

Commentary II: From Dumping to Volatility: The Lessons of Trade Liberalization for Agriculture

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Abstract

The weakening of agricultural, financial and trade rules has contributed significantly to increased volatility and corporate concentration in agricultural markets. This increased volatility is harmful to long-term investments to protect the environment and build climate resilience in agriculture. Public investment and regulation is needed to ensure stable food supplies and fair prices, and to facilitate a shift to sustainable agricultural practices.

Much of the international debate on trade and agriculture, from the founding of the World Trade Organization (WTO) to the recent rise of agricultural commodity prices, has focused on the damaging effects of agricultural dumping (i.e. exporting at below cost of production) by agribusiness corporations based in the EU and the United States. Since 2008, as a result of the global food price crisis, this focus has shifted to concerns about price volatility. But both dumping and volatility are symptoms of the same bad policy decisions: a weakening of government oversight in setting and implementing agricultural, financial and trade rules. While this approach has been a boon to agribusiness companies operating around the globe, it has been damaging to farmers and those struggling with food insecurity. Equally important, this era of volatility threatens to overwhelm efforts to transition to more resilient, ecologically friendly agricultural production that is essential in the present context of climate change. The international debate needs to shift once again to a focus on the right kinds of rules to rebuild resilient food systems. Substantive structural reforms of agricultural, financial and trade policies would be a major step forward.

A. Liberalizing trade and increasing food insecurity

The liberalization of trade rules greatly accelerated in 1994 with the passage of the North American Free Trade Agreement (NAFTA), which set the standard for subsequent bilateral and regional trade agreements involving the United States, such as the Central America-Dominican Republic-United States Free Trade Agreement (CAFTA), and those negotiated

between Mexico and other trading partners. It also influenced the nature of trade deals pursued by the EU. Shortly after the passage of NAFTA, the WTO came into being in 1995, and various WTO agreements (particularly the Agreement on Agriculture) induced the further opening up of markets in developing countries. These bilateral and multilateral agreements limited the policy options available to these countries to protect their farmers from dumped imports and to support their farmers in boosting food production. This wave of agreements to liberalize trade and deregulate capital movements opened developing economies to foreign corporate investment that focused on expanding large-scale industrial food production for export. As a result of these changes, many countries that had previously produced most of their own food became dependent on imports. A dramatic example is that of Haiti, which produced 80 per cent of its rice requirements in the 1980s, but now, following decades of deregulation and liberalization, imports 80 per cent of its rice (Guereña, 2010).

During the WTO's first decade of existence, dumping by multinational agribusiness companies was both widespread and highly destructive. The Institute for Agriculture and Trade Policy (IATP, 2005) calculated dumping margins for United States commodity crops during the period 1990–2003 and found that wheat, corn, soybeans, rice and cotton were consistently exported at well below the cost of production (ranging from 10 per cent for corn to more than 50 per cent for cotton). A subsequent study by Wise (2010) also found that dumping of United States commodity crops and meat on Mexico was commonplace during the period 1997–2005.

While trade liberalization, or free trade, was touted as a way to improve food security, it has unquestionably failed (Murphy, 2009). Floods of dumped imports, especially during the harvest, can be devastating for developing-country farmers, and they increase dependence on food imports. Additionally, trade rules have facilitated the further concentration of global food supply in large private firms, thereby disempowering not only farmers and consumers, but even governments. Dependence on this increasingly concentrated global food supply chain, dominated by private players, increases importing countries' vulnerability to shocks, whether from extreme weather events or excessive financial speculation in agricultural commodity markets. Moreover, the shift towards a greater role for the private sector in managing the global food supply has coincided with rising global rates of hunger – from 788 million worldwide in 1995–1997 to 925 million in 2010 (FAO, 2011).

B. United States agricultural policy: Freedom to fail

Working in tandem with efforts to further liberalize trade, United States farm policy has retreated from its traditional role in managing agricultural markets. Over the past half century, the country's agricultural policy has shifted from a system of supply management that helped moderate prices for both farmers and consumers, to a system more dependent on so-called free-market forces. This transition culminated in the 1996 Farm Bill (known as Freedom to Farm), which removed the last vestiges of supply and price management (except for sugar), ostensibly to allow farmers to respond to market prices and export to new markets overseas. But as farmers expanded production with no supply management, agricultural commodity prices collapsed. The following decade of low prices – often below the cost of production – not only led to increased dumping on export markets, but also spurred the United States Congress to attempt to compensate for its policy failure by approving a series of emergency subsidy payments, and ultimately making those payments permanent in the 2002 Farm Bill.

