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WTO Breakthrough on Stockpiles: Sustaining Food Security

By Jonatan A Lassa and Maxim Shrestha

Synopsis

The recent WTO agreement, finally concluded after the resolution of an impasse on food stockholding, has been hailed as a landmark for international trade. The deal however also holds great significance for global food security. However, some important concerns remain.

Commentary

AFTER A year of uncertainty, the WTO trade deal emanating from the Bali Ministerial Meeting in December 2013 has finally come through. The deadlock was broken after the United States and India last month agreed on public stockholding for food security purposes. The agreement is seen as a victory for everyone as much as it is for the WTO in successfully concluding its first-ever pact in its 19-year history.

For the US and other WTO member states who originally blamed India for blocking the trade facilitation agreement (TFA) as a result of the stockpiling dispute, this can be seen as the second best outcome. For India this is the best possible result. The agreement now allows them to take control of their food security concerns - as regulated by their Food Security Act 2013 to ensure food access to at least 400 million poor citizens - as well as enjoy the potential benefits of the TFA.

Stockpiling as acceptable practice

Some have questioned, however, whether the WTO Agreement and its Bali Packages may collapse again as the 160 member states seek a permanent solution for the issue of public stockholding for food security purposes. But the WTO decision reached on 27 November 2014 means public stockholding of food for security purposes is now an acceptable practice.

The original concern behind the stockpiling policy was grounded on the fear that national stockpiles allocated for food security could leak to both domestic and international markets; this could then lead to serious trade distortions especially if member states were to dump excess stocks and cause prices to collapse, unintentionally or otherwise.

In theory, public stockholding for food security is still a necessary policy instrument for developing

countries where food production systems and supply chains are often volatile. However, there are serious potential perils (both politically and economically at the domestic level) should it be seen to have failed in fulfilling its duties. Countries with large populations and net food importing nations such as India, China, Indonesia, Philippines and Malaysia have a tendency to stockpile.

There are two main reasons for this. Firstly, policymakers in developing countries seem to have little faith in international food (particularly rice) markets, especially in times of crisis. This is largely because only a small supply of rice is traded in the international market (compared with other main foods) while past experience had shown that exporting countries could ban all exports, such as during the 2007/2008 food price crisis. Secondly, it is the natural human instinct to prefer physical stock which offers a sense of security.

Two scenarios on sustainable stockpiling

With the consensus on the TFA for food stockpiling, it is likely that net food importing countries as well those with large populations will use this new provision to increase their food stockholdings. Whether it is to subsidise food for their lower income population, boost farmer incomes, or stabilise market price volatility, developing countries facing food security concerns will now have an additional policy option without fear of facing prosecution. The question is to what extent countries should stockpile; this will now be an important and increasingly pressing question.

Trends after the 2007/08 food crisis, in Asia at least, suggest that importing and highly populated countries are likely to increase their public stockholding. This will have both short and long term consequences for food security, national economies as well as international trade. In the short-run we will see two likely and possible scenarios:

On the one hand, the boosting of national stockpiles will help to contribute to better food security outcomes in the countries. With greater control of physical food stocks, governments could use them to correct market failures, increase accessibility, availability and stability in food markets. This would go a long way to fight hunger and malnutrition which is still an everyday reality for close to a billion people worldwide.

On the other hand, greater stockpiling will give greater leeway for governments for even greater mismanagement and fraud. History shows that policies like stockpiling and public distribution are prone to corruption and moral hazards within governments.

Good governance and politicisation of food?

In the absence of good governance practice, such as transparency and anti-corruption measures especially in the developing world, systematic manipulation of quantity and other aspects of procurement, storage, and distribution, could easily lead to major financial as well as actual food losses. Such problems have been well documented in Southeast Asia and India in the past.

Huge public stockholding of food programmes requires equally huge financial resources which will heavily affect the fiscal capacity of the stockpiling countries. Should they choose the path of public stockholding, it is likely this will add to their already growing fiscal deficits. How governments should sustain food stockpiling policies and practices have to be addressed from the very beginning, if possible, to avoid potential problems in the long-run.

Lastly, and possibly most importantly, there is a serious risk that stockpiling policies could lead to an even greater politicisation of food security. This could potentially lead countries to fall into a vicious cycle of greater procurement and market intervention, which could dis-incentivise the private sector, leading to even greater justification for food procurement and intervention.

The end point of such a cycle would be the government itself emerging as the single largest trader of food. Moving forward, there should be more open discussions on how countries can improve transparency in their stockpile system and how to create sustainable food stockpiling practices.

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