



Note

Public Stockholding for Food Security Programmes: State of Play in the East African Community

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Summary

The issue of public stockholding for food security purposes has become an important issue for developing countries as well as LDCs due to increasing populations and climate change adversity coupled with food prices volatility on the global markets. This note analyses the state of play of such programmes in the East African Community, in order to support East African delegates' work at the WTO towards finding a permanent solution by 2019.

Introduction

For purposes of ensuring food security, governments may purchase crops and food products from local farmers and sell them (at subsidized rates) or distribute them free of charge to the poor and food insecure households during times of need. Such initiatives are referred to as public stockholding programmes for food security (PHF). The WTO Agreement on Agriculture (AOA) sets out conditions under which such programmes should be implemented so as not to be considered trade distorting, which are that:

- The volume and accumulation of such stocks shall correspond to predetermined targets related solely to food security
- The accumulation and disposal of stocks shall be financially transparent
- Food purchases by the government shall be made at current market prices and sales from food security stocks shall be made at no less than the current domestic market price for the product and quality in question.

Further, in the cases where food products procured for the stocks at administered prices, the given market price support (MPS) is perceived to be part of the “amber box subsidies”. Specifically, calculation of a products MPS is based on the difference between the administered price and the fixed external reference price (FERP) as well as the quantity of eligible production. In the WTO, most members mentioned FERP is based on the period 1986-1988. During that period food

prices were much lower, which has resulted in an over estimation of domestic support when comparing current prices at which governments purchase food products for the stocks with FERP of 1986-88.

In the case of WTO member countries with no Average Measure of Support (AMS), the AOA provides that the resulting amount of trade distorting support calculation must be within 10 percent of the value of production, referred to as *de minimis* level.

The above conditions in the AOA that were set during the Uruguay round of negotiations are presently considered limiting to certain countries/governments capacity to implement PHF programmes without being considered trade distorting.

Previously, most developing countries did not have PHF programmes in place since global food prices were low and stable. Overtime trends in the global food markets indicated scarcity of food products occasioned by *inter alia* decreasing agricultural productivity on the one hand and increasing demand for agricultural products in the international market¹, as well as the impacts of climate change that have contributed to severe global food crises. As a result, the issue of public stock holding for food security has been brought to the forefront of WTO negotiations with a mandate to find a permanent solution by the 12th WTO Ministerial Conference of 2019.

¹ Chaterjee/Murphy, Trade and Food Security

Developments on WTO Negotiations of PHF Programmes

The issue of PHF gained momentum towards the ninth Ministerial Conference (MC9) in Bali in 2013. Following the India proposal to make progress towards a permanent solution on PHF, members agreed on a peace clause which should offer protection to developing countries from legal challenges against potential breaching of their commitments under WTO rules when undertaking certain PHF programs until 2017. It is important to mention, that this legal protection only covers primary agricultural crops that are central in the traditional diet of the respective member administering the program, as well as applying only to programs which already existed as of the date of the Ministerial Decision in Bali. In 2014, the members agreed on a firmer formulation, clarifying that the peace clause mechanism would stay in place until a permanent solution is found.

To qualify for the interim mechanism, developing countries must have informed the Committee on Agriculture (COA) of a potential breaching of their Bound Total AMS or de minimis level for a specific food commodity, must not distort trade or affect the food security of other countries with their food stocks and must have fulfilled and continue to fulfil its domestic support notification requirements under the AOA.² Finally, the peace clause gave a mandate to members to agree on a permanent

solution by the eleventh Ministerial Meeting (MC11), however that deadline was not met and it was decided to extend it to the 12th Ministerial Conference of 2019.

An Overview of Proposals in the Negotiations

Since July 2017, proposals for a potential permanent solution on PHF have emerged. While the first proposal was submitted by the EU and Brazil, later, two others had followed from Indonesia, speaking on behalf of the G33 members³, and Russia and Paraguay, respectively. All the present proposals touch upon the issues of program, country and product coverage of PHF, safeguard and anti-circumvent measures, as well as notification and transparency.

Program, Country and Product Coverage

The proposals of the G33 initiative emphasise that PHF programs should give price support to local producers without such price support counting towards a product's AMS.⁴ Along these lines, proposal suggests the insertion of a new Annex 6 in the AOA, that allows for market price support by the government under PHF programs in both developing countries and LDCs, if they serve the following objectives: on the one hand, low-income and resource poor producers shall be supported. On the other hand, governments shall ensure that poor urban and rural inhabitants have 1) adequate access to

² Glauber, After Nairobi: Public Stockholding for Food Security, p. 74.

³ The G33 proposal was submitted without prejudice to the position of Pakistan.

