlement, land reform programmes, rural development and rural livelihood security in developing country Members, such as provision of infrastructural services, land rehabilitation, soil conservation and resource management, drought management and flood control, rural employment programmes, nutritional food security, issuance of property titles and settlement programmes, to promote rural development and poverty alleviation.”

The second change put forward by the G-33, on developing countries’ public stockholding programmes for food security purposes, aims at modifying the current requirement for subsidised food purchases for these programmes to count towards the country’s AMS. The WTO Member concerned should not have to do so, the G-33 propose, if the purchases have been made with the objective of supporting low-income or resource-poor producers:

For the purposes of paragraph 3 of this Annex, governmental stockholding programmes 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 programmes 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

16 See Hepburn, J and Bellmann, C, “Doha Round negotiations on the green box and beyond”. In Meléndez-Ortiz, R, Bellmann, C and Hepburn, J, (2009), “Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals”. Cambridge University Press, Cambridge.

17 ‘Amber box’ refers to the most trade-distorting domestic support payments under WTO rules, measured using the ‘aggregate measure of support’ (AMS); ‘blue box’ covers direct payments under production-limiting programmes (Agreement on Agriculture, art. 6.5); a ‘*de minimis*’ allowance permits countries to provide trade-distorting support less than a certain share of the value of production - five percent in the case of developed countries, ten percent in the case of developing countries (Agreement on Agriculture, art. 6.4).

18 Sections B to E of TN/AG/W/4/Rev.4

19 Special provisions were also incorporated for small, vulnerable economies (SVEs); Recently-Accessed Members (RAMs); Very-Recently Accessed Members (VRAMs); as well as a number of other countries mentioned in footnote 11 of the draft text.

20 The group of developing countries seeking reform of developing country farm trade policy, and not the G-20 major economies.

21 See ICTSD information note 16 for more information: <http://ictsd.org/i/publications/56284/>

for in the AMS. However, acquisition of stocks of foodstuffs by developing country Members with the objective of supporting low-income or resource-poor producers shall not be required to be accounted for in the AMS.

The third change sought by the group relates to a footnote to requirements on food stockholding and domestic food aid. Once again, the language seeks to exempt food purchases “procured generally from low-income or resource-poor producers” from the requirement to count this support towards the AMS:

For the purposes of paragraphs 3 and 4 of this Annex, the acquisition of foodstuffs at subsidised prices when procured generally from low-income or resource-poor producers in developing countries with the objective of fighting hunger and rural poverty, as well as the provision of foodstuffs at subsidised prices with the objective of meeting food requirements of urban and rural poor in developing countries on a regular basis at reasonable prices shall be considered to be in conformity with the provisions of this paragraph. This is understood to mean, inter alia, that where such programmes referred to in this footnote and paragraph 4 above, including those in relation to lowering prices to more reasonable levels, involve also the arrangements referred to in footnote 5 to paragraph 3, there is no requirement for the difference between the acquisition price and the external reference price to be accounted for in the AMS.

4. To what extent could the provisions sought in the proposals contribute to food security?

The proposed changes to the text are argued for by their proponents primarily on the basis of allowing countries to implement support policies consistent with their objectives of improving the food security status of their citizens. The first of the proposed amendments to allow an extension of the general services category under the green box is widely acknowledged to have the potential, by providing flexibility to countries to use a

wider range of policy intervention in support of rural development, to result in enhanced food security status of rural populations. However, the potential contribution of the provisions related to public procurement and stockholding is subject to greater debate. It is pertinent, therefore, to consider the mechanisms through which public procurement and stockholding programmes can contribute towards improved food security.

In evaluating their potential contribution, a reasonable starting hypothesis is that since low-income resource-poor farmers can be expected to comprise a large share of the population below the poverty line, their income levels (and hence food security status) would be likely to improve if they receive higher and more predictable prices for the output that they sell. In such cases, public food purchasing programmes can bring about important benefits to farmers who can gain access to a guaranteed outlet with a higher and more predictable price than achievable on the open market. This can encourage on-farm investment and improvements in productive practices, which could in turn lead to still greater production. Assuming that prices are maintained at this level, higher incomes would be derived from on-farm activities. Moreover, such programmes can encourage improvements in product quality and food safety, as farmers often have to comply with the required standards to participate in the programmes. They can also strengthen producer associations through which purchasing is often channeled²².

