



FAO TRADE POLICY BRIEFS on issues related to the WTO negotiations on agriculture

No. 16 The Bali Package - implications for trade and food security

In December 2013, agreement was reached on a small number of issues under negotiation in the long-running Doha Round of WTO Negotiations. The set of issues, broadly known as the Bali package after the location of the 9th WTO Ministerial Conference during which the agreement was reached, comprised three main components, one of which related to the use of public procurement for food stockholding which can be used by developing countries in pursuit of food security objectives. This brief provides a concise explanation of the Bali package focusing on those elements which have direct implications for trade and related policies directed at improved food security. It also considers potential implications of trade and market policies more broadly for food security, drawing on discussions at an FAO side event held on the occasion of the Ministerial Conference. Finally, it suggests a number of avenues for providing support to countries in their negotiation of trade agreements as they relate to food security.

What was agreed at the 9th WTO Ministerial Conference in Bali?

After a series of failed attempts to reach agreement on a broad set of issues under the long running Doha Round of trade negotiations, the strategy for the 9th WTO Ministerial Conference (MC) held in Bali in December 2013, was to identify a small package of proposals on which there was a good chance of reaching agreement. The package, which formed the basis of intensive negotiations in the run up to the MC comprised three main components: trade facilitation, agriculture, and development issues, with the latter two widely seen by many developing countries as being necessary to balance the trade facilitation component.

Although the negotiations pre-Bali were acknowledged as making significant progress, there was concern that the failure of negotiators to reach a final agreement on all of the draft texts before the MC commenced would result in yet another inconclusive meeting at the Ministerial level. However, given the recognized high stakes both with respect to the future of multilateralism in general and to the role of the WTO in trade negotiations, seen by many as a key pillar of the Organization's work, there was sufficient political commitment to ensure that a deal (the first in the WTO's 18 years of existence) was secured, albeit with an extension of the MC into an extra day.

The majority of texts agreed to in Geneva before the MC were in fact unchanged, including all four development related texts, as well as agriculture related texts on export subsidies, cotton, and a reclassification of general service policies under the Green Box. The key sticking point, and where the most significant changes were made, related to the draft text on public stockholding for food security purposes. India, a key driver of a G33 proposal to which the text related, insisted that the so-called peace clause, preventing

countries using such schemes from being challenged for breaching their domestic support commitments, should be in place until a permanent solution is agreed upon¹. Other, mainly developed, countries were concerned that not having a time bound interim solution would limit the incentive for countries such as India to negotiate a permanent solution. In addition, there were visible concerns amongst a number of developing countries that the schemes, should they result in disruption to trade and international markets, could negatively impact their own producers.

The main argument behind the original G33 proposal was that the current WTO Agreement does not provide developing countries with sufficient policy space for addressing food security, whereas developed country members can continue to use trade distorting policies with very few limitations. India argued that the procurement of public stocks from low-income resource-poor farmers at prices higher than the market price, is an essential part of their efforts to secure food security as this is the only way to ensure that the quantities needed for distribution to more than 800 million food insecure can be acquired. In addition, as farmers often face reduced prices during the harvest period, a guaranteed price would significantly contribute to their food security.

The outcome of lengthy negotiations on this text was for the interim solution to exist until a permanent one is agreed, with a work programme to produce a permanent solution within four years, by the 11th WTO Ministerial Conference². In rather ambiguous language, the Bali agreement establishes that until a permanent solution is found, Members shall refrain from challenging, through the WTO Dispute Settlement Mechanism, compliance of a developing Member with its obligations in relation to trade-distorting domestic support to traditional staple food crops through existing public stockholding programmes for food security purposes.

A number of transparency obligations and safeguard provisions have been introduced as part of this mechanism in an effort to limit the negative effect that the stocks acquired could potentially have on the food security of other members and on global markets. These include (i) the fact that the peace clause only covers existing³ public stockholding programmes as of the date of this agreement, and (ii) that countries should ensure that stocks procured under

¹ Before the MC, the Indian Cabinet had mandated the Minister Sharma to reject any agreement that would prevent India from continuing its public stockholding programmes, especially as the new Food Security Bill is in the first stages of implementation.

