

**Report: Policies against Hunger III:
Liberalisation of Agricultural Trade – A Solution?**

Report of the Conference Rapporteur
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Introduction

Trade liberalisation as a means of solving the problems of poverty and undernourishment is a controversial subject. Advocates of liberalisation believe, first and foremost, that the resulting orientation of production towards comparative cost benefits could generate greater economic prosperity. Critics put more emphasis on the potential structural, ecological and social problems which the elimination of trade barriers and increasing international competition can entail.

Agricultural trade, in particular, has been a major focus of controversy for many years. One reason for this is that agriculture is still the dominant economic sector in many poorer nations, especially in rural areas where most poor and undernourished people live. In addition, for a wide variety of reasons industrialised nations support their own agricultural producers with significant funds and thus influence global competition, often to the detriment of producers in developing countries.

Demands varied widely in the past: on the one hand, there were calls for the swift realization of free trade to the maximum extent possible while, on the other hand, it was suggested that the agricultural sector be excluded entirely from the WTO negotiations.

Policy makers, the scientific community and most non-governmental organisations now agree that we must aim for a form of free trade that is flanked by national and international social and ecological rules. In striving to achieve this aim, we must pursue a differentiated approach that reflects specific situations, especially in developing countries. This applies in particular when poor and undernourished people in these countries, both producers and consumers, are socially excluded particularly hard hit by changes in trade regulations. However, opinions and demand differ as regards the type, approaches and scope of possible individual measures.

Food security is one of the fundamental WTO-non-trade concerns. Given the complexity of the issue, coherence among discussions and strategies led and developed by the different fora is of paramount importance. Last year's conference on Hunger addressed specifically food-aid (at this very moment, the renewal of the Food Aid Convention is being discussed in London), this conference has been addressing the trade rules in Market Access, Export Competition and Domestic Support, their evolution under the WTO process of progressive liberalization and their contribution or threat to global food security. Any system, with perhaps the only exception of the individually self-sufficient farming society – a rather theoretical notion – needs to provide for the exchange of goods and services, needs to provide for rules that ensure

fair trade. How to take into account food security for the poorest and most vulnerable individuals in the ongoing Doha Round, how to put to work best existing trade tools, the need to recur to other, possibly new tools, have been the underlying questions of our workshop.

Before focussing on the results as such, we do have to recall some fundamental facts: Food insecurity is first of all a problem at household and family level. For the individuals concerned it means either insufficient supply of food or insufficient means of exchange to have access to food¹.

Poverty and the absence of possibilities and minimal conditions to exchange goods are widely recognized as the main causes for systemic food insecurity. Political, natural and man-made crisis and disasters are other important causes, however, they are less relevant in the context of our present workshop.

The speakers have presented their analysis and views regarding the opportunities and risks related to the increasing liberalization of global agricultural trade. They provided the workshop participants from more than 70 countries with a comprehensive overview of the arguments and facts as well as with the interests and threats of all the stakeholders involved with and committed to achieve the millenium goal of reducing worldwide hunger, and thereby poverty, by 50% by 2015.

There was a considerable distrust towards liberalization. A large number of people believe that liberalization has actually not improved, but worsened food security of the poor. Nevertheless, most participants believe liberalization is something that is probably unavoidable and maybe even good for the economy as a whole but is detrimental for the poor and marginalized, at least in the short term. A majority believes, even if liberalization the way it is implemented now may not benefit the poor, that it is possible to define pro-poor liberalization strategies in order to improve the situation of the poor, stimulate growth and foster democracy. This is the objective of our workshop. There was however a minority whose testimonial and analysis are disturbing for anyone who believes that the system can be made to help the poor. This message should not be ignored.

In this report I have not attempted to reconcile the non-reconcilable, but to reflect the wide spectrum of views and priorities in a coherent manner. In this sense, this is not a consensus document. This said, I have made an honest and concerted effort to catch the spirit and the mood of the

¹ Food security: "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." World Food Summit 96

workshop. Any distortions are unintentional and are the sole responsibility of the author.

The report is structured such that it first addresses systemic issues related to the present system; it then identifies factors that affect the ability of poor developing countries to benefit from trade liberalization. It then discusses the national policies that have to be taken into account by DCs to harness the benefits of trade liberalization in favour of increased food security. The report identifies the responsibility of industrialized countries in helping DCs to integrate into the world economy without losing sight of food security and it concludes with suggestions for a multilateral trading system that integrates the food security objective.

