

EcoFair Trade Conference

EcoFair rules!

The new role of agricultural trade within the conflict area of the climate, food, and economic crises

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Conference Background Paper

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Agriculture and food security within the WTO – Ministerial Conference 2009 misses opportunity for re-orientation

In conjunction with the financial and economic crisis in 2009, the extreme fluctuations in world market prices for staple foods, and especially the sharp increase in 2007/08, have led to more hunger worldwide. The UN Food and Agriculture Organization (FAO) estimates that since 2007 the number of people suffering from hunger has risen by over 150 million, reaching a total of one billion (FAO, 2009: 1).

This trend has once again made the problems of agriculture and food security the focus of political attention. At various international forums a debate is under way which new approaches can be used to fight hunger and poverty effectively, especially in rural regions. One of the few significant outcomes of the World Summit on Food Security held in Rome in November 2009 was the resolution to strengthen the Committee on World Food Security (CFS), and mandate it to coordinate all international and national measures and organisations relevant to food security (FAO, 2009: 3).

Under this mandate, the World Trade Organization (WTO) too should be the object of this kind of coordination, since its rules for international agricultural trade affect global food security. Further, the WTO defines rules for national agricultural policies. Only a few weeks after the World Summit on Food Security, the Seventh WTO Ministerial Conference took place in Geneva. This meeting expressly did not aim to conclude the Doha Round on the further liberalisation of world trade, which had been deadlocked for years. Its objective was rather to consult on whether the role and function of the WTO are still appropriate given the changed international situation. Essentially this was an ideal starting point for deliberating the role of WTO and its rules in the context of international efforts to fight hunger, and for discussing a constructive role vis-à-vis CFS. Unfortunately, the Ministers and the WTO Secretariat did not make use of this opportunity. Instead of engaging in serious debate, the participants merely reiterated well-known positions, and many propagated the conclusion of the deadlocked Doha Round as a key contribution by WTO toward resolving the global economic and food security crisis.

How does international trade affect food security and the right to food?

In many international policy documents on food security and the right to food, international trade is basically seen in a positive light. The idea behind this is that international trade and the international division of labour allow a more efficient management of resources. If food and other goods are produced where costs are lowest, then production potentials are utilised to the maximum, and the quantity of available food is increased. Sufficient production is a basic prerequisite for food security. However, hunger and undernourishment in recent decades have not been caused by a global food shortage. This is also demonstrated by the recent price crisis, which has resulted in both the global volume of production and the number of people suffering hunger rising to record levels.

Hunger is rather a problem of distribution. Poor people go hungry because they have neither the income required to buy sufficient food, nor access to resources that would enable them to produce that food for themselves. Low-price imports can in principle improve access to food for poor consumers. This is especially true of the urban poor, who have a certain monetary income. However, the majority of those suffering from hunger live in rural areas, and are employed either directly or indirectly in agriculture. This is where competition from cheap imports can have negative effects, as monetary income is usually earned through the sale of agricultural produce. Competition from imports can lead to income losses, and may even largely displace some sellers from various market segments. Women are often particularly hard hit, as in many countries they are traditionally responsible for growing staple foods for the family and for selling these on regional markets. Without sufficient market income, it is often impossible to obtain the inputs required for subsistence production. The right to food is thus violated directly by income losses, and indirectly by reduced opportunities to produce food.

Conversely, higher prices for agricultural products can have positive effects on poverty. According to a World Bank study, the raising of state-controlled grain prices in China was a far bigger factor in reducing poverty than growth in the (industrial) export sector (Ravaillon und Chen, 2004: 22).

If agricultural exports create improved market and income-generating opportunities for poor producers, this can have a positive effect on food security. In many of the least developed countries (LDCs), agricultural exports are the key, if not the sole, means of generating foreign exchange (World Bank, 2007: 96). The key issues here with regard to poverty impacts are who is involved in producing the exports, who profits from the export earnings and whose economic situation is made less favourable by the export orientation, or possibly by the competition for scarce resources. Unfortunately, wherever export-oriented agriculture is developed the right to food is often neither respected nor protected. On land issues in particular, small and subsistence farmers are left at a disadvantage compared to investors. Fertile land is made available for the establishment of plantations for export products, and the previous users, who often have unclear land ownership titles, or none at all, are displaced or resettled, and inadequately compensated (Braßel and Windfuhr, 1995: 20f).

International trade can also play a role in stabilising supply in case of fluctuating crop yields. When crops fail, the population must be fed either by consuming food already stored, or through imports (von Urff, 1992). Given the reality of climate change, it must be assumed that crop failures will occur more frequently in most regions. Yet even extraordinarily good harvests can lead to problems, if the increased supply on the domestic market causes a drop in prices. Small producers who finance their inputs through loans are particularly hard hit by price falls of this kind.

In case of national over- or underproduction, international trade in foods can help stabilise the national market. The strategy of using the 'global market as a food store', however, presupposes the presence of a demand in the event of national overproduction just as much as it does the presence of reliable and sufficient quantities for import when needed.

The fact that this condition is not always met is demonstrated by the example of the food price rise in 2007/08. The simultaneous collapse of production in several major production regions first of all reduced the supply, while demand was artificially increased through agricultural energy programmes. To stabilise their national prices several of the key exporting countries introduced or stepped up export restrictions. At the same time the importing countries quickly increased their demand, in order to safeguard their national supply. These political decisions caused price increases to become steeper and steeper. The ensuing price swings were further exacerbated by speculation and the major involvement of financial investors.