² Public Stockholding for Food Security Purposes - [WT/MIN\(13\)/38](#) — [WTL/913](#)

³ The definition of the word "existing" is somewhat unclear, as there could be cases where public stockholding programmes are foreseen in legislation but are not active. The absence of notifications by many developing members could also create a problem in the identification of existing programmes, although newly imposed transparency obligations could settle this.

such programmes do not adversely affect the food security of other members, although it is not clear how compliance will be monitored and enforced.

Of the other agriculture related agreements⁴, the text on the handling of persistently under-filled tariff rate quotas received most attention. The agreement provides for monitoring of TRQ fill rates and adjustment of the administration method when fill rates remain low for three consecutive years. It will be applied for six years, until the 12th WTO Ministerial Conference and unless decided differently then, the mechanism will remain in place. It excludes developing countries from any obligation, primarily reflecting China's inability to abandon the state control of imports and exports at this stage. The USA, Guatemala, El Salvador, Dominican Republic and Barbados, have reserved the right to stop implementing the mechanism after six years. On export competition, following heated debate in the pre-Bali period on the nature of the Bali outcome (political declaration or a legal commitment) and on its coverage (export subsidies and credits and/or other measures with equivalent effect), members agreed to a political commitment not to increase export subsidies in agriculture and reaffirmed the final objective of eliminating all forms of export measures which may have the "equivalent effect" of export subsidies, including export credits, state trading and food aid. In light of persistently high food prices, and therefore large food import bills for many developing countries, the issue of equivalence needs to be carefully assessed to ensure that importing countries are not negatively affected by the disciplining of export credits or food aid⁵.

Key features of the development related decisions include agreements⁶ on preferential rules of origin and on improving the level of Duty Free Quota Free market access for LDC exports to developed countries and to developing countries in a position to provide such access. These provisions could provide potentially significant opportunities for some LDC exporters. In addition, a monitoring mechanism on special and differential treatment could promote more effective use of flexibilities available to developing countries. On cotton, the C4 countries (Mali, Burkina Faso, Chad and Benin), who launched the cotton initiative in 2003, proposed the elimination of all cotton trade distorting policies in developed countries by the end of 2014. The final compromise reached foresees biennial discussions on the trade aspects of cotton policies to enhance transparency and monitoring relating to the three pillars of the Agreement on Agriculture in terms of the specific implications for cotton producers.

⁴ Understanding on Tariff Rate Quota Administration Provisions of Agricultural Products - [WT/MIN\(13\)/39](#) — [WT/L/914](#); General Services - [WT/MIN\(13\)/37](#) — [WT/L/912](#); Export Competition - [WT/MIN\(13\)/40](#) — [WT/L/915](#)

⁵ This is reflected in the outcome of an FAO expert consultation: <ftp://ftp.fao.org/docrep/fao/007/j5013e/j5013e01.pdf>

⁶ Preferential Rules of Origin for Least-Developed Countries - [WT/MIN\(13\)/42](#) — [WT/L/917](#); Duty-Free and Quota-Free Market Access for Least-Developed Countries - [WT/MIN\(13\)/44](#) — [WT/L/919](#); Monitoring Mechanism on Special and Differential Treatment - [WT/MIN\(13\)/45](#) — [WT/L/920](#); Cotton - [WT/MIN\(13\)/41](#) — [WT/L/916](#)

Although not falling under Agriculture, the trade facilitation⁷ part of the package, widely acknowledged as having the most far reaching and positive economic implications for global trade does cover all goods. As part of this agreement, specific provisions were agreed upon in relation to trade of perishable goods, following a proposal by three main exporters of agricultural products, Brazil, Australia and New Zealand. The agreed text foresees that the perishable goods will be released in the shortest possible time, even if the customs have to work outside business hours in exceptional circumstances.

What happens next?

In the short term, although a set of Ministerial Decisions has been adopted, there is work to be completed in the WTO, such as the legal review for rectifications of a formal character with respect to the Agreement on Trade Facilitation, as well as the process for registering Category A commitments to be included in the relevant Protocol through which the TF Agreement will be annexed to the WTO Agreements, at the latest by 31st July. In addition, work related to the mechanisms relevant to the transparency aspect of the peace clause and to the negotiation of a permanent solution under the decision on food security is expected to be initiated in the relevant committees at WTO.

