

World Food Crisis: Are Trade Rules a Problem or a Way Forward?¹

Introduction

While food prices have always been volatile, the increases of 2006-2007 were of a magnitude last seen in the 1970s. Prices have risen due to a number of both cyclical and structural factors – including autonomous policy adjustments in rich countries – whose combined effect has led to an upward price spiral especially in poor countries. The recent decreases in oil and food price will not change the fundamental nature of the food crisis. **It seems very likely that we have come to the end of cheap food – catching many countries off-guard, and so far without a response from the multilateral trading system.**

Rich countries at fault?

Production and trade-distorting agricultural policies contribute to the present food crisis. For decades, taxpayers in rich countries have subsidised farm production. Dumping surpluses on the world market benefited poor consumers, but many producers not receiving subsidies were unable to compete. As a result, self-sufficiency rates in developing countries declined, and urban consumers became “addicted” to imported staple food, often in the form of food aid. When the fundamentals turned, export subsidies and price support in Organisation for Economic Co-operation and Development (OECD) countries were reduced or abolished. While dumping thus largely ended, this created new problems for the hungry poor. For example, in 2007 international food aid volumes reached a historically low level – perhaps the most cynical proof of the non-genuine nature of previous forms and levels of aid. In addition, even rich countries reduced applied import duties, thus increasing the competition for whatever food was still for sale on world markets. The production of biofuels from staple food crops boomed thanks to subsidies estimated at US\$7bn in the US and €3.5bn in the European Union (EU). These subsidies are clearly trade-distorting, especially since there were no reductions in ethanol import duties (averaging 25%). Against this background, the World Bank President’s call in January 2007 for immediate additional food aid, to the tune of US\$500m, appears not only as a drop in the ocean of dire needs, but as a rather blunt acknowledgement of agricultural trade policy and development programme failures over several decades. Moreover, agricultural research & development in developing countries has been lagging far behind developed countries, a fact which is, as some argue, creating ‘scientific apartheid’. For instance, total public spending on agricultural research and development (R&D) in Africa increased from US\$ 1.37 billion in 1991 to US\$ 1.46 billion in 2000, a year-on growth of less than 1%. Even such a low level of growth was mainly due to the efforts of a few countries such as South Africa, without which the total level of R&D spending would have declined significantly. In other words, donor spending on agricultural R&D in poor countries has declined just as the overall level of Overseas Development Assistance (ODA) in agriculture. It is no surprise that after decades of artificially depressed world market prices and declining ODA and R&D for agriculture, poor developing country farmers now lack capital and know-how to respond to higher food prices.

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Net-Food Importing Developing Countries (NFIDCs) are disproportionately affected

1. **Food riots.** Food is available, but millions are without purchasing power. High food prices leave many without the means to satisfy other essential needs (health, housing, schools). Estimates suggest that up to 105 million people could fall below the \$1/day poverty line due to rising food prices alone. Almost seven years of progress in poverty reduction appear to have been lost. It could very well be that the attainment of all Millennium Development Goals is compromised by the food crisis. Policy responses will need to go beyond food aid in the short term to promote stronger agricultural growth.
2. **Fiscal capacity.** Governments will need to provide safety nets, such as cash vouchers and subsidised food, to help poor households afford adequate nutrition. But many of the NFIDCs that are most vulnerable to price spikes or supply disruptions also have limited capacity to respond – especially where they already forego revenue from reduced import duties on staple food.
3. **Good news for the rural poor?** Because about seventy-five percent of the world's poor live in rural areas where agriculture is the main economic activity, one might assume that rising food prices would tend to alleviate poverty, because price hikes – if passed back to the farm – tend to favour the producer. However, the complexity of the situation does not allow for such a straightforward conclusion. Firstly, even in rural areas most households are net consumers of food and now have to pay more for their food. Secondly, many small farmers lack the financial, technical and land resources required to increase production. Thirdly, looking at rural areas only, the poorest of the poor tend to be landless agricultural labourers who are usually net food buyers. Finally, a substantial proportion of rural households does not sell or buy big amounts so they are somewhat disconnected from price trends; for them, the food crisis implies a continuation of life at subsistence levels. As pointed out above, after decades of neglect the supply-side constraints in poor countries cannot be overcome easily.

