

Ensuring trade policy supports food security goals



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INTRODUCTION

In November 2009, heads of state and government are due to meet in Rome at the World Summit on Food Security, to try to reach agreement on a new global goal of eliminating hunger by 2025. For such a goal to have any chance of being achievable, it will be vital for governments to ensure that trade policy is supportive of efforts to overcome hunger, and not detrimental to them.

Experts currently predict that, in order to provide food security to a growing global population, in the context of a changing climate, and increased pressure on scarce land and water resources needed by agriculture, productivity will have to be enhanced substantially - especially in developing country regions where climate change is expected to have a particularly serious impact. However, there is a wide consensus that trade rules and policies have in the past very often served to discourage agricultural investment in developing country agriculture, thereby also undermining productivity.

Some of the effects of this under-investment were readily apparent in late 2007 and early 2008, when sudden and unexpected price increases for key agricultural commodities prompted urgent attention, in the media and amongst policy-makers, to the 'food crisis' - and in particular to its impact in developing countries. The price spikes appear to have reversed earlier progress towards ending hunger, and have made it less likely that governments will achieve their agreed target of halving, between 1990 and 2015, the proportion of people who suffer from hunger.¹

While governments have responded to the crisis by announcing much-needed new funds for agriculture, as the G-8 did at their summit in l'Aquila, there has been noticeably less enthusiasm for reforming the trade policies that arguably are responsible for discouraging agricultural investment in the first place. Progress in the Doha Round of negotiations at the World Trade Organisation (WTO) remains slow, with prospects for an agreement still dim after eight years of talks. At the same time,

it remains unclear what proportion of the recently announced aid from the G8 is in fact additional to existing budgets for development cooperation, and how or when such sums will actually be disbursed.

For developing countries to be able to withstand external shocks such as the recent food price spikes, and for them to develop the necessary resilience to future challenges such as climate change, the productive capacity of their domestic agricultural sectors must be rebuilt after decades of neglect. Reform of national and international trade policies that have hitherto undermined incentives for investment in developing country agriculture would be an important step towards achieving this goal.

While many developed countries have taken some steps towards reducing the extent to which agricultural subsidies distort trade and production, the substantial amounts of such support which are still provided in the developed world continue to disadvantage farmers in developing countries. Furthermore, while some countries have moved towards the provision of direct payments that are supposedly 'decoupled' from farmers' production decisions, the sheer volume of these payments and their concentration in the hands of the largest and most productive agricultural units continues to raise unanswered questions about the extent to which such payments do indeed cause no more than 'minimal' distortion of trade and production.²

At the same time, many developing country producers face considerable difficulty in accessing markets in the developed world, due to a combination of different factors. These include unusually high and often unpredictable tariffs levied on politically 'sensitive' products, complex and bureaucratic quota mechanisms, and rigorous sanitary and phytosanitary standards that may also have the effect of restricting exports from developing countries. As a consequence, developing country producers are often restricted to producing a limited set of unprocessed commodities, which have struggled

over the last few decades with price volatility and steadily declining terms of trade.

While analysts, negotiators and policy-makers have long been aware of the trade barriers and distortions facing developing country agriculture, the renewed attention to food insecurity has yet to spark concrete action on trade policy reform. Indeed, if progress is to be achieved towards achieving food security

goals, action to tackle the trade-related causes of hunger has to be an integral part of a broader set of development-oriented reforms in both the developed and developing world. This short analytical note attempts to summarise some of the relationships between trade policy and food security, and pinpoint some of the changes that might be required if governments are to achieve their goals in this area.

1. TRADE DISTORTING SUPPORT AND EXPORT COMPETITION

The continued use of export subsidies to dispose of surplus production on developing country markets is probably the one trade policy instrument that is most widely recognised as causing direct and significant damage to food security in developing countries. While developed countries have greatly reduced the extent to which they make use of export subsidies, they continue to provide them to producers, with the EU alone providing as much as 1.46 billion euros in this form of support in 2006/07. Of this, about one third went to sugar and another third to dairy products.³ More recently, the EU and then the US re-introduced export subsidies for dairy products, provoking widespread consternation amongst developing country trading partners⁴ who warned that the move could directly undercut developing country farmers.