The post Bali work programme also foresees that the members will develop, in the next twelve months, a clearly defined agenda on the remaining Doha Round issues. This will include the issues on which a specific work programme was established in Bali, including that of Food Security, as well as all other issues under the Doha mandate that are central to concluding the Round. Work on issues on which a legally binding outcome was not possible in Bali, including export competition, will resume as a priority in the relevant WTO Negotiating Groups. The overall work programme will build on the success of the Bali Conference using the same approach of pursuing agreement on "small packages" of doable issues rather than attempting to agree on the whole Doha package. The so called "new issues", including those of climate change and export restrictions will not be addressed as part of this agenda although they can be pursued through plurilateral agreement within the WTO framework.

Possible implications for food security

Although negotiations were restricted to a specific policy approach (food stockholding schemes), the focus of attention on the use of price support policies and public procurement of food staples for advancing food security objectives has ensured that, for the first time, food security considerations are a key consideration in relation to multilateral trade negotiations. With this increased consideration however is a requirement to better understand the relationship between trade and market related policies and food security.

Reflecting this requirement an FAO event⁸ on "Trade and Market Policy for Food Security: A Challenge for Trade Negotiations"

⁷ Trade facilitation seeks to attain "faster and more efficient customs procedures through effective cooperation between customs and other appropriate authorities". The agreement reached in Bali also contains provisions for technical assistance and capacity building for developing countries to assist in its implementation. For more information, see - [WT/MIN\(13\)/36](#) — [WT/L/911](#)

⁸ <http://www.ictsdSYMPOSIUM.org/filter-sessions/trade-and-market-policy-for-food-security-a-challenge-for-trade-negotiations/>

was organized during the Trade and Development Symposium which ran in parallel to the WTO MC. The event, summarized in the following box, illustrated the wide range of instruments that

are used, and significant differences in the way in which they are applied and in their effectiveness in different contexts, notably in countries at different levels of development.

Trade and Market Policy for Food Security: A Challenge for Trade Negotiations

FAO side event at the Trade and Development Symposium, Bali 3 – 5th September 2013

This event was designed to draw on experience of the different trade and market policy approaches used in pursuit of food security in Africa, Asia and Latin America to examine the appropriateness of these policies and the challenges that their use raises for the negotiation of trade agreements. Questions were addressed to a panel comprising the following experts, moderated by Jamie Morrison, Senior Economist, Trade and Markets Division, FAO⁹:

Gerald Masila, Executive Director, Eastern Africa Grains Council

Biswajit Dhar, Director General, Research and Information System for Developing Countries

Ekaterina Krivosos, Economist, Trade and Markets Division, FAO

Jonathan Brooks, Senior Economist, Trade and Agriculture Directorate, OECD

Timothy Wise, Policy Research Director, Global Development and Environment Institute, Tufts University

Contrasts were made between the ad hoc and typically interventionist approach to market and trade policy in East Africa and the typically more predictable, or rules based use of similar policy instruments in Asia. In the former, the approach stems from the era of structural adjustment, when there was a withdrawal of the state from the operation of grains market with the expectation that greater efficiencies could be achieved through greater private sector involvement. In the event, the private sector did not emerge to take on the role previously dominated by governments, resulting in stagnation in productivity growth and a general failure of the sector to contribute to improved food security. This has resulted in a situation where governments feel duty-bound to play an active role, but where the approaches used in operationalizing this role are often ad hoc, unannounced and therefore disruptive to the operations of those private sector players who may otherwise be willing to invest in grains market development. In Asia, trade and market policies have typically been used to prevent uncertainties and volatility in international markets from filtering into domestic markets. Although inefficiencies may exist in the operationalization of public procurement and distribution schemes, they have been successfully used to moderate the impact of global market price increases, notably between 2007 and 2009 and effective in promoting productivity improvements and investments in market infrastructure development.

In Latin America, where trade policy is generally more liberal, there has still been significant use of public purchases from family farms for use as food aid and for building public stocks, most notably in Brazil, and to a lesser extent in other countries, including Costa Rica, Ecuador, Nicaragua and Peru. This has provided predictable prices and potentially higher incomes for family farms and can provide incentives for farmers to invest in

better production methods and equipment resulting in higher quality products and better yields. However, the fiscal cost and administrative requirements are not to be underestimated and constraints to smallholder participation can limit the effective reach of such programmes.

