

Food Security and Agricultural Negotiations

The Issues

Background Paper

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Introduction

Along the negotiations on agriculture, a number of countries tabled proposals calling for flexibility in order to guarantee the security of the supply of and access to food to the urban poor, to protect the agricultural sector and to support rural development, emphasizing the importance of agriculture in their economies. They have been calling for policy space in order to implement food and agricultural policies conducive towards economic growth (and therefore poverty reduction), food security, rural development and non-trade concerns alike.

The present paper identifies some of the main issues and concerns brought forward and discussed in the WTO. In order to further contribute to a common understanding on the concepts of food security and their relationship to agricultural trade policies and building on the significant input and insights obtained from the Berlin Conference on ***“Policies against Hunger – Liberalization of Agricultural Trade – A Solution?”***, IDEAS Centre has been assembling elements and concerns from different sources and from in-depth conversations with significant individuals in order to establish a basis to discuss the issues further in a very informal setting, desiring to contribute to the mutual understanding within the ongoing process of negotiations aiming for a world trading system that embraces the vision of a better future for everybody.

In a first step, the paper will look at the economic background and at recent research on poverty and food security; we will then specifically address the food security discussion in the WTO and will then conclude with a synthesis of the issues and concerns discussed.

The contents of that paper give an overview of existing analytical data and positions as expressed by the persons interviewed. In order to assure the coherence within the context of Food Security and Agricultural negotiations, IDEAS complemented the collected facts with additional background information. IDEAS Centre does not endorse or qualify the views and has assembled them with the sole purpose to provide an inventory of concerns and issues that should allow focusing the subsequent discussions.

Food Security and Poverty – The Economic Background

Food security is defined by the Food and Agriculture Organization (FAO) as follows: “... all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life”. This definition implies that food security is a situation relevant at the household (the micro) level. Science as well as empirical evidence have shown that the level of food security is directly related with the level of income and purchasing power of individual households. With the exception of political crisis or short-term emergencies (i.e. natural disasters) food insecurity, hunger, has not been the result of lacking food supplies, but the result of un-sufficient or inexistent purchasing power and the lack the ability to distribute food in time. The lack of purchasing power for the most elementary human need, food, is most often a direct consequence of absolute poverty and the absence of employment and business opportunities for the poor.

Fundamentally poverty reduction and therefore improvement of food security needs be addressed and understood under the following situations:

Rural Poor

The majority of the global poor and food-insecure population belongs to the group of the rural poor. They depend in one form or another on low productivity farming oriented towards self-sufficiency and / or agriculture-related employment. Poverty reduction for the rural poor means the ability to generate additional purchasing power with cash crops or the sale of excess production of their food crops. An important caveat needs be made for the landless rural poor: While higher food prices will benefit farmers and farm sector employees, landless, not farming-dependent rural poor are likely to be negatively impacted by rising food prices. However, they can be expected to benefit from the economic stimulation of the rural areas by higher income from food crops.

Urban Poor

Poverty reduction for urban poor means first and foremost the creation of employment and with this the possibility to generate income and purchasing power. The relative cost of food can be a significant component in the setting of the poverty and therefore the food security threshold.

The need for continued food aid is not restricted to poor, food insecure countries. It is a societal reality that is found in each and every country and needs be addressed by each and every government.

Emergencies and Short term Supply Crisis

Emergencies and short-term supply crisis are normally caused by natural or manmade disaster. Their effects are temporary. It is not the purpose of trade rules

and trade policies to address emergencies; trade policies should however not restrict or limit the possibilities to address emergencies and crisis situations with food aid, infrastructure support or other means. Trade rules have to accommodate the need to create and maintain emergency stocks (especially in importing countries). Such rules should however be designed in a way to exclude negative trade effects and commercial displacement.

Special Situations

Temporary dislocations in the external balance of countries that depend on food imports may, in spite of full employment and apparent “welfare”, cause situations of food insecurity due to the lack of availability of foreign exchange, therefore increasing the relative cost of food beyond critical levels as compared to the domestic purchasing power. The same or similar effects may be caused by price surges in the international markets; potentially most vulnerable are likely to be those countries that have implemented an open-markets model in spite of significant dependence on imported food.

What Research tells us: A Summary

Economic growth and the efficient creation of added value are widely seen as the best means to create welfare. In order to translate created welfare into effective poverty reduction and therefore enhanced food security of the poor, appropriate national policies that address poverty are required.

