



The State of Agricultural Commodity Markets *IN DEPTH*

Policy space to pursue food security in the WTO Agreement on Agriculture¹

What are the issues?

The WTO Agreement on Agriculture (AoA) is often criticized for not taking sufficient account of the needs of developing countries to pursue policies necessary to promote their food security (Chatterjee and Murphy, 2014; Clapp, 2011; de Schutter, 2009; Diaz-Bonilla, 2014a; Gonzalez, 2002; Elliott, 2015; Häberli, 2010; Häberli, 2012; Josling, 2015; Sharma, 2011; Smith, 2012; Tangermann 2013). The relationship between trade rules and food security has been a central element in the Doha Round negotiations. Criticisms range from arguments that the AoA rules are lop-sided and essentially favour developed countries which can continue to heavily support their agricultural sectors, that they constrain the ability of developing countries to pursue their agricultural development and food security policies, and even that they undermine the right to food of developing countries. It is also argued that WTO rules are no longer appropriate for the new reality of higher and more volatile food prices.

Policy space refers to the autonomy available to countries to implement policies or commit budget expenditures which are not limited or constrained by AoA rules. Trade rules are intended to discipline the trade-distorting policies of any country that might adversely affect the trade and production of other countries, thus undermining their food security. AoA rules are thus intended to impose limits on some of the policy space of WTO members as part of a collective agreement to ensure a well-functioning and reliable world market from which all countries benefit.

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Nonetheless, the question can still be asked whether these disciplines are appropriate, are reasonable, and are reasonably distributed according to members' capacity to shoulder these obligations.

This note examines the policy space available to developing countries under the AoA to pursue their food security objectives and the use they have made of that policy space. It does not discuss whether developing countries would be likely to improve their food security by making greater use of their existing or additional policy space. The debate over how best to guarantee and improve a population's food security is an important one, and is likely to differ from country to country, but is not addressed here. Also, in the case of trade-distorting support measures, greater use of policy space by some countries will adversely affect the ability of other countries, including developing countries, to fulfil their food security goals.

Instead, the purpose is to describe the policy space available to developing countries under AoA rules, including by reference to the policy space available to developed countries, taking into account the special and differential treatment principle that developing countries and least-developed countries (LDCs) should have less onerous obligations, and thus greater policy

space, than developed countries. Issues raised in the Doha Round negotiations are also examined. Policy space is examined under the headings of import protection, domestic support and the ability to respond to volatile world market prices.

The measure of the policy space available to a particular country will depend on which pillar of the AoA is under discussion. With respect to the market access pillar where the only policy measure permitted under AoA rules is the imposition of tariffs, policy space is measured by the height of a country's bound tariffs. Countries are permitted to raise their tariffs to their bound levels but not to exceed them. In the domestic support pillar, a WTO member's policy space is defined by its right to exempt support under some policies when calculating its Current Total Aggregate Measure of Support (CTAMS) as well as by the size of its limits on AMS support (Brink, 2015). In the case of export subsidies, a country's policy space is defined by the limits on the quantities of subsidised exports and the expenditure on export subsidies which it has committed not to exceed. Other elements of policy space refer to the rules governing the use of temporary import safeguards, export restrictions, or the rules governing food aid, public stock-holding or domestic food assistance programmes.

Policy space for import protection

Bound tariffs represent the policy space available to a country with respect to import protection, as in principle a country can raise its tariffs to the bound levels. When looking at the pattern of bound tariffs, a clear hierarchy emerges (Table 1). LDCs have the highest tariff bindings on average, followed by developing countries, with the lowest bound tariffs in developed countries. However, when the tariffs actually applied are examined, there is little difference between the three groups. The consequence of this is that, on average, both LDCs and developing countries have considerably more unused policy space (the difference between their average bound and applied tariffs) than developed countries. While these averages paint a broad picture, there is an enormous amount of heterogeneity within these categories.

The variation in unused policy space across the three groups of countries is shown in Figure 1. This is

the result both of differences in bound and applied tariffs across countries. The average bound tariff commitments of developing countries for agricultural products are very heterogeneous, reflecting the level of their bound tariffs in the base period, the decisions they took when they set their ceiling tariffs for products with unbound tariffs as part of their AoA schedules of commitments, and the timing of their accession to the WTO. Many, but not all, developing countries have high bound tariffs. Twenty-five of the 33 LDC members and 42 of the 82 developing country WTO members have average bound tariffs exceeding 40 percent.