⁴ Matthews, Food Security and WTO Domestic Support Disciplines post-Bali, p. 10.

food products at 2) constant prices. The criteria for PHF programs developed in Annex 6 cover both already existing and future programs.

Annex 6 does not put any additional restrictions on developing countries when arranging their stocks and allows the acquisition of *foodstuffs* under PHF programs, which would enable flexibility when selecting the products to be stocked.

Finally, the G33 proposal underlines that if the new protocol is pending entry into force, members shall not challenge developing country members through the WTO Dispute Settlement Mechanism if they do not comply with their obligations under the AOA.

Like the G33 proposal, the proposals submitted by Russia and Paraguay, as well as the EU and Brazil exempt LDCs from regulations on trade-distorting domestic support. However, the former states that the support supplied under PHF programs by any other developing Member is only covered by the proposal if the value of the stocks procured does not exceed X% of the average value of the production of that product in the three latest domestic support notifications. The Brazil/EU proposal determines this value to be 10 percent.

Additionally, both proposals state that only those PHF programs can enjoy exemption from a product's AMS calculations, that already existed at the time of MC9, have been respecting the requirements of the Bali Decision so far and only procure traditional staple food crops. Furthermore, the Russia/Paraguay proposal

preserves the legal protection from challenges through the WTO Dispute Settlement Mechanism for those PHF programs, which meet the criteria just mentioned.

Safeguard and anti-circumvention measures

Contrary to the G33 proposal, the EU/Brazil and the Russia/Paraguay proposals define several safeguard and anti-circumvention measures. The main rationale behind these measures is to “ensure that stocks procured under [PHF] programs do not distort trade or adversely affect the food security of other members”⁵, which is a key component of the AOA rules on PHF programs. Furthermore, both proposals add that “no direct exports from the stocks shall occur upon the release of products from the stocks”.⁶ The Russia/Paraguay proposal is the strictest of the examined proposals about.

Most importantly, the proposal suggests that every member must be in full compliance with its notifications on the respective PHF to the COA within a tightly-set timeframe (90 days after each fiscal or calendar year) to benefit from the legal protection. Moreover, a limit in annual export increase of a product to a PHF program is set, the previous year's export being the reference period; if a country's export of a product procured under a PHF program exceeds this limit, the protection of PHF programs from legal challenges shall not be provided.

Furthermore, article 4.f in the Russia/Paraguay proposal states that if a developing country accounts for five percent or more of the global

⁵ Proposal on Domestic Support, Public Stockholding for Food Security Purposes and Cotton by Brazil and EU, July 2017.

⁶ Proposal by the Russian Federation and Paraguay on Public Stockholding for Food Security Purposes, October 2017.

export share of a product procured under PHF programs, the protection from legal challenges for this product will not be provided. Also, that applied tariffs for the products procured under PHF shall not exceed a still undefined percentage of the average applied tariffs in the period of 2013-17.

Notifications and Transparency

Across all proposals, there is a demand for developing countries and LDCs arranging PHF programs for different food products to notify the COA about all their arranged and maintained PHF programs in intervals of one year. These notifications shall include comprehensive statistical information on purchases and releases of the program (prices, volumes).

While the G33 proposal does not give any additional requirements on notifications and transparency, the other two proposals state explicitly that the COA shall oversee the developing countries' compliance with the rules on PHF programs. Additionally, they require that members notify the COA of the value of production and acquired stocks of products concerned under a PHF program *prior* to its implementation.

Moreover, the EU/Brazil proposal demands that members commit themselves to join annual dedicated discussions on PHF programs. The same holds true for the Russia/Paraguay proposal that requests any developing country benefitting from the proposed permanent solution on PHF programs to hold consultations with other members that are potentially affected by the operation of its PHF programs.

PHF Programmes: State of Play in the East African Community

Burundi

- Government has adopted several measures to address food security, which include: laws, tax breaks and customs duty exemptions on staple food such as cassava, maize and rice.
- In the last six years a budget line was included for constitution of a strategic stock for food security programme. However, funding has been decreasing from BIF 2 billion in 2012 to BIF 360 million in 2018
- Recently the government set up a dedicated agency to manage the strategic stock for food security (Decree No. 100/047) i.e. Agence Nationale de Gestion du Stock de Securite Alimentaire (ANAGESSA)
- Main food products stocked are cereals (rice and maize), beans, vegetables and cassava
- Purchase of stocks is through public procurement contracts between traders and the Ministry in charge of agriculture
- Although the objective is to procure from local farmers, production is often not sufficient to provide the necessary stocks, therefore suppliers can import the necessary food stuffs from neighbouring countries.