At the 2005 Hong Kong Ministerial Conference of the WTO, Members agreed to eliminate export subsidies in developed countries by 2013, and in developing countries by 2016. However, the EU was only willing to accept this concession on the condition that disciplines be established in parallel on other forms of export measures with 'equivalent effect' - such as export credits, exporting state trading enterprises, and food aid. WTO Members have underscored the importance of food aid for addressing humanitarian emergencies, whilst negotiating new disciplines on aid that is provided in non-emergency situations, with the aim of ensuring that these do not have trade-distorting effects.

Export subsidies nonetheless remain dwarfed by the scale of trade-distorting support being provided by developed countries. In 2005, trade-distorting support in the EU was EUR 40.1 billion, (USD 50 billion) while in the US it amounted to USD 18.9 billion the same year - a figure which nonetheless fell to USD 6.5 billion in 2007, as high prices meant that producers received less in subsidy payments from the government. In Japan, in 2006, overall trade distorting support amounted to 679 billion yen (USD 5.8 billion).⁵ Developing

countries have consistently argued that this support undermines their food security, by providing an unfair competitive advantage to developed country producers and, over time, undermining incentives for investment in their own productive capacity.

While the WTO Uruguay Round finally brought agriculture into the multilateral framework of rules, and established for the first time upper limits and reduction commitments for trade-distorting 'amber box' subsidies, these ceilings are far higher than the support levels that have tended to prevail since the late 1980s. With the EU ceiling for amber box support at EUR 67.2 billion, and the US ceiling at USD 19.1 billion, the EU could conceivably more than double support from the levels provided in 2005 (EUR 28.4 billion), and the US could triple support from 2007 levels (USD 6.26 billion). These ceilings therefore do not represent a meaningful constraint on subsidies today - one reason why developing countries have sought more stringent caps in the current Doha Round.

In the Doha Round, countries are negotiating a more comprehensive constraint on subsidy spending, which would limit 'overall trade-distorting support' (OTDS) - 'amber box' spending plus production-limiting blue box support, plus the limited amounts of trade-distorting 'de minimis' support that countries are allowed to provide. A proposed 70 percent cut to US OTDS in the Doha Round would therefore bring levels down from USD 48.2bn to around USD 14.5bn, and the proposed 80 percent cut in EU OTDS would bring this support down from EUR 110.3 billion to around EUR 22.1 billion.

While for the US this ceiling would be much higher than the unusually low current spending levels, it would nonetheless prevent future backsliding - a real possibility if the current high-price environment for agricultural products were to change suddenly. In the EU, the ongoing reform programme would mean that the limits that have been proposed in

the Doha Round would probably not constrain current policies until around 2013/14.⁶

Doha Round negotiations further seek to establish new disciplines on product-specific support, to prevent governments from disproportionately affecting global trade flows by concentrating the majority of their permitted support on a small number of products. Developing country negotiators have emphasised the importance of this in particular for disciplining US support, which traditionally has been focused on a relatively limited number of commodities. For some of these commodities, such as cotton, the impact of this support on food security and livelihoods in developing countries has been extensively documented and discussed.⁷

Since the conclusion of the Uruguay Round of trade talks, some developed countries have moved towards 'decoupling' farm support payments from production - in WTO terms,

away from trade-distorting 'amber box' and 'blue box' support and towards 'green box' payments, which are meant to cause not more than minimal distortion of trade and production. While these developments have broadly been welcomed by developing countries, concerns remain that the sheer size of green box payments, and, for some subsidy types, their ongoing concentration on the largest and most productive farms, are in practice continuing to distort production and trade.⁸

Developing countries have also proposed making some specific changes to green box rules, in order to ensure that they are able to address their food security needs: these include, for example, modifications to the existing language on public stockholding for food security purposes, domestic food aid, and a new 'general services' clause aimed specifically at covering developing country programmes such as land reform.