At least in the short and medium term, and in particular along adjustment processes, there is some potential for conflict between food and agricultural policies that ensure and maintain food security for the urban poor and those policies that are conducive to the alleviation of rural poverty. Measures designed to increase the domestic food prices (and therefore improve the rural revenues) will be reflected very quickly in the market. The development and promotion of employment opportunities are the best measures in order to reduce urban poverty. These measures may take longer to show an effect. The resulting gap between fast adjusting food prices and the slower upgrading of urban purchasing power may impose a need for short-term measures alleviating the worst consequences of such a conflict.

Agricultural policies determine food security (and thereby poverty) by reducing the relative cost of food to the poor consumer and by improving the relative profitability of production of food and non-food crops for the producer. Effective poverty reduction among rural, landless poor will depend on the true employment effects generated and on the evolution of the relative values of tradable and non-tradable goods.

Trade and trade policies are instruments for the efficient use and allocation of resources and may therefore contribute to the improvement of food security.

International (i.e. WTO) policies are important in that respect; they need be complemented, in order to be effective, by corresponding national policies.

Recent research has confirmed the importance and the mutual conditionality of domestic and international policies in the reduction of poverty. Market access, in particular in agricultural products, is seen as the important source for welfare creation at the international and regional levels. Significant overall welfare effects resulted from economic models assuming full trade liberalization. For industrial countries, gains came from some additional trade opportunities in certain areas, but primarily from saving on government subsidies. The developing countries' gains came from strongly increased trading opportunities (agricultural products, labor intensive goods) and from higher world market prices in certain, today highly subsidized markets. Revealing was the fact that improved South-South trade made up a very significant portion of the gains to the DCs.

The realization of the growth potential and its allocation to the population is contingent upon national policies designed to make use of the trade opportunities and designed to ensure efficient transfer of the gains to the entire population.

Regional and preferential trade agreements partly anticipate the benefits of multilateral trade liberalization. Preferential agreements grant trade preferences to suppliers from certain (i.e. Cotonou Agreement) or all (i.e. GSP) developing countries. Regional or bilateral agreements grant reciprocal trade preferences to the members of such an agreement (i.e. NAFTA, FTAs between NAFTA and third countries, FTAs between individual countries). While preferential agreements offer preferences to DCs, FTAs are concluded irrespective of country category. The volume of trade within FTAs is high for industrialized countries, while this is not the case to the same extent for developing countries. For DCs, preferential trade such as provided by the GSP or the Cotonou Agreement is much more significant in volume than preferential trade with other DCs. One resulting effect is the fact that applied tariffs between DCs are often higher than those applied between industrialized countries or those applied between developing and industrialized countries. Research underlines the high, untapped potential in trade between developing countries – see above.

The discussion and analysis of food security related issues needs to take into account international, regional as well as national policies. On the international and regional levels, questions on market access in all its forms (tariffs, non-tariff barriers) and on policies regarding emergency food aid need to be in the focus of the discussion. On the national level, the availability and access to services and infrastructure, the allocation of wealth among the population and the abeyance to the principles of good governance are important focal points. It is important to underline that only the combination of sound policies in all the areas mentioned is able to make a lasting contribution towards the improvement of food security and therefore towards the reduction and eventually eradication of poverty. The WTO offers the forum

for the discussion and negotiation of the international dimension of food security.

While strongly projected onto the agricultural negotiations in WTO, the scope and the incidence of policies that contribute to food security go well beyond the agricultural negotiations as well as the negotiations in the WTO. A uninformed observer passing by the discussion of Food Security and Agricultural Negotiations might even wonder whether there really does exist a casual link between food security and international trade regulation by WTO.

WTO and Food Security

The situation and the policy-priorities of food security have been evolving over the decades from food self-sufficiency of individual countries towards the security to economic and physical access to food. The role and importance of efficient exchange systems (=trade) has been expanding along this development. Trade liberalization is an initiative that tends to boost economic growth; research suggests that the biggest potential for national and global welfare gains lies in the liberalization of trade in agricultural products and food¹. It is largely undisputed that the long-term effects of global free trade including food and agriculture will contribute to create global welfare. At the same time, recent World Bank sponsored research shows that liberalization of trade within the Doha Round is contributing little to the economic growth in developing countries and particularly in the sub-Saharan countries, unless it is accompanied by national liberalization. In order to alleviate poverty and to contribute substantially to improved levels of food security, the implementation of complementary national policies that ensure equitable growth is indispensable. Trade liberalization is likely to change relative costs and prices and will therefore trigger adjustment processes. The adjustment processes, in the short term, are likely to produce winners as well as losers; the effects of the adjustment processes tend to have the biggest negative impact on the poor sections of society. The direct, causal relationship between food security and poverty is evident and is reflected at the beginning of the present text. More difficult to address is the political dimension of food security policies in the light of the short term adjustment effects and costs as compared to the benefits to be harvested in the long term.

