

The role of agricultural trade policy in pursuing social goals

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Beijing Dialogue on Agricultural Trade Policy and Sustainable Development:

Experience from China and Other Countries

3 August 2012; Beijing, China

Agricultural trade policy is considered multifunctional. This morning we discussed its inter-linkages with sustainable development and then its role in pursuing environmental goals. Over the next 20 minutes, I will discuss the role of trade policy in pursuing social goals.

One of the most important social goal, which agricultural trade policy makers of any country or economy whether it is rich or poor, try to pursue is providing food security for their people. Although the objective is the same but the policies they have adopted can be very different. It will be interesting to see how they differ and I would give you some examples to illustrate my point.

The issue of food security and its social implications came to the centre stage with the 2007/2008 spike in food prices when TV screens showed rioting in many countries and many governments became unstable. But this problem has existed from the very beginning. Since the end of the Second World War, the world has been trying to make collaborative efforts to find a solution.

When the eight Millennium Development Goals were agreed to by the United Nations in the year 2000 for achieving them by 2015, the very first one was to eradicate extreme poverty and hunger. It shows that the global community's top priority for the 21st century was to have food security for all people at all times.

Let me first briefly explain what food security is so that we can have a better understanding of the linkages between agricultural trade policy and food security.

The concept of food security has evolved over time. Till the 70's, the discussion of food security meant whether a nation or a region had enough food to meet the aggregate requirements of its people. This was a rather narrow view of the issue as it did not take account of the fact that even when a country had a sufficient food in stocks, a large number of people could be living in hunger.

The concept of food security was broadened and in 1996 the World Food Summit agreed to a new definition. According to this, "Food Security exists when 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". Thus there are the following four dimensions of food security.

- Food availability: The availability of sufficient quantities of food of appropriate quality, supplied through domestic production or imports (including food aid).
- Food access: Access by individuals to adequate resources (entitlements) for acquiring appropriate foods for a nutritious diet.

- Utilization: Utilization of food through adequate diet, clean water, sanitation and health care to reach a state of nutritional well-being where all physiological needs are met. This brings out the importance of non-food inputs in food security.
- Stability: To be food secure, a population, household or individual must have access to adequate food at all times. They should not risk losing access to food as a consequence of sudden shocks (e.g. an economic or climatic crisis) or cyclical events (e.g. seasonal food insecurity).

Food security, as I just defined it, is obviously the primary goal for any country while drafting its agricultural trade policy. They all want that food should be available to all their people at all times. It should be safe and nutritious. But there can be differences as to how much should a country depend on international trade for achieving these objectives.

In Geneva, we often hear two opposing arguments. For example, Mr. Olivier De Schutter, the United Nations Rapporteur on the Right to Food is a strong advocate of limiting excessive reliance on international trade in the pursuit of food security. On the other hand, Pascal Lamy, DG WTO strongly contests this view. In his opinion “trade is no more than a simple transmission belt between supply and demand” and that it has to work smoothly to avoid frequent food security crisis.

Most countries realize it is not economical or practical to be completely self-sufficient or to completely open their markets unless they have no agriculture of their own. Let me give you a few examples of very different countries and how they used their agricultural trade policy to ensure their food security. In many cases, these policies have evolved over time.

My first example is that of Brazil which is one of the largest agricultural producer in the world. Till the 80's Brazil agricultural trade policy was rather defensive. It was based on achieving self-sufficiency through import substitution attained by high tariffs. Over the last 20 years, it completely transformed its policies and liberalized its agricultural imports as well as exports. It also increased its spending on agriculture but it is not terribly trade distorting. Historically, support has focused on providing cheap credit to farmers, small and large. Conditional cash transfers and public procurement programs from small farmers – Green box – have been the most innovative in recent years. Despite this increase in spending, its cost of support to the overall economy remained low compared to most OECD countries and is roughly comparable to Australia and New Zealand. So without seriously distorting international trade or putting other countries' food security in jeopardy, it was able to make its agriculture more competitive. It changed from being a net importer of food to a net exporter. In the process it was able to significantly reduce rural poverty and became more food secure.