If average bound tariffs are compared to the average tariffs applied, many but not all developing countries do not make use of the policy space that they have. If a threshold of 20 percent unused tariff policy space is taken (which would more than double the currently

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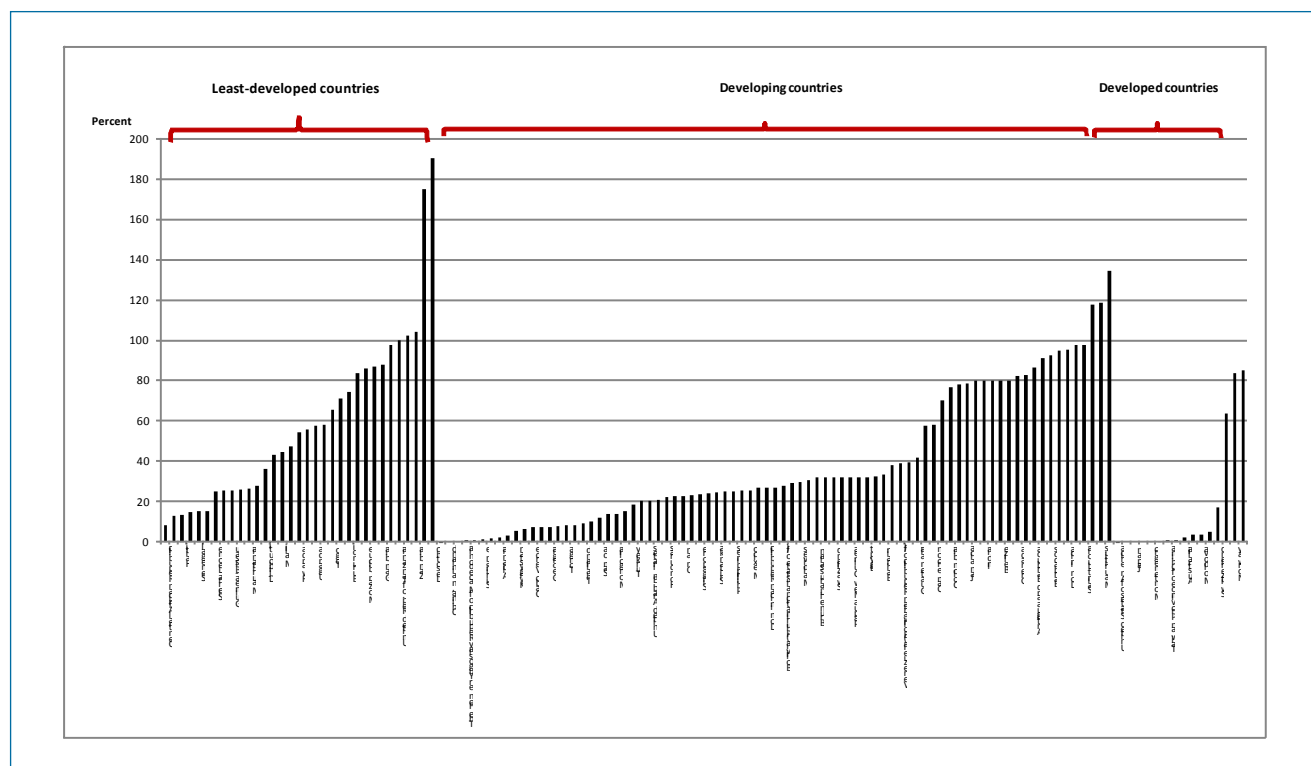
Table 1: Unweighted average tariff structures, by main country groups, 2013

	Average bound tariffs, %	Average applied tariffs, %	Average unused policy space, %
LDCs	74.5	15.1	59.3
Developing countries	52.9	14.8	38.1
Developed countries	35.7	16.7	19.0

Source: Own calculations based on WTO tariff data (WTO, 2015).

Note: Countries, areas and territories are classified according to socio-economic status rather than by their self-designated status in the WTO. WTO members included as developed on socio-economic grounds are Australia; Canada; China, Hong Kong SAR; China, Macao SAR, Taiwan Province of China, EU-28, Iceland, Israel, Japan, Republic of Korea, New Zealand, Norway, Singapore, Switzerland, United States of America. Least-developed countries are those defined by the United Nations. All other countries, including transition economies, are classified as developing.

Figure 1: Unused agricultural tariff policy space by country groups, percent, 2013



Source: Own calculations based on WTO tariff data (WTO, 2015).

applied average tariff in developing countries if fully used), 27 out of 33 LDCs and 56 out of 82 developing countries have unused tariff policy space greater than this threshold. Of those with less than 20 percent, 2 LDCs and 20 developing countries (including China,

Russian Federation and Ukraine) joined the WTO after 1995 as the result of an accession process where tougher obligations were required than of the original members.