2. BARRIERS TO DEVELOPING COUNTRY EXPORTS

While developed country trade-distorting support is one important factor undermining livelihoods and food security in developing countries, another issue that needs to be taken into account is the role of market access barriers in the developed world. These barriers also contribute to perpetuating food insecurity in developing countries by undermining incentives for investment in developing country agriculture. Their impact can be particularly severe in least-developed countries, where dependence on a limited number of export commodities is a widespread phenomenon.

Although developed countries typically have relatively low levels of protection for many tariff lines, they are often also characterised by a limited number of unusually high tariff peaks. In the case of rice in Japan, tariffs can reach as high as 1500 percent.⁹ Developed countries in particular have sought to limit market opening on these products in the Doha Round by seeking exceptional tariff treatment for so-called 'sensitive' products: these will be allowed to undertake gentler tariff cuts in exchange for expanded market access through quotas.

In the EU, for example, while the average trade-weighted bound duty was 22.9 percent in 2004, for certain product types it was much higher: 129 percent for sugar, 78.3 percent for cereals, 67.3 percent for meat and edible meat offal, 56 percent for dairy products and 44.4 percent for products of the milling industry.¹⁰ Because these figures are averages, they disguise much higher tariff peaks on specific tariff lines within these broad product groups.

Despite a 'tiered' tariff reduction formula that is intended to impose larger cuts on the highest tariffs, the complex exceptions that importers have negotiated on 'sensitive products' are likely to reduce significantly the degree of market access opening that will result from the Doha Round.¹¹ One study suggests that the EU might want to provide 'sensitive product'

protection to 141 tariff lines in 35 separate product categories; the US could select 84 tariff lines in 11 product categories as sensitive; and Japan could choose to protect some 77 tariff lines in 25 product categories.¹²

For the most highly-protected products - such as rice in Japan¹³, groundnuts in the US, or sugar in the EU - tariffs are frequently expressed as a percentage of the product's volume or weight, rather than as a share of its value. This has the effect of reducing the transparency and predictability of market access barriers, which are often further complicated by bureaucratic quota mechanisms in the importing country.

Developed country tariff structures also tend to levy heavier duties on processed products than they do on raw materials - a phenomenon known as tariff escalation. For example, tariffs on pineapple juice may be higher than those on pineapples, or tariffs on chocolate may be higher than those on cocoa. As a general rule, these structures work against developing country producers by preventing them from moving up the value chain, trapping many in smallholder farming and increasing their vulnerability to food insecurity.

In the Doha Round, WTO Members have agreed to provide duty-free and quota-free market access on a lasting basis for all products originating from least-developed countries (LDCs), in a manner that ensures stability, security and predictability. However, a clause allowing Members 'facing difficulty' to exclude up to 3 percent of tariff lines initially could negate the benefits of this concession to many least developed countries, because of their reliance on a relatively restricted set of export products.¹⁴

While the WTO Agreement on Sanitary and Phytosanitary Measures (the SPS agreement) recognises countries' right to take sanitary and phytosanitary measures that are needed to protect human, animal or plant life or health, it also prohibits countries from applying these

measures in a way that would constitute a disguised restriction on international trade. SPS measures thus have to be based on scientific principles and evidence, and must not be applied in a discriminatory fashion. However, such measures - even when based on scientific evidence - can represent significant market access barriers to developing country exporters, and especially to those in least-developed countries. It is therefore important that developing countries participate in standard-setting processes, and that producers are provided with the information, training and resources they may need to comply with these standards.¹⁵

Arguably, these market access barriers represent significant long-term impediments to investment in developing countries' agricultural sectors. Greater public and private investment in agriculture has been widely recognised as a prerequisite to rebuilding and enhancing the productive capacity these countries will require to safeguard against food insecurity and, more broadly, to meet growing global demand for agricultural products in the years ahead. These challenges are only likely to become more acute with the increases in temperature and greater frequency of extreme weather events that are expected to occur with climate change.