During this decade of low prices and increased dumping, United States farm subsidy payments soared, peaking in 2000 and 2001, and again in 2005. But since 2005, payments to domestic farmers have steadily dropped as commodity prices have risen.⁴³ Higher commodity prices have not necessarily meant

higher profits for farmers. Costs of inputs, including seeds and fertilizer, have also dramatically increased, reducing the potential profits of small and medium-sized farmers in the United States (Wise, 2011; USDA, 2010). The cost/price squeeze accelerated the trend in United States agriculture away from small and medium-sized farms to very large farms that were able to spread costs over larger land areas. These large farms were also the beneficiaries of about 75 per cent of commodity programme subsidies. As a result, over the past 25 years, the number of small, commercially viable farms (with sales of between \$10,000 and \$250,000) has fallen by 40 per cent, and that of very large farms (with sales of more than \$1 million) has increased by 243 per cent (Hoppe, MacDonald and Korb, 2010). Also during this period, the percentage of United States agricultural production controlled by the top four firms in a given sector has increased substantially. For example, in beef packing it rose from 72 per cent in 1990 to 83.5 per cent in 2005 (Hendrickson and Heffernan, 2007).

EU subsidies to agriculture under the Common Agricultural Policy (CAP) are now largely decoupled (unconnected to production or prices, making them “minimally trade-distorting” to the WTO). While the true extent of the decoupling depends on how the subsidies are measured, total EU subsidies have not varied as dramatically as those of the United States over the past few years (Berthelot, 2011).⁴⁴ While the CAP differs substantively from the United States Farm Bill, the underlying challenge is the same – how to redirect support away from large-scale production for export towards programmes that can provide greater food security, rural livelihoods and a transition to sustainable agriculture. The current complex system of support enables agribusinesses to exploit the system to the detriment of farmers in both developing and developed countries.

C. Financial market deregulation

How financial markets and commodity futures markets are regulated is another factor that strongly affects agricultural production. A series of laws passed by the United States Congress, beginning in the early 1990s and culminating in 2004, succeeded in opening up commodity futures markets to a flood of new speculative money. In 2004, Hank Paulson, Treasury Secretary in the George W. Bush Administration and then chief executive officer of Goldman Sachs, successfully lobbied for an exemption from the rule that investment

banks maintain large enough currency reserves to cover their unsuccessful trades. The rule exemption freed billions of dollars that Goldman Sachs and four other banks used for high-risk investments, including commodity index fund bets (IATP, 2008). Commodity index funds (which deal in agriculture, energy and metals) exploited these new loopholes and flooded commodity markets with money, betting thereby to drive up prices, regardless of the market fundamentals of supply and demand. For example, in March 2008, the unregulated biggest players, Morgan Stanley and Goldman Sachs, owned 1.5 billion bushels of Chicago Board of Trade corn futures contracts, while all corn producers and processors had the means to hedge only 11 million bushels against price swings. These unregulated funds controlled 33 per cent of all United States agricultural futures contracts during the period 2006–2008 (Suppan, 2009). Most of this excessive speculative activity takes place in over-the-counter trading, which is traded off-exchange and is not subject to trade data reporting requirements, or to margin collateral and other requirements of regulated exchanges. When these Wall Street funds sold off their contracts in mid-2008, prices tumbled. Overleveraged financial firms, without reserves to cover losses, were insolvent counterparties to these risk bets until they were recapitalized by the United States Congress and taxpayers. Today, these same financial speculators continue to destabilize commodity markets in the United States and elsewhere (see also the comment of Müller in this chapter).

The role of excessive speculation on international agriculture markets has been well documented by a host of international agencies and research institutions, including, most recently, UNCTAD (2011). The UNCTAD report, through an analysis of data as well as extensive interviews with financial traders, describes the new forces of financialization in commodity markets, beginning in 2004, and their contribution to steadily rising prices and increasing volatility.

Finally, it is impossible to overstate the enormous costs of financial market deregulation to government budgets around the world. Agriculture has not been spared by the global financial collapse, as less and less money is now available for food aid, and for investments for increasing production in developing countries, for promoting sustainable agriculture and for agricultural adaptation to climate change, among many other needs.

D. Investments in ecological agriculture undermined by volatility

Extremely low agricultural commodity prices over the past two decades, followed by recent spikes in prices, discourage long-term investments in more sustainable, ecological agriculture that will benefit the environment, water quality and quantity, and the climate. When prices are low, farmers struggle to make a living, and focus almost exclusively on increasing production to make up for the low prices. When prices shoot up or are projected to increase, governments and academics often advise farmers to devote even more land to production, often in environmentally sensitive areas. This tension between the usually futile efforts to respond to prices and investments for long-term environmental sustainability is evident in recent challenges facing United States conservation programmes, specifically the Conservation Reserve Program (CRP) and the Conservation Stewardship Program (CSP).