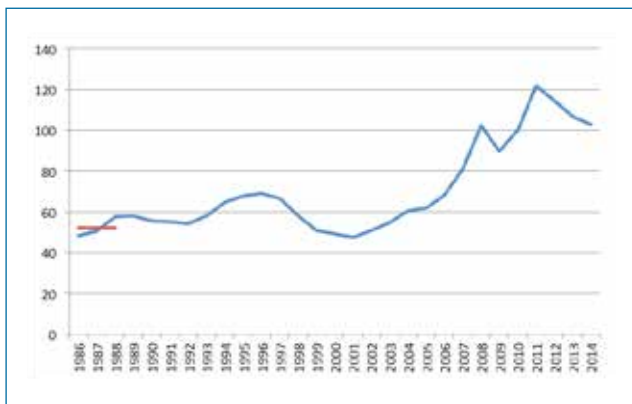
Policy space and domestic support

For developing countries, the most important element of the AoA domestic support provisions are the exemptions from any discipline or limitation of a broad range of policies which play an important role in enhancing their food security. These policies include green box policies, policies in the 'development box' (AoA, Article 6.2), as well as other trade-distorting policies up to the limit of their AMS ceiling(s). For most developing countries, this other trade-distorting support is limited to *de minimis* amounts under their AoA commitments. Most developing countries report no or minimal use of such support.

However, a number of emerging economies have been increasing their trade-distorting support particularly through the use of administered support prices. Here it is important to distinguish between the WTO measure of market price support and the economic concept of price support. The latter exists when domestic prices are higher than current world market prices, involving administered prices and border measures or both.² The AoA measure of market price support takes the difference between the administered support price and a fixed external reference price (FERP), taken as the average of import prices in the 1986-88 period, and multiplies this by the amount of eligible production to receive support. As long as world market prices stayed close to the 1986-88 base period level, this measure

² This is the concept behind the OECD's producer support estimate measure.

Figure 2: Trend in global agricultural commodities price index, USD, 2010 = 100



Source: World Bank Global Economic Monitor databank. The red line is the base period for the measurement of the market price support component of domestic support.

gave some scope to use administered prices but limited the amount of support (in the case of countries without a Bound Total Aggregate Measure of Support [BTAMS]) to the *de minimis* product AMS which for developing countries amounts to 10 percent of the value of production (8.5 percent in the case of China).

However, the interaction between the AoA formula for calculating market price support arising from the use of administered prices and the much increased level of world market prices now compared to the AoA base period in the mid-1980s makes it much more difficult for *de minimis* countries (which are mostly developing countries) to make effective use of administered prices. Many developing countries may breach their domestic support commitment even where their use of administered prices provides no economic support to their farmers because these prices are set at levels lower than current world market prices.

The current AoA rules have the benefit that they help to limit the negative spillover effects of domestic policies likely to distort trade, including for other developing countries. But the differential treatment of *de minimis* countries (which are mostly developing countries) compared to countries with a Bound Total AMS (15 developed and 17 developing countries as of early 2015) is hard to justify.³ Various proposals to address this differential treatment have been put forward, including increasing the *de minimis* limits for developing countries, allowing developing countries to explicitly account for domestic inflation in notifying their domestic support, or excluding market price support from the AMS calculation when it is linked to procurement for public stock-holding for food security purposes in developing countries. In the longer-run, it may be more sensible to bring the WTO definition of market price support more into line with the economic definition as part of the effort to craft a more sustainable set of rules in this area.

³ The more favourable treatment of BTAMS countries arises for two reasons. First, they have a single limit on their total trade-distorting domestic support and can shift this support among individual products without restriction. *De minimis* countries have separate limits on product-specific support for each product, on non-product-specific support and on their total AMS. Second, BTAMS countries are able to give a larger amount of support (in relation to the value of their agricultural production) than *de minimis* countries, simply because they happened to provide a larger amount of domestic support in the past.

Policy space and world market volatility

The third area examined is the impact of AoA rules on price volatility and the ability of developing countries to respond to this. The AoA contains a special safeguard provision allowing the use of a special agricultural safeguard (SSG) in certain circumstances. The SSG takes the form of an additional duty which can be triggered automatically when import volumes rise above a certain level, or if prices fall below a certain level. Unlike normal safeguards, it is not necessary to demonstrate that serious injury is being caused to the domestic industry. However, the SSG can only be used on products that were tariffed, and they can only be used if the government reserved the right to do so in its schedule of commitments on agriculture. Only a minority of developing countries have access to this automatic safeguard mechanism.

