

POLICY BRIEF

A summary for decision making of key research findings

Oman-WTO chair highlights

Trade - policy and food security



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Marine Sciences
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Resource Economics



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SQU WTO Chair

The WTO Chair Program (WCP) at Sultan Qaboos University is part of a network of 20 other chairs around the globe awarded by the World Trade Organisation to academic institutions through a competitive process. The program overall aim is to enhance knowledge and understanding of the multilateral trading system among academicians and policy makers and build country and regional capacities in WTO-trade related issues. Beneficiary chairs receive funding up to 50000 SF per year over a cycle of 4 years (2014-2018) to support research, curriculum development, and outreach activities. At Sultan Qaboos University, the Research component of the program focused on food security but also on WTO related issues such as trade facilitation, region trade integration, export promotion and general development issues. The outreach component focused on training government officials in the MENA region on acquiring better understanding of the trade rules and regulations as stipulated by WTO trade agreements while the curriculum development consolidated teaching through regular department trade courses as well short courses emphasizing conceptual and practical topics in international trade.

WTO and Food Security

Since the creation of WTO, agricultural trade was subjected to multilateral trade rules that are stipulated in the "Agreement on Agriculture" (AoA) to which all member' countries are committed. This has limited to some degrees the policy space of member countries to take their own measures to enhance food security,

including domestic support to increase agricultural production. The AOA has categorized domestic support into what is "allowed" called Green box support and what is not allowed designated by Amber box support policies. The green box includes all agricultural policies that have a minimum distorting effect on trade and therefore countries can provide this support to their farmers without limit whereas the Amber box includes policies that distorts trade and therefore cannot be used or should be gradually eliminated. The latter includes price support policies that many countries use in order to build public food storage (public stockholding) for food security purposes (wheat and rice).

Under WTO regime, Public stockholding has specific rules (Annex 2, paragraph 3 of the AoA). Expenditure related to public stockholding is categorized as green box support provided that the government procures food stocks at market prices and sells these stocks at a price not below the current market price. However, in most developing countries, the government procures food stocks at administered prices and not the current market price. In such case The AoA stipulates that if stocks are acquired and released at administered prices, the difference between the acquisition price and the External Reference Price (ERP) should be accounted for in the Amber box. By doing so, developing countries found themselves breaching their WTO commitments of not providing product specific support that exceeds the *de minimis* (5% of the production value). This issue is at the heart of the current negotiations/debate at WTO where developing countries are pushing the negotiations toward switching product specific support for food security purposes from the Amber to the Green box.

Key messages

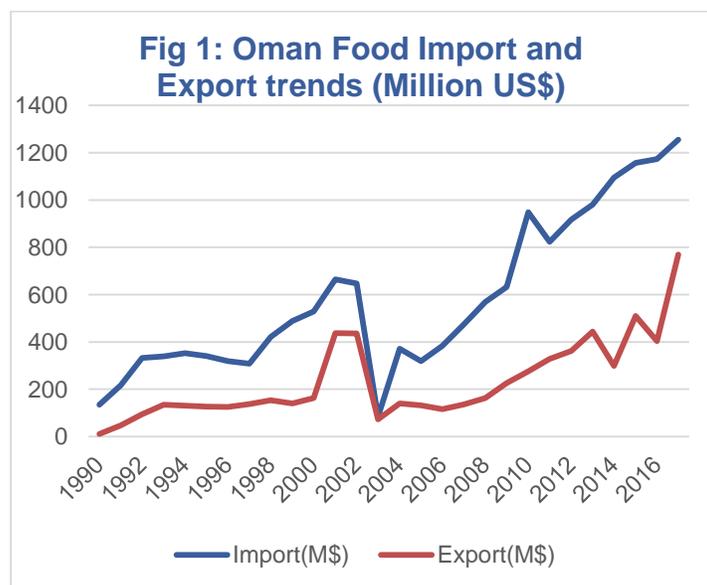
1. *Despite its small agricultural base, Oman is considered among the top food secure countries in the region thanks to its open trade policies, sufficient strategic food stocks and extensive safety net programmes.*
2. *Building resilience to external economic shocks requires efficient food reserve management, targeted food and energy subsidies and market-based price stabilizing policies.*
3. *Cost effective strategic grain reserves (SGR) implies building the stocks during the time when the global stock-to use ratios (publically available information) are low.*
4. *The use of market-based financial risk management tools such as futures and options by Oman would reduce the impact of price volatility and help manage the imports of wheat and rice.*
5. *Price surges during food crises affect all households but rural households are more affected than urban households requiring different compensation schemes ((13% against 10% compensation respectively).*
6. *Income and its distribution in addition to price changes are major factors in determining household food security. Changes in income and its distribution can mitigate the impact of food price surges on Omani households by 13.5%. It was estimated that changes in income through targeted government transfers of 50.680 OR per month per household would eliminate food insecurity for a change in price by 22%.*
7. *This scenario of relatively high food prices to low fuel prices, would*