3. SAFEGUARDING SMALL FARMERS AND RURAL COMMUNITIES

Trade liberalisation, whether undertaken as part of a multilateral agreement at the WTO or as a result of regional or bilateral agreements, can risk exposing small farmers and rural communities to fierce competition from cheap imports - including heavily subsidised products from the developed world (see section 1 above). In order to safeguard these farmers, and to allow adequate time for adjustment processes to be put in place, a number of developing countries at the WTO have argued in favour of tariff flexibility for 'special products'. They have also sought to establish a 'special safeguard mechanism' to guard against import surges and price depressions.

WTO Members have recognised that developing countries will be allowed to self-designate an appropriate number of tariff lines as 'special products', on the basis of food security, livelihood security and rural development criteria, and that these would be partially or fully shielded from cuts. The latest draft text, circulated in December 2008 by the chair of the negotiations, would allow developing countries to designate 12 percent of their tariff lines as special. It would also allow 5 percent of lines to be completely exempt from cuts, so long as the average cut amounted to 11 percent.

Additional flexibility would be granted to recently acceded members - such as China, which has emphasised that its current tariffs are already unusually low as a result of the WTO accession process.¹⁶ Small, vulnerable economies (SVEs) would also benefit from more flexible treatment that would allow them to exempt an unlimited number of products from cuts, on condition that they met an overall average cut of 24 percent.

A series of country studies conducted in developing countries by ICTSD seems to suggest that the proposed number of special products, if combined with the flexibility for recently acceded members and for small, vulnerable economies, should be sufficient in most cases to provide adequate flexibility for developing countries to be able to protect their domestic producers.¹⁷

Many developing countries have also emphasised the need for an effective and operational special safeguard mechanism that they could use to apply additional safeguard duties in the event of an import surge or price depression. Developed countries have, since the conclusion of the previous Uruguay Round of trade talks, had access to a similar mechanism aimed at safeguarding producers from surges and price drops. However, developing countries have for the most part been illegible to use this mechanism, as they did not undergo 'tariffication' (convert non-tariff barriers into tariffs) at the time.

Disciplines on the proposed safeguard that are under negotiation in current talks have implications both for access to the mechanism and for its effectiveness.¹⁸ Controversy over the conditions under which developing countries would be allowed to use the mechanism became an important factor in the breakdown of WTO talks in Geneva in July 2008.¹⁹ Particularly controversial has been the question of the conditions under which countries could be allowed to exceed the maximum permitted ceiling (or 'bound rate') to which they have agreed at the WTO. Countries which have already undertaken substantial liberalisation - and therefore already have very low bound rates - are keen to ensure that they are not disproportionately constrained by the new mechanism.

CONCLUSION

Trade policy and trade rules have important implications for food security in developing countries, in both the short and long term. In some cases, the relationship between trade policies and food security may be clear, direct and more or less immediate - as in the case of food aid or export subsidies - whereas in other cases it may be more indirect, and relate to the creation and maintenance of the conditions required to rebuild agricultural capacity in developing countries for the years ahead.

A body of analysis and research has been generated, over the last few years, that sheds considerable light on the challenges

that policy-makers and decision-makers face in this area. More empirical research is also clearly needed so as better to inform future policy development, especially in areas where new knowledge is already being generated and evolving rapidly - such as on climate change. However, it is important that the links that are known about and understood in these areas are given adequate recognition, as governments move to address the separate but inter-related issues of food security, trade and climate change in the weeks and months ahead. This analytical note is intended as a small contribution towards achieving this broader overall goal.