Policy responses

It is generally agreed that the current level of agricultural output in developing countries has to increase, and that the main responsibility for that lies at the national policy level. Experiences in different countries such as China, Vietnam and Thailand have shown that with the right domestic policy tools, effective resource allocation and investment strategy, millions of people could be lifted out of both poverty and malnutrition. This has not been the case in much of Africa. Hence, some have called for a “new Green Revolution” which looks more difficult to achieve now, given that pressure on water and land resources has in many cases already gone beyond what is sustainable. The challenge is even bigger due to the potential impact of climate change which will severely affect agriculture in the majority of developing countries. Hence there is a need for a new Green Revolution in countries suffering from food insecurity, but it needs to be “greener” than the Green Revolution.

As such, the substantial part of the problem needs to be addressed outside the WTO. However this does not mean that WTO does not have “policy homework” to do. It can play a role through its Enhanced Integrated Framework and Aid for Trade programmes which could help poor Members to improve their domestic capacities. But more importantly, through the Doha Development Agenda (DDA), it could provide a more conducive framework for international trading system to tackle the present and future food security challenges. Hence the rest of this discussion paper analyses the benefits and shortcomings of the Uruguay Round, and examines the contribution that the Doha Round results might make to more sustainable food security.

1. The Uruguay Round Provisions and Food Security

The Agreement on Agriculture (AoA) attempts to establish “a fair and market-oriented agricultural trading system” through “substantial progressive reduction in agricultural support and protection”. As a result of the Uruguay Round negotiations, the AoA brought some minor food security improvements in each of its three main pillars: market access increases, cuts in subsidies for domestic producers, and reductions in export subsidies.

No substantial improvements in Market Access. Many developing countries derive substantial earnings from agricultural exports. Their food security grows with increased market access for their cash crops. In this sense, the benefits these countries derived from the Uruguay Round appear to be rather limited, because despite tariffication the bound level of import protection for agriculture remains high. It is true that some developing countries were able to increase agricultural exports. But except through some ‘voluntary’ tariff preferences developed countries have not significantly facilitated access to their markets in a way that could have boosted agricultural production and export-financed food security in developing countries. Finally, the Uruguay Round brought no changes for import-sensitive production in developing countries, since the Special Agricultural Safeguard (SSG) to protect against excessive price fluctuations and import surges is used by only a few, mainly developed countries (and has been prone to abuse in some countries).

Domestic subsidies not strongly disciplined. Domestic price-support has the effect of inducing greater supply than market prices would warrant and allowing excess production to be sold on world markets at prices below production costs. This has reduced global food prices over recent decades allowing net food importing countries access to cheap food. However, it has hurt farmers in developing countries who cannot compete with subsidized exports in global markets. For subsistence and small scale farmers, it has displaced or lowered prices for their output in their domestic markets, thereby driving them off the land or into poverty. The Uruguay Round results have changed little if anything. A 20% global reduction of price-support measures from historically high levels has not abolished the possibilities for surplus dumping on world markets and in NFIDCs. So-called *de minimis* support programmes as well as payments provided under production-limiting programmes (Blue Box) were even exempted from the reduction commitments.

Export subsidy and international food aid reductions exacerbate food insecurity. New export subsidy disciplines were a major achievement of the Uruguay Round – but in times of high food prices they are a blunt instrument for food security improvements. However, it is well-known that food aid in-kind, when sold on local markets with some purchasing power, often has negative effects, by displacing production or depressing prices. Still worse, when food aid was reduced to its lowest level ever (2007), in parallel with an unprecedented world market price increase, it showed its truly vicious face as an instrument first and foremost for surplus disposal, rather than for the fight against hunger and starvation.

The Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Process on Least-Developed and Net-Food-Importing Developing Countries: A missed opportunity, or a useless piece of paper? The rules in the AoA were supposed to be accompanied by mitigating measures for mitigating the negative impacts of trade liberalisation. The Marrakesh Decision itself recognises that the implementation of the reform package in agriculture may have negative effects on the ability of NFIDC’s to finance normal levels of commercial imports of basic foodstuffs and that appropriate compensation measures should be established. The Decision listed four possible response mechanisms: food aid, short-term financing of normal levels of commercial imports, favourable terms for agricultural export credits, and financial assistance to improve agricultural productivity and infrastructure. Some argue that if properly implemented, the Decision might have provided relief to the countries now affected. But no concrete measures were decided upon, perhaps because the causality link between changes in world trade and food security, and the usefulness of these measures, could not be established.

2. Would the Doha Round results, as currently envisaged, increase or decrease food security? What are the implications of the failure to conclude in July 2008?