The Conservation Reserve Program is part of the Farm Bill that pays farmers to set aside and protect marginal farmland from agricultural production. CRP land is critical to slowing down soil erosion, and protecting wildlife and waterways. Indeed, it has protected tens of millions of acres over the years. But this popular programme has seen a significant decline in participation as farmers have taken over more land for production in an attempt to benefit from rising commodity prices. From October 2008 to July 2010, 3.4 million acres of CRP land went back into farm production (Cowan, 2010).

The Conservation Stewardship Program is the country's largest conservation programme, covering 35 million acres nationwide, and it is accessible to all farmers regardless of size or type of crop production. It rewards farmers based on their conservation practices that protect the soil, water, air and natural resources. In past Farm Bills, the CSP was woefully underfunded. The 2008 Farm Bill took a major step forward by allowing an estimated 13 million acres to be eligible for CSP's multi-year contracts each year. Despite this funding increase, only 57 per cent of eligible farmers could participate in the programme in 2009 and 2010 because of a lack of funds, according to the United States Department of Agriculture (USDA). And the programme is likely to face cutbacks under current efforts to reduce government debt. A 2012 budget bill passed by the House of Representatives in June 2011 would cut over \$1 billion in conservation

spending, including \$210 million directly from the CSP (currently funded at \$1.2 billion a year), and potentially force the USDA to break contracts with farmers that were signed earlier this year.⁴⁵ It is unclear exactly how much funding for conservation programmes will be cut as part of the recent debt ceiling bill passed in August 2011. Although some conservation programmes in the United States Farm Bill support practices that will both reduce carbon emissions and increase adaptation to climate change, the bill does not explicitly address climate change. Despite the lack of comprehensive climate change legislation, the Obama Administration and the USDA have strongly supported treating agriculture largely as a source of carbon emission offset credits for polluters participating in a carbon market. This perspective on agriculture's place within climate policy is reflected in a June 2011 USDA announcement of grants for projects geared almost entirely to measuring GHG emission reductions, and how those reductions could be converted into offset credits for a carbon market (USDA, 2011). There are no government plans or significant resources focused on helping agriculture in the United States to transition towards more climate-resilient practices and production.

The expected cuts in conservation programmes in the United States, and the denial by Congress of climate change as a major destabilizing factor in agricultural production are in contrast with Europe's climate change orientation within its Common Agricultural Policy. That climate change is happening and must be addressed in agriculture policy is understood within the CAP. In May 2011 the European Parliament's Agriculture Committee agreed to maintain funding for agriculture and to increase its emphasis on producing enough food while improving environmental practices. In addition to increasing incentives for sustainable production, the EU will more directly link payments to "greening measures" that reduce GHG emissions (EurActiv, 2011).

E. From volatility to sustainability

The seeds of current price and supply volatility in agricultural markets were planted several decades

ago through a series of policy decisions that have gradually strengthened the hold of large agribusinesses over markets and disempowered both farmers and countries struggling with food insecurity. To help address the enormous challenges related to food insecurity and environmental and climate degradation in the coming years, market reforms are needed to make agriculture more economically and environmentally sustainable. The issue is not only related to trade; it also involves disentangling local food economies from the grips of vulnerable supply chains dominated by transnational corporations. It is not only about whether subsidies are right or wrong, but rather how best to invest public money and establish regulatory oversight to create the right food system. A new set of values must be injected into policy-making that gives priority to food security, farmers' livelihoods, environmental sustainability and resilience, and democratic decision-making.

The following are some initial steps that should be taken:

- A reassessment of trade rules to enable developing countries to protect and support sectors vital to their food security and rural livelihoods.
- Support for the establishment of food reserves as a tool to mitigate price and supply volatility and strengthen food security when domestic production fails.
- Prevention of excessive speculation in commodity markets through the establishment of commodity-specific position limits and increased transparency in over-the-counter trading.
- Greater investment in agroecological farming practices, as outlined in the reports of the International Assessment of Agricultural Knowledge Science and Technology for Development (IAASTD, 2008), to strengthen both food security and resilience to climate change, with an emphasis on supporting small-scale farmers, particularly women.
- Reform of national farm policies, particularly the United States Farm Bill and the EU's Common Agricultural Policy, to eliminate dumping, encourage environmental sustainability and prevent oligopolistic control of market prices and practices.