Implications of smallholder heterogeneity

However, this line of reasoning assumes that all producers are commercially oriented and able to respond to the opportunity provided by more stable, guaranteed markets. In reality, low-income resource-poor farmers are highly heterogeneous in their participation in markets. Whether or not farmers will be willing and able to increase their sales in response to a government procurement programme depends on a range of factors. Their *willingness* to increase production for sale depends on the complex interaction between their production and consumption decisions. By definition, most low-income, resource-poor

22 FAO (2013) “Smallholder Integration in Changing Food Markets”. FAO, Rome, Italy <http://www.fao.org/docrep/018/i3292e/i3292e.pdf>

producers are semi subsistence producers, with many buying greater quantities of food staples than they sell during a calendar year. These net purchasing producers, faced with an increase in their food expenditures when local market prices increase, may be forced to reduce their on-farm labour allocation so that they can earn cash from off-farm sources to meet these expenditures. The reduction in labour allocation to their farm activities can mitigate against the volume of production available for sale - a perverse, but not uncommon supply response²³.

An important consideration in determining the impact of food procurement schemes is therefore the extent to which they affect prices in the markets from which rural households, often resource-poor net buying producers, purchase food to cover their household deficits. While procurement for food aid could be expected to result in reduced or “subsidized” prices in locations into which this food is released, these prices might not transmit fully to all rural consumers. Procurement for stockholding without provision for release as food aid could by contrast result in upward pressure on local prices.

Factors affecting farmers’ *ability* to increase supplies in response to government purchasing programmes (essentially, their ability to increase production) may depend on their resource base, risk factors faced, access to technology, and financing and their location in relation to public procurement points, amongst others.

Given their different characteristics and constraints, farmers therefore differ significantly in the way in which they participate in markets and in the type of market in which they are most likely to participate. Analysis of the implications of the design of public procurement initiatives aimed at encouraging increased smallholder production available for sale needs to take full account of these differences²⁴.

Implications of objectives and design

Public procurement and stockholding systems differ in their objectives and design, pursuing different goals and targeting different types of producers. In many countries, public procurement programmes target poor farmers. In India, where most farmers who produce cereals can be characterized as low-income and resource-poor, the government intervenes in wheat and rice markets through a system of purchasing, storage and distribution, with the main objective of maintaining food stocks that can be released as needed. The government buys from farmers at above market prices and supplies a proportion of cereals required by poor consumers at prices lower than the market prices. In Thailand, the government also purchases rice from farmers at above market prices in order to support producers’ incomes. In Latin America and the Caribbean, many governments dismantled state trading during the 1980s and 1990s, but returned to market operations in an attempt to stabilize prices when these increased in 2006-2008. In Ecuador, for example, the government operates a procurement and distribution scheme, providing support prices for rice and maize farmers. Nicaragua has reactivated its state-trading enterprise, ENABAS, which is involved in purchasing, storage and distribution of basic grains (beans, maize, rice, and sorghum). In addition, the company acts as a market intermediary for basic food items like cooking oil, pasta, soybean products, sugar, and wheat flour²⁵.

The objective of a programme has significant implications for its design. For example, if the main purpose is to increase the *incomes* of low-income resource-poor producers, the appropriate set of instruments and the target group could be quite different from the case when the main objective is to increase levels of *production* by these farmers.

