ECOSOC Hearings and Dialogue with Representatives of Civil Society

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Panel 2: "International Trade"

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IATP is a non-profit organization working on agriculture, the environment and trade issues in the upper Mid-West of the United States, as well as nationally and internationally.

Exactly one year ago today, we met in Monterrey, Mexico to listen to each other's views on Financing for Development. As NGOs, many of us were disappointed with the document, seeing it as proof that the UN was shying away from the challenges that its own trade and development work had highlighted. Many of us—governments, business and NGOs—agree that international trade is fundamental to development. Most of us have also acknowledged that increased trade is not a sufficient condition for increased development. We know that trade must be integrated into development policy to be a useful tool. However, our governments at the UN continue to abdicate responsibility for trade to their colleagues at the World Trade Organization, despite that institution's single-minded focus on market access. Governments did not establish the WTO to cope with the multifaceted demands of development, and it shows.

My NGO and many who work with us applaud the commitment taken by governments in Monterrey to a rules-based, non-discriminatory and equitable multilateral trading system. We also object to the assertion that such a system will best be achieved by a universal commitment to trade liberalization for all sectors. A non-discriminatory and equitable multilateral trading system, particularly one dedicated to multilateral development objectives, may well require that we reverse liberalization in certain areas, and halt the process in others.

The political resistance to trade liberalization, from trade unions, social movements, small farmers and other sectors in both developed and developing countries is a reality. So are supply-side failures in many developing countries. Many world markets are heavily distorted by the extraordinary dominance of a tiny small number of transnational companies. The existing model of trade liberalization is reinforcing the power of these companies at the expense of job-creation, small and medium-sized business development, and broadly shared equitable growth. Liberalization is reinforcing the existing, and growing, market distortions created by oligopolistic market power. This does nothing for poverty elimination, and nothing for development.

When we met in Monterrey, the World Trade Organization had recently held its fourth Ministerial Conference, in Doha, Qatar, and produced the so-called Doha Development Agenda. The WTO itself, and many developed governments, heralded the outcome of Doha as a triumph for development. A year later, the development rhetoric has slowly disappeared from the headlines: one hopes it is from a sense of shame as developed countries have continued to let deadline after deadline for development commitments slide, while continuing to seek their own interests with aggression. The United States has single-handedly blocked follow-up on the Declaration on Trade Related Intellectual Property Rights and health. It is ironic that the administration is at the same time fighting a significant political battle at home as the many, vocal US pensioners wonder why their drugs cost 40 percent more than the exact same products in Canada or Mexico. Developed countries have also failed to even start to meet developing country concerns with implementation of the Uruguay Round Agreements, despite commitments made in Monterrey. All the while, developed countries pressure to add investment and competition to the over-loaded agenda, despite strong statements from respected development economists, the World Bank, UNCTAD, and countless NGOs, which all say these issues will hinder development interests.

I want to turn to the area I know best, agriculture. Just this week, the Chairman of the WTO committee negotiating on agriculture, Stuart Harbinson, released a second draft of a proposed framework for negotiations on a revised Agreement on Agriculture. The framework is effectively the same as that of the existing agreement, based on three so-called pillars—market access, domestic support, and export subsidies—with proposals to increase market access through tariff reduction, reduce certain kinds of domestic support and eliminate export subsidies over ten years.

The draft agreement suffers on two grounds. First its ambition: the proposals miss what the Philippines and others have categorized as the interlinkages among the pillars, and the need to balance the demands among them. Instead, the proposals are focused on market access and continue to ignore the very significant differences between developed and developing country capacity to provide support to their agricultural sectors. The proposals on market access are radical, and will force quite significant reductions in developing country tariffs if they pass as proposed. The European Union and United States agree on this dimension of the international agricultural trade agenda, which gives it added impetus. Even crops designated as so-called "strategic products" (think of them as crops essential for a developing country's food security) are subject to a ten percent tariff reduction in the proposed new rules. The proposed elimination of export subsidies is also perhaps radical, but the phase in is very slow and the EU, Japan and others that use export subsidies are far from accepting the proposal. As for domestic support, the proposed 60 percent reduction in certain kinds of domestic payments not only leaves billions at the disposal of countries rich enough to spend them, but continues to leave unlimited many of the payments on which, for example, the United States depends to keep its commodity prices well below cost of production prices. This pillar is thus treated to a very different standard of liberalization than the other two.

Second, and more fundamentally, the proposals continue to ignore some of the root causes of market distortion in world agricultural markets. First and foremost of these is the oligopsonistic nature of commodity trading and processing. Market access opportunities are worthless if farmers don't have access to marketing channels to export their goods. Who controls those channels? A small number of transnationals. The plight of coffee growers has made front page news recently, as they face the lowest prices in a century. Four companies buy almost half the world's coffee production (Nestle, Kraft, Procter & Gamble, and Sara Lee) and they have shown record profits with the sudden collapse in their input costs. It is not that these companies colluded to lower prices. But their decision to include larger amounts of lower grade coffee in their consumer products has transformed the sector, and lowered prices on all grades of coffee. Moreover, there is no pressure on these dominant players to reduce the price to consumers as over-supply drives coffee bean prices down. Consumers can be forgiven for not noticing that coffee beans have never been so cheap—it certainly hasn't registered in the price of an average latte.

Note, there are no subsidies involved here—this isn't a question of over-production caused by high levels of domestic support. No, the problem is over-supply, as with so many commodities whether produced in rich or poor countries. The WTO framework for agricultural trade rules encourages this over-production by penalizing the measures that might help to control it—such as publicly managed reserves—while allowing the policies that would curb it, such as export subsidies and unlimited levels of income support to farmers who can no longer get a fair price from their market.

IATP is clear that both North and South need to protect their agricultural production, and their food security. There is a role for agriculture in developed countries. However, it must not come at the price of food security in the South. Developed country agricultural policy must not pander to the processors' wish for over-supply and low commodity prices. Instead, it must correct the market failures that typify agriculture to ensure an adequate, fairly priced production that in turn ensures the interests of producers, processors and consumers alike.

What should be done?

1. **ECOSOC should insist on the importance of a more flexible trade policy regime.** We have done the studies; we have the supporting evidence: it is time to put in place a more flexible policy approach to trade. The WTO will only survive as a useful institution if it finds its place as an integrated part of the UN system.

2. **Special and Differential Treatment must be operational.** Longer time frames to reach the same rules are not the answer to the challenges that confront countries as diverse as Malaysia and Mali. Meaningful special and differential treatment, at the WTO and in all international trade agreements between developed and developing countries, is a minimum requirement for an equitable trade system.

3. **Trade rules for agriculture should target the real distortions.** The practice of selling commodities at less than cost of production prices must be effectively outlawed. Oligopsonistic markets must be disciplined. The double standard that forces liberalization on developing countries while maintaining protective barriers in the North must end. Governments in ECOSOC should challenge their trade colleagues to build trade rules that are rooted in development—that will maximize employment in decent conditions, increase local capital flows and ensure a safe, stable and adequate food supply to protect every person’s fundamental human right to food.