Now let us look at another example where tremendous resources were devoted to food security through import substitution but the end result was not satisfactory. While Brazil was moving away its agricultural trade policy from import substitution, Saudi Arabia was moving in the opposite direction of achieving food security through import substitution. Huge amount of resources were devoted for this purpose. At a rather high cost, it was able to produce enough crops not only to meet its own needs but also to be able to export some surplus. After experimenting with self-sufficiency for over two decades, it realized that it was not only depleting non-renewable water resources but also increasing its dependence on the import of fertilizers, equipment, and labor. Furthermore, its traditional agriculture was not becoming competitive as most of the government's financial support went for establishment of large-scale agricultural production units. Recently they started reversed their earlier policy. Without the government's support their wheat production reduced by two-thirds between 2007 and 2010. In fact this year's harvest of wheat crop may be the last one and they will be totally dependent on imported grains.

Another interesting example is Norway and how it uses its agricultural trade policy to ensure its food

security. As we know Norway is a rich country and has all the resources to buy its entire food requirements at far more economical costs rather than growing it at high costs. But its agricultural trade policy is to maintain a self-sufficiency ratio of about 50%. It does so for historical as well as for many other reasons such as preserving the capacity to produce food locally, to prevent against plant and animal diseases, any radioactive fallouts and so on. Its Geneva negotiator often refer to Article 20 of the Uruguay Round Agreement on Agriculture WTO Member countries' which while committing to further progressive reductions in support and protection in future negotiations on agricultural trade liberalization also provides for taking account of '**non-trade concerns**' such as food security, preservation of agricultural landscapes, cultural heritage values, environmental issues and rural viability.

In the context of social policy, Mexico is another interesting case study where peasant mobilization forced the government to modify its agricultural trade policies. When NAFTA was concluded in 1995, Mexico negotiated a 10-15 years period for phasing out protection for its sensitive crops such as maize, and other basic grains, beans and powdered milk. While Mexico was able to increase its exports of vegetables and fruits which are not subsidized in the US market, it faced serious competition for protecting those crops which are highly subsidized in the United States. This increased the historical divide between North where production is commercialized and South where most of the farming is at subsistence level. The US Farm Bill of 2002 which provided for distribution of \$70 billion for its farmers gave rise to lot of resentment and several Mexican peasants unions representing 500,000 smallholder farmers got together to seek renegotiation of the NAFTA Chapter relating to Agriculture. The Mexican Government did not agree but since it could not match the US subsidies, it decided to launch a so-called 'agricultural armour' package which made it easier to use trade defence measures such as safeguards, anti-dumping (AD) or countervailing duties (CVD). Also it activated its negotiation position by becoming a part of G20 which seeks to substantially reduce trade distorting subsidies.

I can go on with several more examples. But if you see an overall picture, it emerges that despite some reforms rich countries continue to subsidize their farmers while poor countries tend to tax them.

Some like the US do so through guaranteeing a minimum purchase price and also paying direct subsidies for some crops to be able to compete even in those products where they would normally not be competitive. Their farmers can therefore produce more and dump their surplus in international markets.

Others like the EU protect their market through high tariffs and keep their domestic prices artificially high. In many cases they cross subsidize such as in case of sugar. High domestic prices make agriculture rather profitable and thus instead of being an importer of many agricultural goods, they become exporters through the support of their treasuries.

But these policies are changing. Most developed as well as developing countries are reforming their agricultural trade policies. Due to public pressure and financial crisis, developed countries are accepting more disciplines on trade-distorting domestic support and are also phasing out their export subsidies. Developing countries are liberalizing and reducing distortions in their agricultural trade policies. The Doha Round would have placed many of these reforms in concrete terms but unfortunately it is not moving.

Nevertheless, the important role that agricultural trade policies can play in achieving the biggest social challenge of the 21st century i.e., food security for everyone is well-accepted. Most rich countries accept that their policy of high subsidization of agriculture had negatively impacted poorer countries. At the same time, poor countries also realize the importance of reforming their trade policies. This is a unique historical opportunity to realign domestic agricultural policies globally.

There's money in countries that used be poorer and richer countries need to spend more wisely – while the world is constantly facing the threat of mass hunger. National level reform coupled with international commitments that preserve them will benefit all of us.