23 Dorward, A., Fan, S. Kydd, J., Lofgren, H., Morrison, J., Poulton, C., Rao, N., Smith, L., Tchale, H., Thorat, S., Urey, I. and P. Wobst (2004) Institutions and economic policies for pro-poor agricultural growth *IFPRI DSDG Discussion paper no. 15* IFPRI, Washington DC

24 FAO. 2013. “Smallholder Integration in Changing Food Markets”. FAO, Rome, Italy <http://www.fao.org/docrep/018/i3292e/i3292e.pdf>

25 See e.g. FAO. 2013. Policy responses to high food prices in Latin America and the Caribbean: Country case studies. D. Dawe and E. Krivonos, editors, FAO, Rome, Italy (forthcoming)

In designing programmes aimed at encouraging agricultural production through price policies, it is noteworthy that there are many cases where the use of such policies has not produced the expected supply response from farmers. A number of other factors can also play a major role: the characteristics and level of development of the market channel to which the intervention is targeted, and the participation of private sector in that channel can both affect the extent to which different categories of producer are connected to markets and to which they actually “receive” price signals. It is therefore important to recognize the limits of trade and price policies in the face of binding supply side constraints, whether producer or market related²⁶. For example, in Zambia, the Food Reserve Agency has purchased maize at prices well above market prices during recent years. However, only 36 percent of smallholders were expected to sell any maize in 2010/11, of which only 26 percent were net sellers and only 3.3 percent accounted for half of all maize sales²⁷.

Public procurement programmes that target specific staple crops can impact both production and consumption patterns. On the production side, this can result in reduced incentives for investment, both at the farm and market level, in the commercialization of alternative, higher value products. On the consumption side, with the targeted product often released at a subsidized price, substitution away from relatively more expensive but often more nutritious alternatives can occur.

In summary, appropriately designed public procurement schemes have the potential to increase producer revenues and, if associated with the distribution of food aid, to reduce expenditures on food by poor consumers. However, the extent to which they achieve these objectives will be determined by a complex set of household specific characteristics, the level of market development and functionality and the degree to which producers participate in these markets by increasing production that is surplus to household requirements.

5. Possible implications for trade and for poor producers in other countries

According to the G-33 proposal, the direct effects on trade of government purchases from low-income resource-poor producers at higher than market prices would be minimal since most of these farmers are producing primarily for own consumption and sale in local rural markets. In many countries, public stocks account for only a small proportion of marketed production: in such situations, therefore, the effects on both domestic and international market prices, is likely to be minimal. However, as with any market intervention, public procurement is likely to introduce some degree of price distortion. The possible effects on production, consumption, stock levels and hence trade will, as explained in the previous section, depend upon the characteristics of markets and the procurement model used in each country. Critically, however, the extent, and effects of, these price distortions will also differ across time, depending upon whether the programme is procuring, holding, or releasing stocks.

Whether or not trade flows are affected during procurement phases would depend on the magnitude of the price distortion that is created by the public procurement programme. In turn, this will depend upon the scale of intervention - in essence, the proportion of product procured from a specific market channel. One possible effect could be a reduction in exports of the food staples of which the country is a net exporter, since the price subsidy provided could create an incentive to divert to the government procurement programme some of the production that would otherwise be destined for export. Conversely, the inflow of imported staple foods from other countries could be reduced if an increasingly large share of consumption is covered by product entering markets through the government food distribution programmes.

26 FAO. 2011. “Articulating and mainstreaming agricultural trade policy and support measures”. FAO, Rome, Italy.

27 Nkonde, C, N. Mason, N. J. Sitko, and T. S. Jayne et al (2011) Who gained and who lost from Zambia’s 2010 maize marketing policies? FRSP Working paper No. 49. Lusaka, Zambia

One of the main risks of excessive involvement of the public sector in purchasing and holding (or storing) food staples is that it can crowd out private traders. These market actors could be providing marketing services and market infrastructure at a lower cost, and could be more effective in conveying market signals. For example, by purchasing from farmers at high prices, the Government of India became responsible for the storage and transport of most wheat and rice traded in the domestic market, which some observers termed a “*de facto* nationalization” of the grain trade²⁸. A similar situation is observed in Thailand where government purchasing became the main tool for subsidizing farmers, but also led to an accumulation of large rice stocks. Furthermore, if private traders are crowded out, the efficiency of marketing channels for both domestic and international markets could also be harmed by declining investments in improved market infrastructure.