ENDNOTES

- 1 - i.e. the target for the first Millennium Development Goal.
- 2 As required by paragraph 1, Annex 2 of the WTO Agreement on Agriculture.
- 3 ICTSD information note no. 8, “Ensuring EU farm policy supports the Millennium Development Goals”. <http://ictsd.net/downloads/2009/08/capreformweb3.pdf>
- 4 See Bridges Weekly, Vol. 13, No. 3, 28 Jan 2009, “EU Dairy Export Subsidies Draw Fire From Cairns Group”, <http://ictsd.net/i/news/bridgesweekly/38827/>; and Bridges Weekly, Vol. 13, No. 20, 3 June 2009, “US Export Subsidies Condemned by Developing Countries, Exporters”, <http://ictsd.net/i/news/bridgesweekly/47866/>
- 5 Source: the most recent official notifications submitted by subsidising countries to the WTO
- 6 Blandford, D, Laborde, D, and Martin, W (2008), “Implications for the United States of the May 2008 Draft Agricultural Modalities”, <http://ictsd.net/i/publications/12743/>; Jean, S, Josling, T, and Laborde, D (2008), “Implications for European Union of the May 2008 Draft Agricultural Modalities”, <http://ictsd.net/i/publications/12745/>.
- 7 See, for example, ‘The Implications for Burkina Faso of the July 2008 Draft Agricultural Modalities’, . [http://ictsd.net/i/publfor Japan of the July 2008 Draft Agricultural Modalities](http://ictsd.net/i/publfor%20Japan%20of%20the%20July%202008%20Draft%20Agricultural%20Modalities/)”. <http://ictsd.net/i/publications/32340cations/35022/>
- 8 See ICTSD information note, “Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals”. <http://ictsd.net/i/publications/56284/>
- 9 ICTSD Information Note, “Capping unusually high tariffs: the WTO Doha Round and ‘tariff peaks’”.
- 10 Jean, S, Josling, T, and Laborde, D (2008), “Implications for European Union of the May 2008 Draft Agricultural Modalities”, <http://ictsd.net/i/publications/12745/>.
- 11 ICTSD Information Note, “Capping unusually high tariffs: the WTO Doha Round and ‘tariff peaks’”.
- 12 Ibanez, A, Rebizo, M and Tejido, A, (2008), “Implications for Sensitive Products of the May 2008 Draft Agricultural Modalities”, <http://ictsd.net/i/publications/13053/>. The product categories concerned are, for the EU: barley, corn, oats, rice, sorghum, starch, wheat, butter, cheese, other dairy, skim milk powder, powdered whey, whole milk powder, yoghurt, processed eggs, hatching eggs and live chicks, apples-fresh, garlic-fresh, grapes-fresh, lemons-fresh, mushrooms agaricus - prepared or preserved, peaches-fresh, pears-fresh, plums-fresh, tomatoes-fresh, beef and veal, meat offal, pork and wild boar, poultry meat, sheep meat, fructose, glucose and sugar. For the US, they are: butter, buttermilk, cheese, condensed/ evaporated milk, ice cream, other dairy, skim milk powder, whey powdered, whole milk powder, yoghurt and sugar. For Japan, they are: barley, rice, starch, triticale, wheat, butter, buttermilk, condensed / evaporated milk, fluid milk, other dairy, skim milk powder, whey powdered, whole milk powder, yoghurt, beans broad - dried, beans kidney - dried, beans other - dried, beans small red - dried, beans vigna-phassolus dried, konnyaku, peas-dried, silk, meat offal, pork and wild boar and groundnuts.
- 13 Yamashita, K (2008), “Implications for Japan of the July 2008 Draft Agricultural Modalities”. <http://ictsd.net/i/publications/32340/>

- 14 Laborde, D, (2008), “Looking for a meaningful duty-free, quota-free market access initiative in the Doha Development Agenda”. <http://ictsd.net/i/publications/13158/>
- 15 Disdier, A-C, Fekadu, B, Murillo, C, and Wong, S.A, (2008). Trade Effects of SPS and TBT Measures on Tropical and Diversification Products. <http://ictsd.net/i/publications/10984/>
- 16 See Jales, M, (2005), “Tariff reduction, special products and special safeguards: an analysis of the agricultural tariff structures of G-33 countries”. <http://ictsd.net/i/publications/12369/>
- 17 ICTSD Information Note No. 1, “Indicators for the Selection of Agricultural Special Products: Some Empirical Evidence. <http://ictsd.net/i/publications/11210/>
- 18 Montemayor, R (2008), “How will the May 2008 “Modalities” Text Affect Access to the Special Safeguard Mechanism, and the Effectiveness of Additional Safeguard Duties?” <http://ictsd.net/i/publications/12616>
- 19 Bridges Weekly, Volume 12, Number 27, “Agricultural Safeguard Controversy Triggers Breakdown in Doha Round Talks”. <http://ictsd.net/i/news/bridgesweekly/18034/>