- **The comprehensive liberalization of world trade can contribute to the fight against poverty and to enhance food security. However, there are specific needs and concerns in what refers to the handling of the short and medium effects of adjustment processes and the implementation of national policies required to mainstream the welfare gains.**
- **Food security is a significant non-trade concern of a number of countries. The maintenance of certain levels of domestic production, the possibility to engage in managed stockholding as well as the cost of and the continued reliance on foreign supplies are important issues.**
- **Ultimately, progress towards global free trade including food and agriculture will only be achievable when we will take into account the economical as well as the political dimensions linked with and attributed to food security.**

In continuation we identify some of the more critical areas under discussion and the proposals brought forward, if applicable. A number of the elements mentioned cut

¹ From: Anderson, Agricultural trade reform and poverty reduction in developing countries, World Bank Policy Research Paper 3396

across the different sectors. For purposes of clarity of the text, their discussion is concentrated in that sector where the expected effects are most prominent.

Market Access

Improved market access is recognized as having the single largest welfare creation potential. First and foremost among industrialized countries due to the elimination of inefficiencies in the allocation of resources and secondly due to higher market shares of DC producers in markets dominated by subsidized industrialized country producers. Empirical evidence is underscoring the importance of improved MA in South –South trade, where barriers are often higher than in South-North trade, when effects of preferences and regional agreements are considered.

Arguments and concerns in the market access discussion include:

- ➔ Improved access to international markets enhances the potential for poverty reduction effects for small rural producers, provided national policies ensure their effective participation in the economic advantage obtained (as shown by a World Bank study on the effects of NAFTA on the Mexican economy).
- ➔ More advanced DC with competitive advantage are expected reap the benefits from improved market access, while other DC fear to be left behind. In part, this can be attributed to a better factor endowment; often it also needs to be attributed to a better integration into the world market.
- ➔ Improved MA means lower tariffs;
 - Lower tariffs applied by the developed countries imply a significant erosion of preference margins. This erosion adds to the complexity and depth of adjustment processes and reduces the timeline available for them. Some people question the strength of the argument in as much as some preferences show low levels of utilization in spite of considerable trade.
 - Lower tariffs for developing and least-developed countries may imply the reduction of a significant source of government income and a subsequent reduction in funds available for government programs that could target food security. Research tends to underline that the gains in domestic revenue will usually outweigh by far losses of revenue from border taxes and duties.
- ➔ Agricultural market access is closely linked, for many countries, with progress in non-agricultural market access (NAMA). In particular for labor-rich NFI countries, lowering their tariffs on agricultural products would require corresponding reductions by the efficient food exporters (i.e. emerging economies) of their industrial tariffs in general and of the tariff peaks and tariff escalation in particular.

Domestic Support

Current WTO rules offer already considerable scope and flexibility to devise and implement adequate domestic agriculture and rural development policies; they include the provisions on special and differential treatment. As a matter of fact, further disciplines on and substantial reduction of trade-distorting domestic support can well offer a significant contribution to poverty reduction and therefore an improvement of the food security situation in developing countries.

Policy constraints faced by DC are more likely to be found in the lack of financial resources. The issues and concerns most often voiced include:

- ➔ The policy space available to DC and LDCs may become severely restricted where no AMS base had been established in the UR. Therefore, the maintenance of the de minimis threshold and possibly its increase is defended as providing critical policy space for DCs and LDCs. The present levels of use of the de minimis rules might provide some insight on the relevance of the argument.
- ➔ The main challenge for DC is that of ensuring that present or future international market access opportunities can be converted into clear signals and incentives for the local producer. An efficient local infrastructure and transparent domestic markets have an important role in that context.
- ➔ The reduction and eventually the elimination of production-specific domestic support is feared to reduce the number of suppliers of food to the world market, affecting thereby, as some fear, the reliability and stability of world food supply. Concentrated production would be more vulnerable for high short-term supply fluctuations, i.e. for natural or other causes. Even higher price volatilities and generally a higher food bill is feared by a number of countries. On the other side, increased competition and improved transparency of markets favors a higher number of market participants and offers improved opportunities for new market participants. The reduction and eventually the elimination of production-specific domestic support may significantly contribute to the transparency and the level of competition in agricultural markets.