The costs of holding stocks, particularly during periods of consecutive average or above average harvests can be fiscally unsustainable and the potential for food waste where storage systems are inadequate can be significant. The rice subsidies in Thailand have resulted in a large fiscal burden and therefore potentially create an increasing difficulty in continuing to meet the purchasing commitments. The rice ending stocks increased from 6.5 million tonnes during 2009-11 (on average) to 12.6 million tonnes in 2012 and stood at approximately 18 million tonnes in April 2013²⁹. Moreover, the large public stock that has been accumulated will need to find an outlet, because of the storage costs and the risk of rice being spoilt. In the long run, price support could also reduce the incentives to farmers to improve productivity and to adopt new technologies, making them less competitive than producers in other countries.

The need to release (or off-load) stocks onto domestic or international markets can result in sales, whether through “commercial” channels or through government to government contracts,

at below market prices. The timing of release, especially if unpredictable and not factored into traders’ decision making, can significantly influence price levels and volatility, both domestically, and, if the country is a significant trader, internationally. There are concerns that the release of large quantities of surplus stock into already thin global markets (such as the case of rice) could have a suppressing effect on international markets to the detriment of other exporters.

Government food stocks can however also contribute to food security in other countries. For example, following the 2007-2008 spike in food prices, India entered into a deal with Bangladesh wherein about 400 thousand tonnes of rice were exported to Bangladesh at \$400/tonne while the world price was as high as \$800/ton³⁰. However, such government to government deals can, particularly where sustained over time, result in significant shifts in trading patterns, sometimes to the detriment of traditional exporters to the importing country.

Another issue to consider is that most countries engaged in public purchasing of staple foods, including Brazil and India, use the public food stock both as an emergency reserve and for open-market interventions to stabilize prices, so the exact end use of the food purchased to build stocks can be difficult, if not impossible, to determine. The implications of stock use can be significant if they are exported after having been purchased at above market rates, rather than being used as domestic food aid. While procurement strategies can provide a subsidy effect, this can be cancelled out by the implicit taxation resulting from release - whether strategically, or just poorly timed.

In summary, the implications of public procurement and stockholding for trade flows need to be considered in light of multiple determinants which include the different phases of operation, the timing, predictability and transparency of operational decisions, the

28 Jha, S., P.V. Srinivasan, and M. Landes. 2007. Indian Wheat and Rice Sector Policies and the Implications of Reform. Economic Research Report No. (ERR-41) 52 pp, May 2007, Economic Research Service Economic Research Service (ERS) of United States Department of Agriculture (USDA).

29 <http://www.businessweek.com/articles/2013-04-18/thailands-farmer-friendly-rice-subsidy-backfires/> 17.0

30 Gulati, A. and M. Dutta. 2010. Rice Policies in India in the Context of the Global Rice Price Spike, in “The rice crisis: markets, policies and food security”, edited by David Dawe, FAO, Rome, Italy.

structure and functionality of markets from which stock is procured and into which it is sold, and not least, the supply responsiveness of low income resource poor producers.

6. Different implementation models

The complexity of public procurement programmes implies the need for a high degree of organization and skills in the responsible public institutions. The fiscal cost can be substantial, especially if the prices paid to farmers exceed market prices. Indeed, the sustainability of these programmes is a critical issue, given the dependency on availability of fiscal funds and political will, and caution needs to be exercised to avoid creating dependency³¹.

There are however, alternatives to buying at administered prices whilst guaranteeing more stable markets for targeted producers. Brazil has been one of the pioneers of government procurement programmes created specifically to provide a stable and reliable market for family farms with the aim of supporting their social and economic development. The food purchased through its Food Acquisition Programme³² is used partly for building up strategic reserves and partly in food security programmes. The programme benefits approximately 200,000 farmers and distributes food to 15 million people each year. Unlike in many other countries, the government purchases food at market prices, with the prices at which it buys from farmers constantly revised to reflect the prices in local markets. At least 30 percent of the food purchased under another Brazilian programme must come directly from family farmers: this scheme, the National School Feeding Programme, reaches one-quarter of the Brazilian population. The Brazilian government has been actively promoting the public food acquisition model in other Latin American and Caribbean countries, providing technical and financial support for establishing similar programmes while fostering improvements in

domestic supply. Moreover Brazil is providing financial support to the development of similar programmes in Ethiopia, Malawi, Mozambique, Niger and Senegal.