Developing countries have thus sought greater flexibilities in the Doha Round negotiations to use safeguards when faced with import volume surges or low world market prices. While the principle of a special safeguard mechanism for developing countries has been agreed, there has been controversy over the products which would be eligible, the conditions to be met to invoke the mechanism, and the remedies once the mechanism was invoked. As stabilising domestic prices in one country via import barriers further destabilises import prices for all others, including developing countries, the scope of this mechanism needs to have careful limits. The unused policy space

which many developing countries have in the form of tariff overhangs means that they in many cases have the possibility to vary their applied tariffs in situations where they deem safeguarding their domestic production capacity is justified on food security grounds. For some countries, the ability to raise applied tariffs may be restricted for non-WTO reasons, such as their membership of a regional trade agreement with a common customs tariff.

The 2008 and 2011 price spikes focused attention on the role of export restrictions in affecting the food security of importing developing countries. Currently, there are very soft disciplines on the use of export prohibitions on staple foods and none on the use of export taxes. Effectively, food exporters, including developing countries that want to make use of export restrictions to lower food prices for their domestic population, are not restricted by AoA rules in this area. However, for developing country importers, this leaves them at the mercy of arbitrary export restrictions by their trading partners and, as shown in the 2008 and 2011 price spikes, the lack of protection against such arbitrary interventions can be a severe threat to their food security. In this case, there is a strong developing country interest in limiting policy space. The lack of disciplines on export restrictions on foodstuffs is part of the unfinished business of the Uruguay Round, and strengthened disciplines should be an important objective for WTO members.

Conclusions

One lesson arising from the experience of operating under the AoA since its introduction is the importance of policy design. Fundamentally, WTO rules are not intended to restrict the policy objectives of its members with respect to food and agriculture, but rather to discipline the use of policy measures which have adverse spillover effects on other countries. It is often possible to pursue policy objectives with instruments which are not restricted under WTO disciplines. Green box policies and policies in the development box are fully available for use without restriction. Import protection up to bound tariff levels and other trade-

distorting domestic policies up to at least *de minimis* levels can be used by all countries subject to these restrictions.

For some developing countries, the major constraints arising from the AoA rules are the limits on market price support, the lack of access to a special safeguard mechanism and (a case of too much rather than too little policy space), the lack of effective disciplines on export restrictions. The emphasis given to the limits on developing countries' policy space in these three areas has shifted over time.

When the Doha Round negotiations began in 2001, the focus was on the need to maintain tariff protection particularly for products important for food security, livelihood security and rural development, and also as a means of responding to import surges and periods of unusually low world market prices. In the years since 2006 world market prices have significantly increased, and volatility has taken the form of periods of particularly high world market prices. This change in the world market price context has had important consequences for the way in which food security concerns are framed in the WTO negotiations.

On the one hand, with higher world market prices, there is less need for high tariff protection to support domestic production. On the other hand, domestic support commitments, which received limited attention when the mandate for the Doha Round was being negotiated, have turned out to be more binding than expected for some countries because of the doubling of world food prices (in nominal terms) in the years since 2006. When WTO members made the effort to agree a 'mini-package' at the Bali Ministerial Council in 2001, it was domestic support issues (in the form of the G-33 proposal to exempt purchases at administered prices for public stock-holding for food security purposes from the AMS discipline) which took centre-stage.

The Chair's proposed draft modalities for further agricultural trade liberalisation in 2008 was an ultimately unsuccessful attempt at finding an acceptable balance between the competing interests at play among the WTO membership. It was constructed on the basis of 'pre-2008' assumptions about the level and trend in global food prices. In the seven years since then, global food prices have moved to a different level, and the global pattern of agricultural support has also changed significantly. WTO members in Geneva are attempting to agree a clearly defined work programme on the remaining Doha Development Round issues before the next Ministerial Conference in Nairobi in December 2015.

In these negotiations, each country's starting position is to secure as much policy space for itself as possible. Yet all countries, especially developing countries, also have an interest in ensuring that there are effective disciplines on trade-distorting policies so that they can depend on a reliable world market when designing their food security strategies. For this reason, countries are willing to forego some of their policy space in designing WTO rules knowing that other countries are also accepting restrictions. Finding the appropriate and equitable balance to these competing objectives is the challenge facing WTO members in designing the work programme the run-up to the Nairobi meeting.

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