

The upcoming World Trade Organization (WTO) summit in Bali has attracted considerable attention in India because of its repercussions on our food policy. It is feared that the recently passed food security law will breach the negotiated limits on the Aggregate Measure of Support (AMS) to farmers. The AMS is calculated as the product of the quantity procured multiplied by the difference between the procurement price and a fixed external price derived from world prices during 1986-88 and it is limited to 10% of agricultural output. The G-33 group of developing countries proposed that procurement from poor farmers should be exempt from this bound. Another proposal suggested that the benchmark level of 1986-88 be updated to take into account inflation.

The developed countries led by the United States have not agreed to these proposals. Reports suggest that India is now open to asking for an exemption via a 'peace clause' which offers a temporary reprieve from violations of the WTO limits. It is also suggested that the developed countries would take advantage of India's desperation and insist on agreement on trade facilitation to press their interests.

Some media commentators in India have criticised the government for the hurried passage of the food security act without regard to its bargaining position in trade talks. Others have denounced the government for departing from the G33 line and putting farmer's livelihoods at risk.

It is, however, incorrect to argue that the NFSA is responsible for 'weakening' India's position in the WTO. Contrary to popular perception, the NFSA doesn't increase the PDS grain supply substantially. NFSA has increased the coverage of PDS but by reducing the existing per capita supply. India's present position in the WTO is a consequence of a chronic problem in its domestic food policy that lopsidedly concentrates its scarce resources on a select few crops. This is inefficient and harms the interests of poor Indians. As we shall explain, India ought to take a more principled position that is consistent with its domestic interests and that is also acceptable as 'non-distortionary' by its trade partners.

The first point to note is that if food subsidies were offered as direct transfers to beneficiary households, then that does not qualify as producer support and is therefore not subject to WTO discipline. In a procurement model, the government takes on the functions of trader – buying grain from farmers and selling them to consumers. As long as the government just buys enough to supply the public distribution system, it will have the same price effects as the direct transfer model. So a zero storage model (with public procurement) is as non-distortionary as a direct transfer subsidy. Positive stocks (and this refers to annual stocks carried over years rather than seasonal storage) would however impact prices. Indeed, in WTO discussions, it is India's stockpile which is perceived as a threat to the stability of the international grain market.

The unpredictability of nature and the lack of depth in international grain trade leaves poor countries vulnerable to sharp price spikes. There is therefore a strong argument for governments to maintain public stocks as emergency reserves. An upper bound of 15-20% of production (35-

40 million tons in the Indian case) offers sufficient insurance. India's proposal to the WTO would be conceptually strong if it sought exemption of emergency reserves from AMS. Stocks above this level would be subject to the usual bounds. Not only could such a proposal secure world trade from excessive distortions, it would also be in India's own interest.

As of November 2013, India's food stocks were 51 million tons far in excess of the official norm of about 20-25 million tons. The level of MSP (Minimum Support Price) for wheat and rice, the quantity of their procurement and the resulting stocks all depend on the complex interplay between the lobbying power of the farmers in the green revolution belt and the government's need to procure for the PDS. A cursory look at the data reveals that the MSPs for these grains have risen steeply during last decade. We also see that since the early 1990s, procurement has consistently exceeded PDS sales. That is why there have been recurrent crises of excess stocks. This will happen in the future as well unless the structure of procurement is reformed.

Such policies are extremely costly. The mountain of grain in our godowns have hurt the poor by sucking out supply and increasing market prices. Repeated hikes in MSP without regard to existing stock levels have locked the country's resources disproportionately in grain production at the cost of other foods such as pulses, vegetables and fruits. This has also distorted the domestic grain market by displacing local coarse cereals produced by the poorest of farmers.

It is clear that these policies cannot be carried on indefinitely. Domestic reforms such as limits on procurement, unbundling procurement for reserves from procurement for PDS and the judicious use of cash transfers can help in making our food policy sustainable. We might as well use the imperative to discipline our procurement and storage policies to secure a deal in the WTO that safeguards the NFSA.

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