The World Food Programme (WFP) is following a similar approach with its Purchase for Progress (P4P) scheme, launched in 2008. This initiative seeks to explore how local food purchases by WFP, or other large scale institutional buyers, can stimulate farmer productivity and market engagement. The P4P strategy emphasizes both access to a reliable buyer and capacity building of smallholder farmers' organizations to build the knowledge, skills and confidence needed to engage with formal markets. The preliminary results are encouraging, as the approach taken by the P4P appears to have had a positive effect on production through providing farmers with guaranteed markets and higher prices, albeit generally as a result of the achievement of higher quality than due to any administered price component. The programme has also encouraged investments in the development of rural infrastructure and value chains, as the earnings within the sector have increased and as more traders have entered markets. At their present scale, market impacts are likely to be negligible, but as such schemes expand, it will be important to investigate impacts on market indicators and market development.

A key challenge in providing guaranteed markets to targeted participants, whether at administered prices or not, is defining "low-income or resource-poor producers". While for domestic programmes, the distinction may not be critical, in terms of justification for inclusion of a programme under a new green box provision, arriving at a commonly agreed definition has proved to be problematic³³. Deciding whether the appropriate indicator is income, assets or extent of market participation, and also deciding how best to measure these is critical. If the indicator is real income decisions as to whether the minimum levels should be determined in absolute values or relative to each country's poverty line have to be made.

31 See e.g, FAO. 2013. "Smallholder Integration in Changing Food Markets". FAO, Rome, Italy. <http://www.fao.org/docrep/018/i3292e/i3292e.pdf>

32 <http://www.mda.gov.br/portal/saf/programas/paa>

33 The issue of definition has been discussed in the Committee on Agriculture and through the subsidy notification process, especially concerning input and investment subsidies notified under article 6.2 of the Agreement on Agriculture. See for example Bridges Weekly, <http://ictsd.org/i/news/bridgesweekly/149960/>

An important issue to consider is that in some countries, the majority of farmers could fall into the category of low-income resource-poor.

7. Conceptual questions around the design of WTO rules on farm trade

Developed countries, as well as a number of developing countries, have expressed concern that proposed changes do not affect the ‘fundamental requirement’ in paragraph 1 of Annex 2, requiring green box payments to cause not more than minimal trade distortion. At the same time, developing countries remain concerned that, while WTO rules currently allow countries that historically provided substantial levels of trade-distorting farm support to continue to do so, subject to a maximum ceiling, others - in practice largely developing countries - can only provide such support up to the ‘de minimis’ level set under the global trade body’s rules. In the absence of a clear movement towards farm policy reform through multilateral trade negotiations, many developing countries perceive the current rules to be unfairly biased against them³⁴.

The proposal to recognise a number of programmes used largely by developing countries as being green-box compliant - under a new sub-paragraph (h) - can also be seen as responding to this concern. When green box proposals were last discussed extensively at the WTO, in 2006 and 2007, attempts by the G-20 and other developing country groups to reform green box criteria were largely unsuccessful, as developed countries resisted measures that would have limited their own ability to use support programmes that had been introduced in a bid to move away from more trade-distorting payments in the amber box. However, some countries have more recently suggested that the G-33 proposal indicates a need to renew a broader discussion over the future of domestic support ceiling at the WTO - effectively taking trade negotiators back to the

issues mandated under the stalled Doha trade talks agenda.

One of the main issues that negotiators will therefore be grappling with is the question of how much can realistically be achieved in the run-up to the Bali Ministerial Conference, and which issues should be part of a post-Bali agenda. While some supporters of the G-33 proposal have argued that post-Bali discussions should be addressed once there is greater clarity on the outline of a possible Bali accord on the issues they have raised, others - including some G-33 countries - have said they also see a role for a post-Bali work programme to address trade and food security more broadly³⁵. Some countries have suggested that a workable compromise is likely to involve elements of both approaches.