A Doha Round settlement would have no short-term impact on food prices and production. Tariff changes and other rules of a final deal would not begin to take effect until several years after the agreement has been concluded, ratified by Members and has entered into force. The implications of the DDA for food security very much depend on future market conditions. However, on the assumption that the fundamental parameters of the present food crisis will not change substantially, it is possible to assess the results on the table in July 2008 for their medium- and long-term implications, in other words for a better-functioning international trading system that helps to avoid the recurrence of such types of crises in the future.

Of course, the higher farm prices that will induce more production and improve farm revenue imply more expensive food for consumers. The consequences of trade liberalisation for consumers and producers in poor countries may thus be detrimental for the former and beneficial for the latter. They could even be positive for both, if local productivity picks up thanks to less dumping from abroad. But in a worst-case scenario they could be bad for both, in particular if more competitive farmers in other countries displace small farmers in NFIDCs without adequate supply response capacity. Clearly, more country-based research is needed to obtain a satisfactory answer to this important question.

Meanwhile, it is possible to draw some general, although preliminary, conclusions for the food security impact of the different negotiation results which appeared “doable” in July 2008 before the talks broke down.

Market Access too early to assess

1. **Most-favoured-nation (MFN) tariff cuts** are easier to agree when applied rates are low as at present. They reduce the burden on consumers in both developed and developing countries. Generally speaking, food security is likely to increase when markets are more fluid, because at least those consumers with some purchasing power can more easily obtain the cheapest available food. As for the food producers, the reform processes will influence their response capacity. In this context, the future border protection in NFIDCs plays a very important role.
2. Both developing and developed countries will be able to designate **Sensitive Products** for which tariff cuts will be more lenient than required by the formula, but accompanied by a tariff rate-quota increase. This formula implies a reduction of trade liberalisation benefits. But it also protects less competitive domestic producers. This might be considered to increase domestic food security in the short term; however, it also inhibits structural reform in the existing production systems, the inefficiencies of which cause food security problems in the first place.
3. **Special Products** will be self-designated by a developing country as being particularly important to its overall development because of their significant role in enhancing food security, livelihood security and rural development. These products will be exempted from the full extent of any tariff reductions agreed to in the Doha Round. Again, local producer security would increase, but their lack of international competitiveness will have to be paid for by local consumers.
4. Developing countries will also gain recourse to a **Special Safeguard Mechanism (SSM)** based on import quantity and price triggers to protect them against price slumps and import surges. At the WTO Mini-Ministerial in July 2008 no agreement could be reached on the trigger and the extent to which developing countries would be able to raise tariffs to protect farmers from import surges. The food security implications will be the same as for the Special Products, inasmuch consumer prices will increase to the extent of foreclosure from foreign competition.

A mixed bag of results in Domestic Support

1. Reducing **agricultural producer support** will increase food prices in the short run, but this is a necessary correction to global agricultural market distortions and an essential part of any Doha results if developing countries are to improve their agricultural sectors based on less distorted market signals. However, given that the domestic support levels presently applied in most countries are very low, the impact on world food prices, at least if the Doha Round is concluded while commodity prices are high, is likely to be small. In the medium- and long-term, disciplining rich country farm support will allow poor countries to compete on a more level playing field and thus increase domestic food supply.
2. Green Box disciplines in the existing AoA on **Public Stockholding for Food Security Purposes** might be relaxed, making the conditions for stockholding and related public food distribution programmes less stringent. Regional schemes co-financed by developed countries like Japan may add to overall food security.
3. However, the present Draft Modalities also contain several **systemic flaws**.
 - a. They propose **product-specific support caps** – but only at historical levels. This means that producers in developing countries without such support would still suffer from the present possibility of concentrating support on certain commodities, including for commodities serving as the staple food in their countries, such as rice or maize.
 - b. Existing WTO disciplines governing **production of and trade in biofuels** are not clear and leave considerable room for ambiguity and incoherence in policy responses by WTO Members. The Draft Modalities on the table do not address this issue which is definitely having a negative impact on food security. Whether or not part of the DDA, from a food security perspective disciplines on biofuels are clearly needed. Doha Round results could contribute by prohibiting price support in rich countries at least for staple food crops and their substitutes.
 - c. From a food security perspective **a simple shift to production-limiting or decoupled direct payments will not help**. Because farmers in rich countries with taxpayer support – even if fully Green Box-compatible – will still depress world food prices, including for staple food production in poor countries.