Kenya

- Ministry of Agriculture has in place a PHF programme that is implemented through

the National Cereals and Produce Board (NCPB)

- Through the PHF programme, Government strives to maintain at least 2.4 million bags of maize in its strategic reserves as well as a cash equivalent of 1 million additional bags of maize
- Food products in the strategic reserves include maize, beans and powdered milk. Holdings in the recent past were as follows:

Table 1: Strategic Food Reserve Stocks

Year	Maize (90kg bags)	Rice (MT)	Powdered milk
2013/14	1,020,000	98,120	0
2014/15	1,550,000	52,100	0
2015/16	497,000	14,200	2,330
2016/17	988,000	0	5,000
2017/18	3,230,000	0	3,190

Source: State Department of Agriculture

- Purchase price of the food stocks is determined by the farmers cost of production and mark-up
- Government engages consultants to estimate the cost of production by sampling farmers across the country; while the mark-up is determined by considering factors such as crop diseases, pests, adversity of weather conditions etc.
- Disposal of stocks is through the Strategic Food Reserves Board (SFB), which is constituted by several agencies: National Treasury, Ministry of Agriculture, NCPB, and Ministry of Devolution

- Purchases are made strictly from local farmers after a vetting process
- Presently, there is no tracking system on SFR reserves sold on the market.

Rwanda

- Although there are several government policies regarding food security and improvement of productivity (such as the crop intensification programme), there is no specific PHF policy or programme in place
- Presently, most government programmes in relation to food security are aimed at assisting farmers with post harvest handling and storage of harvests
- Government makes adhoc interventions in times of need, for instance when there is a natural disaster government buys food (on the existing market price) from farmers/ cooperatives, etc and then distributes it for free.
- According to MINAGRI's website; "157 drying grounds, 42 warehouses and 4 metallic silos have been constructed across the country with a total storage capacity of 134,110 MT." All in all, it should be noted that these are not Public Stockholding initiatives per se but rather serve more as food storage facilities where private individuals can keep their produce and take it away later or the government can purchase it and give it away as food aid to the vulnerable groups like refugees or victims of natural disasters.

Tanzania

- There is a PHF programme which is implemented by the National Food Reserve Agency
- The PHF programme is also used to regulate fluctuation of food prices in the local market
- As in most of EAC, maize is the main staple grain consumed by majority of population and hence the main food crop in the PHF programme
- Purchase price is determined by the previous year's purchase price adjusted to prevailing market prices
- There is a monitoring system through which a needs assessment is made to determine volume of purchases, distribution, as well as production levels. These are conducted at different levels starting from the Districts up to the Ministry level.

Table 2: Food Stocks Held by National Food Reserve Agency

Period	Tones				
	2013	2014	2015	2016	2017
Jan	72,170	235,309	459,561	125,668	86,834
Feb	60,739	228,014	454,592	88,414	
Mar	46,153	214,157	452,054	68,727	
Apr	36,982	195,246	433,547	64,825	
May	26,802	195,956	406,846	63,341	
June	27,494	189,494	353,702	61,838	
July	71,141	182,200	282,401	49,632	
Aug	175,609	196,854	268,515	59,832	
Sept	224,295	299,624	265,046	86,545	
Oct	235,817	426,999	253,655	90,905	
Nov	234,145	460,295	238,134	90,900	
Dec	232,963	466,583	180,746	90,800	

Source: Bank of Tanzania (BoT)

Uganda

- Like Rwanda, presently Uganda has no specific PHF policy or programme in place.
- In the past government maintained PHF programmes but these were done away with the adoption of the World Bank/IMF Structural Adjustment Programmes that withdrew government intervention in the market economy
- In times of acute famine government provides funds for purchase of relief food from the open market
- In the last famine of 2017 government committed about USD6.8 million for relief food, which procured approximately 1,600 metric tonnes of maize flour and 1400 metric tonnes of beans
- Although the national Constitution mandates the government to establish a

national food reserve, this provision is yet to be implemented

- The major hindrance to a PHF programme has been the limited budgetary allocation to the Agriculture Sector that remains at about 4 percent of the budget, which is not sufficient to prioritise a PHF programme

Nevertheless, the need for a PHF programme exists especially considering climate change impacts on the agriculture sector that are seriously affected food production as witnessed by frequent famine episodes in the country.

Conclusion

All in all, the issue of public stock holding for food security purposes has become a very critical issue for developing countries as well as LDCs due to increasing populations and climate change adversity coupled with food prices volatility on the global markets, amongst other factors. Although only two of the EAC members presently implement PHF programmes, the need for similar programmes is manifest in the other member countries.

A permanent solution to the PHF issue should therefore take into account the specific needs of countries that do not already have programmes in place due to resource constraints, but will definitely need the policy option to address their food security needs.



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