Indeed, insofar as it relates to problems arising from the effects of food price inflation, the G-33 proposal can more broadly be seen as symptomatic of the challenges many countries face in designing policies to achieve food security goals in the new price environment. Although agricultural markets have evolved dramatically since 2007, global trade rules have not. Current disciplines on agriculture in the multilateral trading system deal primarily with the challenges of structural over-supply on global markets that characterized the 1980s and 1990s, but arguably do not respond effectively to problems associated with the volatile and rising prices for food and agriculture that many experts expect will continue to predominate in the years ahead. As a result, while exporting countries are able to rely on a relatively well-developed set of rules and mechanisms to address trade distortions on the import side, importing countries (including the poorest ones) are unable to rely on an equivalent regulatory framework to ensure stability and predictability in the supply of farm goods on world markets. Ambiguities and inconsistencies continue to affect the ability of WTO Members to understand and monitor new phenomena properly, such as support to biofuels,

34 At the same time, those developed countries that have reformed their agricultural trade policies - such as ‘Cairns Group’ countries that favour agricultural liberalisation - have tended to argue against flexibilities for either developed or developing countries that create or maintain trade distortions in agriculture.

35 The group of net-food importing developing countries made a proposal along these lines for the WTO’s eighth ministerial conference (see Bridges Weekly, vol. 15, no. 37, 2 Nov 2011: <http://ictsd.org/i/news/bridgesweekly/117348/>). This was echoed in slightly different circumstances by the US (see Bridges Weekly, vol. 17, no. 5, 2 May 2013: <http://ictsd.org/i/news/bridgesweekly/162239/>). Other countries have also informally made similar suggestions.

and - not least due to slow progress on the ongoing round of Doha trade talks - Members have done little to consider the possible implications of future challenges such as climate change. In a number of important aspects, these developments and trends create new difficulties in reconciling trade rules with food security objectives, not just on public stockholding but also in other areas.

This does not imply that existing rules in the WTO Agreement on Agriculture, or those set out in the draft Doha accord, are not relevant to achieving improved food security outcomes. However, it may go some way to explaining some of the difficulties in concluding an agreement on farm trade on the basis of the existing draft negotiating texts, and some of the challenges involved in seeking to fast-track progress on small parts of these (such as those identified in the G-33 proposal). Paragraphs that may have been seen as having 'stabilised' as part of a larger deal five years ago may no longer command the same consensus when extricated from their original negotiating context, or divorced from a broader package of measures. Some of the challenges in delivering a Bali package have therefore involved negotiating the thin line between, on the one hand achieving a meaningful set of concessions that will represent a step towards improved global rules on trade, and, on the other hand, overloading the agenda for the conference with demands that other members see as unreasonable or unmanageable. Both too much or too little ambition for the Ministerial could, in different ways, significantly damage the multilateral trading system, either by leading to a collapse of negotiations or by generating negotiating outcomes with only symbolic value. Ensuring that public stockholding and other food security issues are also part of a broader post-Bali reform agenda that would equip members to address both new and long-standing problems could be a way out of this impasse.

8. The negotiating landscape in the run-up to Bali, and beyond

The Chair of the agriculture negotiations, New Zealand ambassador John Adank, reported in July mixed progress on four questions he asked countries to consider in April, as a way of structuring the discussions on this issue³⁶. On the first question, he has told members that there is 'emerging convergence' around the proposal to recognize the set of sub-paragraph (h) programmes as being green box compliant. Similarly, on the second question, the Chair has expressed his hope that convergence "should be possible" on a political message recognizing the role that public stockholding and similar policies play in some developing countries - possibly, for example, incorporating a 'due restraint' statement along the lines of previous commitments made by WTO members.