General issues identified

Systemic issues of the world trading system

1. The objective of free trade is not and cannot be food security. The objective of the international trade system is to organize trade in the most efficient and economic way. The challenge is to use the resources liberated through the efficiency gains for the improvement of food security.
2. Free trade is an instrument: It can be used for poverty reduction or it can increase income inequalities depending on national policies. Trade provides everybody with equal opportunity; however, not every body has the same capacity to realize the opportunity offered.
3. There is general agreement that emerging markets have been the first to benefit from trade liberalization; their shares have been increasing to the detriment of the developed countries, while LDCs did not benefit from this development and risk to be on the losing side.
4. The issue of unequal distribution of benefits of trade liberalization among member countries is a systemic issue to be addressed within WTO. The issue of internal distribution has to be addressed by national pro-poor development strategies. WTO rules and regulations need to provide the policy space required for such national policies.
5. Poor countries have unequal capacities to adapt to international competition in the domestic market and to take advantage of the opportunities opened up by the global market. Therefore, the specific defensive as well as offensive needs of the poorer countries have to be taken into account. This has clear implications for the agenda, for the

process of negotiation and for the categorization of countries in the ongoing WTO negotiations.

6. WTO rules have to take into account the specific situations of developing countries and allow a differentiated approach that goes beyond today's differentiation between developed and developing, net food importing developing countries and least developed countries.
7. Rules at the WTO are required to protect the small and powerless against the market power of the large trading nations. In addition, WTO rules have to allow individual countries to achieve national objectives such as food security and to be conducive to such policies.
8. Liberalization means change and change means losers and winners. There is no doubt that marginalized farmers might be jeopardized by the effects of liberalization. Victims of liberalization do exist. This is a fact. Let us never forget that. We have to devise a system to minimize the cost of adjustment and to ensure that the poor will benefit from the change.

Factors affecting the ability of poor developing countries to benefit from trade liberalization

1. The environment for liberalisation of many DCs is made more difficult due to:
 - a. The dependence on one or two export commodities
 - b. The comparatively higher market access barriers south – north (Tariffs, SPS, TBT)
 - c. Tariff escalation & Tariff peaks
 - d. Flooding of internal markets with subsidized products
2. Volatility of markets will increase with more liberal trade rules; measures to reduce the effects are needed.
3. Adjustment processes need time; the sequencing of measures and implementation steps is important.
4. Effective food security depends on multiple sources of food supply and undisturbed and functioning world markets for food, including during regional shortages and political disturbances.

5. Effects of liberalization on food security and poverty reduction depend largely on their earning effects in rural areas. Liberalization increases the productivity of the farm sector and hence increases rural income. Productivity increases however also mean less labour is required for the same production. Rural labour thus released needs alternative employment. Food security defined as ability to acquire food therefore requires policies that go beyond the agricultural sector. Market access for non-agricultural goods and in particular labour intensive low skill services (temporary migration, Mode 4) should play an important role in any food security strategy.
6. We need policy coherence: DC are required to go further than developed countries due to incoherence between IMF and WB adjustment programs and WTO commitments and rules. More coherence is needed between trade policies, trade policy programs and development assistance.
7. Improved access to emerging markets represents important market opportunities for LDCs.

Factors which have to be taken into account by DCs to harness the benefits of trade liberalization in favour of increased food security

1. The world market and WTO rules are both a problem and an opportunity. All issues should be looked at both defensively and offensively (i.e. standards can be a major obstacle for access to industrialized markets, they can also be a fantastic opportunity).
2. Any national trade liberalization and food security policies have to take into account the following elements:
 - a. Even though the long-term benefits of trade liberalization were accepted, all participants shared their concerns regarding a) the short-term effects and b) their effective positive impact for the poor.
 - b. Marginal farmers will suffer most because they are the ones most lacking viable options to adjust to new realities.
 - c. Trade liberalization and poverty reduction need to address policies that go beyond agriculture and need to include higher added value employment opportunities.

3. Policies to liberalize agricultural trade with a focus on food security have to contain the following elements:
 - a. Short-term measures to mitigate transitional effects for the population at risk (social security...)
 - b. The implementation of national policies conducive to help the population at risk to adopt changes, such as in the fields of infrastructure, rural development or training.
 - c. Macroeconomic conditions conducive to access to capital and non-distorted prices of trade and non-trade goods
4. A clearly defined objective of national food security will allow determining on how to harness the opportunities provided by the international market to achieve the objectives set and also to identify issues related to the integration of the national economy into the global economy that may require mitigating measures.