Trends of this kind generate particularly problematic impacts in countries that are opening or have already opened their markets for staple foods, that have an agricultural sector which is not internationally competitive, and that are consequently dependent on food imports. This makes their food security dependent on imports. Haiti and the Philippines are two countries particularly hard hit by the price crisis that have pursued a strategy of this kind. Here, the increase in costs resulting from the price increases is particularly steep. At the same time the neglected infrastructure there means that national farmers have very few options for responding quickly to these rising prices.

Agriculture and food security – key areas of conflict within WTO

Until the mid-1990s, agricultural products were virtually exempted from international trade rules. Only when the WTO was established, along with the corresponding Agreement on Agriculture (AoA), were globally valid rules for trade in agricultural products laid down. These, however, aim primarily to prevent trade conflicts between the main industrialised states and other major agricultural exporters. By contrast, they hardly engage at all with the interests and needs of the majority of the developing countries and their small farmer populations. As with the WTO rules as a whole, the AoA aims to reduce, and in the long run phase out, state intervention in trade and market activities. The fact that long-term measures by the state may be needed in order to promote food security, especially in developing countries, is given barely any consideration in the AoA.

In order to change this, at the beginning of the Doha Round a coalition of developing countries called for the integration of a so-called 'development box' into the AoA. It was envisaged that this would contain specific rules enabling developing countries to promote their food security and rural development. Fragments of this call were included in the negotiating mandate agreed on in 2001 (WTO, 2001: 3). The mandate merely acknowledged that both food security and rural development might necessitate an amendment of the AoA. In the further course of the negotiations, agreement was reached in principle on introducing the following three instruments, all of which go in this direction:

- Special Products (SPs) that can be largely exempted from liberalisation, based on the criteria of food security and rural development.
- A Special Safeguard Mechanism (SSM) that allow developing countries to temporarily raise their tariffs above the ceiling set within WTO, in order to cushion the negative impacts on their agricultural sector caused by sharp increases in import volumes or sharp falls in import prices, and thus create a more stable climate for investment, especially by small farmers.

- Wider criteria for permissible internal subsidies, enabling rural development programmes and land reforms in developing countries to be included.

While a consensus was reached during the Doha Round negotiations that these instruments should be introduced, the precise criteria are a matter of heated disagreement. This is particularly so for those instruments that might limit market access.

Countries with export interests are pressing for the number of Special Products to be kept as low as possible, while countries with protection interests wish to exempt as many products as possible on the basis of criteria that are as vague as possible. By contrast, the debate that would actually be needed from the food security perspective as to how the criteria can be designed such that the products of poor producers can be declared SPs is now barely being conducted at all. This may also be due to the fact that trade diplomats find it difficult to evaluate agricultural- and development-policy instruments comprehensively.

The debate concerning the Special Safeguard Mechanism (SSM) is following a similar trajectory. The USA and other agricultural exporters would like to keep the criteria so restrictive that the mechanism would have barely any effect in practice, a stance that is meeting with resistance from the vast majority of the developing countries. Especially controversial is a provision designed to limit the possible raising of customs duties, making it possible at best to reverse the tariff reductions to be agreed on in the Doha Round. This would mean that especially those SPs would not be covered by the SSM for which developing countries are not required to lower their tariffs in order to safeguard their food security and rural development. Yet for these very reasons, there may be a particularly strong need for additional protection under the SSM.

It would of course run counter to the WTO logic of continuously phasing out trade barriers if at the end of the negotiations a mechanism were to be in place that provided stronger protection for markets than before – even if it only did so in exceptional cases. From the perspective of food security and the right to food, though, rules of this very kind may be particularly appropriate.

The Seventh WTO Ministerial Conference – a missed opportunity for a more intelligent debate on trade and food security

Even in the run-up to the Seventh WTO Ministerial Conference in Geneva it was clear that no agreement would be reached on these contentious issues – for the simple reason that they were expressly not on the agenda as an item to be negotiated in the Doha Round. However, within the scope of the envisaged review of the role and function of the WTO in the changed global environment the Ministers would have been able to deliberate on how the rules of the AoA affect food security, and on what role WTO should play within CFS. In many of their speeches Ministers identified food security as an important issue – but unfortunately did not discuss any concrete options for improving the harmonisation of trade in agricultural commodities with food security. Nor was this issue discussed in the working groups.

All in all, we can sum up by saying that the Ministerial Conference did not actually succeed in performing its proper task – which was to discuss whether the core orientation of the WTO is still in line with today's global challenges. A Ministerial Conference that did not have to take any decisions would have presented an opportunity to deliberate on how trade rules might be managed so as to reinforce the positive effects of trade on food security, stabilise global agricultural markets and provide states with scope to intervene to protect the vulnerable sections of their respective populations.

In the medium term an orientation toward the goals of food security and the right to food, and close cooperation with CFS, might even help resolve several of the major points of conflict in the Doha Round agricultural talks. An international committee comprised of government representatives, experts, representatives of farmers' and agricultural labourers' organisations, and other stakeholders, could make an effective contribution to the debate on the conditions under which trade measures might support food security. Were a shift in perspective of this kind to be taken seriously, this might remove some of the obstacles standing in the way of an agreement on the Special Products and Special Safeguard Mechanism.

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