However, the Chair has also indicated that less consensus is apparent regarding the last two of the four questions he has asked³⁷. He has told Members that 'opinions are still divided' over whether an amendment or interpretation of the Agreement on Agriculture is either possible or desirable by the Bali Ministerial, warning in particular that many countries feel that would have implications that would be too far-reaching to be resolved in the limited time available before the Conference. Finally, he reported that the most progress has been made on the fourth question, regarding a 'mechanism or process' that would allow members that are at risk of breaching their commitments to seek additional flexibility on an interim basis.

Specifically, the Chair has told members there is general agreement that such a mechanism could:

- cover public stockholding programmes of developing countries related to food security;

36 See the Chair's speaking notes for an 18 July WTO meeting, on which the following section draws in part on online at: http://www.wto.org/english/news_e/news13_e/agng_18jul13_e.htm#text

37 In July, the Norwegian delegation also informally put forward a compromise proposal, which could allow developing countries to adjust their notified administered prices downwards in circumstances in which inadequately functioning markets had led to higher administered prices for their public stockholding programmes for food security.

- be limited to staple crops, given the food security focus;
- be subject to on-going provision of information that would allow members to monitor the situation;
- incorporate safeguards or guarantees aimed at avoiding potential spill-over effect on markets;
- be subject to notification and monitoring in the WTO Committee on Agriculture.

Members still have to reach agreement on the possible conditions for triggering recourse to the mechanism and, importantly, the duration for which it would be in place. Ambassador Adank has indicated that, in addition to a Member being close to breaching its WTO commitments, these could include extraordinary and sudden increases in food prices; presence of market failure; respect of existing notification requirements; and a continued general policy orientation towards economic reforms. Members would also still need to establish whether recourse to the mechanism would be automatic, approved on a case-by-case basis, or some combination of the two.

In their September non-paper, a sub-set of G-33 countries argued that a peace clause should apply until “a final mechanism is established to address the food security concern of the developing countries”. Whatever the nature of the interim mechanism, it will - by definition - be a stop-gap measure to address the concerns of countries that are facing difficulties in operating their stockholding and domestic food aid programmes under current WTO commitments on farm subsidies. As such, negotiations over the shape of any such mechanism will also need to involve some consideration of the longer-term resolution of these questions, either on their own or as part of a broader set of issues. The Bali ministerial conference will therefore be a critical opportunity for WTO members to define and clarify how best to address both current and future challenges.

9. Conclusions

The G-33 proposal has to be seen in the broader context of the difficulties many countries are facing in adjusting to the challenges of the new agricultural trade policy environment, as well as in the context of the failure to achieve more than minimal progress on the reform of the multilateral trading system since the end of the Uruguay Round, now almost two decades ago. It can also be seen as indicative of a renewed commitment on the part of some the larger developing countries to ensure that trade rules and trade policies contribute towards progress on long-standing development goals, such as food security - notwithstanding the risks that the initiative may create for the achievement of these goals in other developing countries, some of which may be unable to muster the same resources for the pursuit of these same public policy objectives.

Experience from countries around the world demonstrates clearly that policy-makers and negotiators will have to examine carefully the specific implications of new rules and mechanisms for markets if they are to be sure that public procurement policies actually deliver improved food security for market actors - not least for smallholder producers and poor consumers. While enhanced flexibilities at the multilateral level could deliver real benefits to low-income, resource-poor farmers, the design of international disciplines on public procurement and domestic food aid could have far-reaching implications for global agricultural markets that need to be given careful consideration both in the run-up to the Bali Ministerial Conference and beyond.

Finally, in order to address food security effectively, governments will have to engage meaningfully with a wide range of disciplines and measures on trade - including agricultural export restrictions, biofuel subsidies and a number of other long-standing concerns such as rules on market access for farm goods and trade-distorting subsidies³⁸. Negotiators could usefully explore the scope for establishing a post-Bali work programme looking at the full range of trade and food security concerns, with a view to improving the ability of the multilateral trading system to respond effectively in this area.

38 See for example Bellmann, Hepburn and Wilke (2012), “[Le système commercial multilatéral face aux défis des politiques publiques globales](#)”. *Revue internationale de politique de développement*, Vol. 3, 2012.

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