In determining trade policy consistent with food security objectives, a basic question for policymakers is how they can enable trade to make its vital contribution to food security, yet mitigate negative impacts such that nobody's food security is compromised. Conventional analysis suggests that policymakers should use targeted non-trade policies to offset potential negative impacts of trade reform, on the grounds that they do not eat into the efficiency gains from trade reform and can be targeted to specific beneficiaries. However, there are concerns that some countries, in particular poorer countries, may not have the institutional capacity to apply these instruments, and that some recourse to the levers of trade policy might be necessary. A country's capacity to use non-trade instruments to address potentially negative implications of greater trade openness depends on whether effective institutional mechanisms are in place and, if not, the timeframe over which they can be developed. To avoid over-dependency on institutional markets, for example, public procurement programmes, these need to be designed to encourage producers to "graduate" from state food purchasing programs and become more competitive in the broader market.

Against the conventional analysis, it was highlighted that with respect to improved food security, openness is not always the optimal policy. In the era of low food prices, strategies of food importation from global markets may have been defensible, but this has changed with the food price crisis and trade rules are now out of step with changing global market environment: trade policy has to address high prices and deal with volatility; countries require safeguards against shocks and the policy space to implement policies to promote domestic staples production.

However, current trade rules can prevent developing countries from adopting policies that have been shown to be effective in developed countries when they were at earlier stages of development. For example, measures that India is now pursuing: supported farm prices, public stockholding, managed domestic markets, and public support for food purchases were used in past decades by some developed countries because they worked. An additional difficulty facing developing countries relates to the mechanism by which support to be restricted is calculated. For subsidies not falling within the Green Box, the method of calculating the "size" of the subsidy does not compare purchase prices to current market prices but to an "international reference price" set by the Agreement on Agriculture to be the average international price from 1986-88. Because of that artificially low price, a barely above-market price today can look like a massive subsidy when compared to the outdated reference price.

⁹ The box provides summaries of salient points including those made by the audience so should not necessarily be attributed to the named panelist

The event highlighted the urgent need for an improved understanding of the relationship between trade and market policy design and implementation and food security if negotiations are to be better informed and more effective in achieving appropriate agreements.

Implications for further work on trade and food security

The instruction to WTO's Trade Negotiations Committee to develop a clearly defined work programme on the remaining Doha Development Agenda issues, requires that countries engage more effectively in the further negotiation of these outstanding issues. The agreements reached in Bali were at a relatively general, non-technical, level. Concluding the Doha Round negotiations will require countries to engage at a more technical level. For example, a significantly improved understanding of the implications of the use of food stockholding schemes as an instrument in managing markets to achieve food security objectives will be required if a permanent solution that is in the interests of both implementing and third countries is to be agreed upon. More informed discussion is also needed on the different impacts that such programmes could have on producer incomes and food security in countries at different levels of development, as well as the food security of other developing countries. A more careful analysis of administered prices in relation to market prices and the reference prices established in the WTO is needed, since this relationship determines how each

food purchase programme is reported in the domestic support notifications. Support to this type of analysis and dialogue could facilitate a solution that better accounts for the diversity in needs of different developing countries and would provide countries with the opportunity to redesign multilateral trading rules to better contribute to the achievement of food security¹⁰.

Recognizing the long standing work and expertise of FAO in the fields of agricultural trade policy and market analysis and in food security, and building on previous support to the Doha Round negotiations, FAO can provide:

- (i) an improved evidence base through neutral and objective studies and synthesis of existing research to fill gaps and inform decision-making processes,
- (ii) capacity development in the use of improved evidence and in policy making, and
- (iii) in association with Geneva-based organizations, fora for dialogue on the implications of potential changes to trade rules.

These global level activities need to be complemented by the provision of assistance to targeted countries in the formulation and implementation of trade and market policies compatible with trade agreements.

¹⁰ The Cairns Group Communique issued during the 9th WTO Ministerial Conference " fully support the central role of the FAO in the global governance of food security. The Cairns Group has pursued reforms through the Doha agriculture negotiations so vigorously because, amongst other things, we recognize that trade policy reform has a role to play in addressing food security".

For further information on FAO's trade related activities, please visit: <http://www.fao.org/trade/en/>
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