Elimination of Export Subsidies

There is broad agreement on the phasing out of export subsidies and export competing measures. Under discussion is not the principle as such, but the definition of precise measures and policies concerned, the timing and the end point of the phasing out processes. Research suggests that the effects of the elimination of export subsidies will concentrate on the patterns of production and supply, shifting agricultural and food production from the industrialized to the developing countries, while possible upward effects on world market prices are expected to be limited.

- Within the adjustment processes triggered by the elimination of export subsidies on food commodities there is a major concern of some NFI-DCs regarding short term price surges in their food import bill and the consequences on their food security situation, in particular in reference to the urban and rural landless poor. Some propose access to rule-based financing, such as the IMF – Adjustment Fund as a possible measure.
- Concerns have been voiced that an improved competitiveness of DC producers, combined with improved MA, may actually worsen food security levels in certain DCs and LDCs due to the replacement of a subsistence and self-sufficiency oriented agriculture with an export oriented production and therefore higher domestic food prices, thereby increasing food insecurity of, in particular, poor rural and urban communities. Variable export taxes have been proposed, and are being practiced by some countries, as a component for a (temporary) policy contributing towards food security in that context.
- Given the fact that the availability of food aid and food supplies at conditional terms has been tending to be higher under oversupplied world markets and low world market prices, some DC and LDCs strongly dependent on food aid argue that the elimination of export subsidies will reduce the food aid available and will therefore increase the cost of imported food. With a domestic production capacity not being able to meet the food needs, these countries expect to fall into food insecurity. However, better, more targeted and needs oriented food aid policies should help addressing this issue – see remark below on the Food Aid Convention.
- Food exporting countries recognize the need and importance of food aid, but have voiced their deep concern about food aid on concessional terms as a means to circumvent export competition disciplines. At the same time, they underline that food aid and dumped food is one of the major stumbling blocks for food-insecure countries on their way to improved food self-sufficiency. Under the Food Aid Convention (FAC), presently under renegotiation, constructive proposals are under discussion in this respect.
- While food aid may address short-term supply problems and ensure access to food, it is difficult to avoid negative effects on domestic markets. Direct food aid in kind can disrupt local markets and displace the local producers. Cash food aid for local or regional sourcing does considerably reduce the potential for the disruption of local markets; depending on the situation, it may give them a boost.

Export Prohibitions and Restrictions

Food security is primarily related to poverty. However, the access as such to food supplies continues to be a politically sensitive issue as well. A limited number of sources of supplies, a small number of competitive suppliers or a dramatic change of the supply patterns of food commodities in the international markets may create

situations of apparent and unforeseeable dependence that may be seen as politically delicate and unacceptable. WTO-Law has specific provisions that restrict or prohibit the use of export related trade measures. However, the eventual enforcement of these provisions via the DS-Process may prove too time-consuming to rely upon for the purpose of ensuring food security. Even though only very few and no recent cases of food supply restrictions are on record, the issue clearly is a concern for many food importing countries.

- Some countries consider policies of minimum levels of food self-sufficiency as a domestic insurance policy for situations of global food shortages and subsequent price increases in the main countries of supply and therefore in the world market.
- It was observed that no government could afford not to restrict exports in situations of domestic shortages or price explosions. Some raised the idea of a system of international stocks that could offer a certain level of assurance.

Risk Management

Research on the volatilities of food and commodity prices under more liberal global trade regimes suggest a trend towards lower volatilities. Still, the volatilities of commodity markets are likely to affect most severely producers in developing countries that got access to world markets only recently and that lack capital and resources to withstand such effects.

- Public stock-holding for food security purposes (Par. 3 of Annex 2 to the AoA) is specifically included as a “green box” measure.
- However, public-stockholding (or international buffer stocks) are proven to be rather inefficient tools to protect producers from price volatilities.
- A small producer may not have access to the international futures markets, which offer efficient hedging tools against commodity-price volatility. Crop insurance schemes designed for the small producer need to step in. Long-term compatibility of crop insurance schemes with trade rules is an essential instrument to turn competition between the different players more equal. In order to establish a level playing field within a liberal global trade regime, the development of appropriate risk management systems, such as the ones brought forward by the task force for regional hedging of the world bank will further gain in importance.
- Safeguard measures can provide certain temporary protection against falling domestic prices or surges in imports. Many NFI-DC are concerned about the effects of surges in import prices. A safeguard cannot address price surges, which need be dealt with separately. Possible avenues suggested could be the food aid policies and the mitigation of the concerns related to export restrictions – see above.