- adversely impact poverty and food security in Oman, requiring subsidy reforms and the design of appropriate safety net measures. It is estimated that an increase of fuel prices by 33% increases poverty incidence by 1%.*
8. *Although Oman is well ranked in terms of the global food security index (38/112), its ranking is relatively poorer if we consider the climate-change food security risk factor (88/112). Climate risk calls for policy commitments to climate change adaptation.*
9. *Trade will remain a significant component of food security but building resilience to climate change and global price variability requires also an efficient domestic food system that relies less on natural resources and more on human ingenuity and innovation.*
10. *Although Oman public expenditure on agricultural research and development (6% of GDP) is much higher than world average (1%) the performance of the research-innovation system is sub-optimal. This is because of the lack of bridging institutions between research findings into social and economic use.*
11. *WTO has classified public investments in strengthening the research innovation system, climate change adaptation, soil conservation and other environmental concerns as Green box policies, and therefore benefit from the potential offered by development funding agencies and international partnerships to support initiatives to implement food security strategies.*

Background: Oman and Food Security

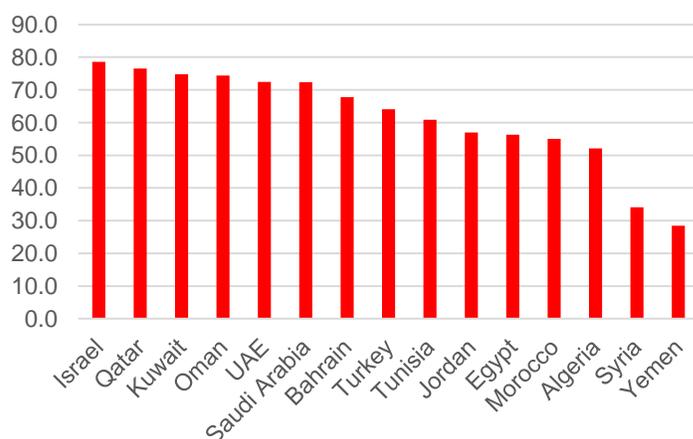
Oman has for long maintained a state of trade-based food security, relying heavily on international markets to meet its food needs. The limited resources, particularly land and water, have constrained the country concerted effort to increase domestic production and contain the food deficit gap. Driven by population and income growth, food imports have increased in the last two decades from about US\$ 135 Million to \$1255 Million, widening the food trade deficit (Fig 1).

However, despite its small agricultural base, Oman is considered among the top food secure countries in the region and ranked 29 worldwide, as indicated by 2018 Global Food Security index (Fig 2). A successful trade policy, along with the presence of sufficient food storage capacities and food safety net programmes have been the main drivers behind this relatively good food security performance.



Source: World Bank-WITS, 2019

Fig 2: Global Food Security Index



Source: The Economist Intelligence Unit. <https://foodsecurityindex.eiu.com/>

However, the heavy dependence on food imports leaves the country vulnerable to supply chain disruption and global markets instability. The global food crisis of 2018 exemplified this threat where Oman and other GCC countries experienced one of the highest food inflation rates in the last 20 years. This has called for quite costly emergency policy actions by governments to attenuate the impact of high food prices.

Although, open trade contributes to food security by providing a buffer against regional supply shortfalls, it needs to be complemented by other trade and non-trade policies in order to build up a resilient food system, particularly in the face of exporting countries policy shifts (bans), developed countries protectionism, and climate change.

Research conducted at the department of natural resource economics and the WTO Chair has focused on various dimensions of food security in Oman. More specifically, the department work on food security included welfare analysis of food crises, future commodity markets and price stability, subsidies and cash transfers, income distribution and food security, regional trade and food security.

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