Industrialized countries have a major responsibility in helping DC to integrate into the world economy without losing sight of food security

1. There is a backlog of liberalization in the North and an imbalance of the efforts made. A prioritization of products of interest to LDC's and the speedy liberalization of the relevant markets is required.
2. OECD countries have been able to minimize their liberalization efforts within the UR commitments. DCs have gone much farther in liberalization than required by the UR, for example by the additional effects of IMF and WB conditionalities.
3. Further liberalization should focus on enhancing opportunities for the poor in the agricultural and other sectors (NAMA, Mode 4).
4. The understanding of "Special Products" should be rewritten in order to include offensive interests in addition to the today dominant defensive elements.

A multilateral trading system integrating the food security goal: Some suggestions

Basic Considerations

1. Globalization requires a new definition of food security: The global market provides new opportunities to guarantee food security at the national and household level that did not exist before. At the same time, the global market can constitute a threat to the ability of the vulnerable segments of the population to feed themselves. In a global world, food security can no longer be defined as the availability of food at the household or national level, but has to include the capacity to acquire food both at the household level (purchasing power) or at the national level (availability of foreign exchange, access to markets even in difficult times, infrastructure to import, etc.) Food security has to take into account the volatility of world market prices and their effect on the population at risk.
2. Liberalization of trade and of agricultural markets is a must: 800 Mio poor live in the rural areas of DC. They need the markets in the developed countries.
3. Rich countries can pay not to produce food poor countries need to produce food in order to be able to pay.
4. Justice to farmers in the South and maintaining farmers in the north is possible.
5. The development model most adapted to food security in a open world is a free trade model that is flanked by national and international social and ecological rules that allow all countries the policy space to address the national defined issues and priorities.
6. A sustainable solution within the multilateral system cannot be based on defensive mechanisms and on special treatment. Developing countries have to pursue an offensive and pro-active strategy within WTO so as to assure that the rules of the world trading system take into account their needs – not as an exception but as an integral part of the system.
7. Developing countries should fully use in the current negotiation round the support they can obtain and have obtained from dispute settlements to achieve appropriate solutions to their problems.

Market Access

1. Products that are important for the livelihood of poor producers should be given priority status in the liberalization of agricultural trade.
2. Special attention should be given to the reduction of tariff escalation in order to allow more value added in developed countries and bolster employment.
3. Countries should be granted preferential access on the basis of their level of development. Emerging markets without major food security concerns should not be a part for such preferential arrangements.
4. Preferential access if widely granted will be shallow. A recategorisation of DC may have to be considered if it can be done without dividing existing alliances in the developing world.
5. Developing countries should be required to do less on agricultural market access than developed countries. Developing countries should be expected to make commitments appropriate to their level of development.
6. A link should be established between tariff reductions of DC and the demonstration of progress in the reduction of trade distorting domestic support and export subsidies in the developed countries.
7. The possibility to recur to a special safeguard is considered a high priority for DCs.

Export Competition

1. Export subsidies are being diminished and should be fully eliminated.
2. New disciplines leading to the abolishment of the export subsidy elements of other export measures (Export credit, food aid, state trading enterprises) will have to be established.
3. Price effects of the elimination of export subsidies are lower than often expected. In part because they have been substituted by domestic support. Subsidy reductions therefore have to be considered as a whole.
4. Food aid should be limited to true emergency situations and be, as a principle, granted in cash; supporting the findings of the Policy-Against Hunger II workshop.

5. To have the intended effects the abolishment of export subsidies will have to be accompanied by flanking measures concerning price transmission and supply side measures.

Domestic Support

1. Particularly rapid reduction of amber and blue box support.
2. Review the criteria and scope of green box measures in order to ensure that measures are truly not trade-distorting, and that cumulation of different forms of support is appropriately dealt with.
3. Evaluate the actual social and environmental impact of green box measures.
4. Developed countries have money to fund green box measures; DCs don't. To balance out rights and obligations, ODA equivalent to the green box payments practiced by developed countries should be made available to developing countries.

Role of Private Sector and Technical Assistance

1. For the private sector, the transparent enforcement of existing rules and regulations appears to have priority over progress in liberalization as such. A particular concern is the rising of non-tariff trade barriers around the world. Harmonization of sanitary and phytosanitary measures and their strict compliance with the provisions of the SPS Agreement are seen as primary concern.
2. Standards (mandatory and voluntary) constitute a major market access restriction for many DCs. ODA should be used to improve relevant national policies.
3. Issues such as infrastructure, transparency, national treatment of FDI, improved business environment were raised as important concerns. They are not going to be addressed by WTO. These points are predominantly part of national policies and should benefit from ODA.
4. Establishment of a link between trade liberalisation and ODA. ODA should help the private sector to benefit from trade liberalization, maximizing the employment and welfare effects; it should shorten the transition periods required and support the adjustment programs.