The Concerns behind the Arguments

After having conducted a series of interviews, the following points started to emerge as core issues that appear to surface behind the food security discussion. We summarize them here, without discussing their individual merits and relative weights, and with the sole purpose to provide input for discussions:

- Depending on the country concerned, food security is seen as part of the special and differential treatment of developing and least developed countries, or food security may be among the non-trade concerns or food security may be perceived as a mere “nuisance” hampering progress in trade talks.
- Food security is a broad and complex issue. It cuts across all trade-relevant sectors and beyond, well into political and governance issues on both, international and national levels. However, and in as much as food security is in the end a question of food, and in as much as food is an agricultural product, all the concerns related to food security, even when completely unrelated to agricultural trade, still become dominant factors on the agricultural negotiating floor. It is a significant challenge to segregate, within the cobweb of international negotiations, those issues that are relevant to the agricultural agenda from those that are relevant to other agendas.
- The link between poverty and food security is clear. For many the concerns about the unresolved mitigation of the adjustment processes and about the risk that the economic models do not work in a specific case, do dominate. Food security appears too important an issue to take chances.
- Lower tariffs will eventually mean less protection to domestic producers. Some NFI-DC and LDCs are particularly concerned that tariff reductions will drive domestic producers out of the market, thereby worsening the food security situation.
- Some countries relying heavily on food imports expressed concerns about a possible dependence and the possible consequences of supply monopolies by few competitive producers.
- Maintain or achieve a high level of self-sufficiency in food is an important target for a number of NFI-DC and –LDC. The reduction of foreign dependence and savings on foreign exchange outlays are mayor arguments used.
- Today’s food and agri-product markets look fundamentally oversupplied, also due to trade measures and subsidies. They resemble therefore mostly buyers markets. This situation appears to be quite convenient for a large number of countries: Suppliers / exporters depend on buyers, rather than vice-versa; prices are low and production reacts swiftly to price signals; there is an ample supply of

food at preferential conditions (food-aid, financing, etc) and a comparatively high number of potential suppliers.

- It is widely perceived that the S&D treatment provisions need to evolve towards more tailor-made solutions in favor of i.e. NFI-LDC. As long as the maintenance and improvement of food security all along such adjustment processes is not fully guaranteed for the poor by the developed world, food security appears to be a strong limiting factor for the agricultural negotiations. Along another line, it is argued that the need for time and flexibility to adjust for DC will be needed in the Doha- more than in the Uruguay-Round; this considering the fact that the UR, specially for LDCs, may have been more that of an inventory of trade policies rather than one of imposing specific disciplines.
- Many NFI-DC see themselves caught between two contrary developments:
 - I With the liberalization of agricultural trade, food prices are expected to rise and availability of food aid will be reduced, both adding to a higher import bill
 - II Erosion of preferences, be these MFN or within regional trade agreements, and other factors, such as the expiration of the ATC, will add to lower export earnings.

Before this situation, obviously the status quo does offer some attraction even if there is conscience that the long term development may catch up sometime.
- The mutual conditionality of progress between agricultural and non-agricultural market access appears to be quite important, in particular among developing and emerging countries (South-South); it tends to be underestimated.
- While competitive food exporters are aware of the sensitivity of the food security issue within the negotiations, they do not seem to have identified clear views in that respect. The development of views and positions responding to the many concerns might be helpful.
- Considering the importance of non-tariff barriers, trade facilitation is an important negotiating issue and demands a coherent and comprehensive approach including all trade related processes²: in importing countries for the facilitation of market access opportunities; in exporting countries for the facilitation of the processes that make goods available to the international markets. Non tariff-trade barriers such as SPS or TBT measures, exaggeratedly high private standards imposed by developed world importers (quality, delivery schedules etc), increasingly complicated marking and labeling requirements, complicated procedures to obtain preferential treatment, are frequently more difficult to comply with for the DC producer and exporter than to live with duties and tariffs.

² Recent research done by the World Bank shows that trade facilitation can have more important positive effects on DCs than the ones of the Doha-round Negotiations combined

- ➔ A possible concentration on few or even single suppliers of food commodities still raises fears of political dependence among some importing countries. This in spite of the fact that in all recent international conflicts, never food supplies appeared to have been used as a “weapon” or means to exercise power. Still, the world trading system may have to explore policies that will allow the dissociation of the supply of the world markets with critical food commodities from supply decisions dictated by political and / or strategic arguments.

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