Serious shortcomings from future disciplines in Export Competition

1. **Export subsidies** would be eliminated by 2013 (later for developing countries). New disciplines on **export credit guarantees and insurances**, and **exporting state trading enterprises** are likely to have the same positive but long-term impact on food security as domestic support reductions. This being said, negotiators especially from NFIDCs will be well advised to carefully analyse these proposals from a long-term food security perspective. Looking at dwindling export competition measures in times of high prices they may reconsider their present taste for subsidised food imports.
2. With regard to **international food aid**, the Draft Modalities of 10 July 2008 (re-)broaden the scope for food aid monetisation that is potentially distorting local markets and depressing food prices (including a larger “safe box” for emergencies). Food security for the hungry may thus increase – but if such food aid also reaches consumers with the means to purchase food, the Doha Round results will come at the expense of market-based incentives for local producers.
3. As for the **level of food aid**, the proposed modalities are particularly disappointing, even considering that WTO can not be an aid organisation. Nevertheless, especially when contemplating the negative correlation between high world market prices and food aid volumes, the envisaged “commitment to maintain an adequate level of international food aid” (cf. Annex L para 1) can hardly be called a serious proposal to ensure the right to food for the truly needy.
4. The Draft Modalities proposals for a new type of **international commodity agreements** (cf. paras 92–99) appear to be equally unhelpful from a global and long-term food security perspective. Not only do they smack of export cartels, they could also lead to new attempts to drive up consumer prices without giving producers the appropriate incentives to increase production.

Export Prohibitions and Restrictions and Differential Export Taxes – the gaping hole

Most economists agree that export restrictions of all kinds reduce food security because they discourage local producers and increase world market prices. The political problem here is that when facing a food riot, no Minister seeking reelection will leave exports unrestricted. The July 10 Draft Modalities propose only a few procedural improvements for the present disciplines in Article XI:2(a) of GATT 1994: notification of new restrictions, and an attempt to limit the duration of new export restrictions to 12 months, or up to 18 months if affected importing countries were to agree. However, there is *no* proposal for differential export taxes, and no substantive discipline on the right of exporters to restrict their exports. In the face of the present food crisis the argument that the Doha negotiating mandate does not allow for such disciplines appears rather cynical. The fact that the African Group, invoking its need for “policy space”, refused a proposal from Switzerland and Japan to discipline export restrictions demonstrates that more analyses and consultations are needed for a meaningful result to be obtained in terms of food security.

Under export restrictions, food security for domestic consumers may increase, but it is likely to substantially decrease for consumers dependent on food available on the world market. **A failure to discipline export restrictions would be particularly damaging when trade liberalisation increases competition on domestic markets.**

3. Summary Assessment of the Doha Proposals

The collapse of the WTO Ministerial Meeting in July 2008 represents, besides many other problems, a **missed opportunity** to take the three most important regulatory measures to improve food security worldwide: to reduce tariffs and price support in rich countries, and to prohibit export restrictions for staple food production.

1. **To address the food crisis, the Doha Mandate is too narrow.** The three-pillar approach of parallel tariff and subsidy reduction is a necessary but insufficient answer to the global food crisis. Tariff reductions can help bring food to where it is most needed – especially when price support in rich countries is reduced at the same time, particularly for the production of biofuels from staple food crops or their substitutes. The proposals on the table in Doha could improve food security in some cases. But they would not help to solve the food crisis, and in some instances they will even negatively affect food security, especially in NFIDCs. Even if a Doha Round settlement is not the full answer to the problem, it should at least ensure that it will not worsen the situation. It should also be noted that any potential impact needs to be assessed at the country and sub-country levels, given the broad diversity of socio-economic factors influencing food security at the local level.
2. WTO is not a place for dreamers. But the Doha Round can only make a meaningful contribution to food security if it sets in motion a **gradual shift of taxpayer support from rich to poor farmers**. Aid for Trade may bring some results – but nobody so far has integrated the financial question into the Doha equation. The present food crisis has brought windfall benefits to food exporters. In times of high food and oil prices, benefit-sharing between winners and losers could help finance the investment and technology need of poor farmers. The generous Saudi Arabian support to the World Food Programme (WFP) in 2008 is an encouraging lesson to others, because WFP can help to bring food to where it is really needed and without displacing competitive producers.
3. As for the above-quoted **Marrakesh Decision for NFIDCs**, there is no similar provision foreseen for the time being. For food security-conscious NFIDCs, the options seem to be “better than Marrakesh – or nothing”. Much has been done, but there is a lot of room for improvement. If the Doha Round fails to seriously address the food security issue – including through binding commitments in terms of Aid for Trade – can it maintain its claim to be a “Development Round”?