

Ten Ways to Fix Agricultural Trade



Global trade in agriculture is a mess. The mix of national policies and multilateral rules has sent commodity prices plunging. Farmers around the world have been forced off their land because they can no longer make a living. Trade policy refugees from rural areas flood cities without enough jobs or housing. Every international institution from the United Nations and its agencies to the World Trade Organization (WTO) blames the agricultural trade practices of rich countries for devastating rural communities in developing countries. At the same time, these policies have also damaged rural communities in developed countries. Food security—people’s ability to feed themselves and their families with adequate and culturally appropriate food, whether from their own production, imports or some mixture of the two—has suffered as a result.

The WTO is the focus of international efforts to solve this problem. No one thinks it can be the sole solution, but efforts to reform developed country agriculture are firmly anchored there. The debate at the WTO has centered on three aspects of agricultural policy: domestic support, tariffs and export subsidies. Experts declare all three to be damaging to global agriculture and trade rules subject all three to restrictions and reduction. However, current WTO talks to tighten these disciplines are stuck. The proposals now in play reflect the domestic politics of WTO members, especially developed country members, and the export interests of multinational agribusinesses that trade in commodities and processed food. WTO negotiators have ignored the economic and social needs of developing countries.

Even if governments at the WTO were miraculously to *eliminate all* trade-distorting elements of agricultural policy, world markets would not magically start to maximize developing countries’ welfare. WTO efforts fail to target the most egregious market distortion—dumping, the export of products at below cost of production prices. Worse, the present WTO agricultural agreement, and proposed changes, fail to incorporate binding commitments to realize fundamental objectives that include the fulfillment of the human right to food and the establishment of a resilient rural sector as a basis for economic development.

The WTO Agreement on Agriculture has failed rural

communities around the world. Its successor, now under negotiation, is set to perpetuate the failure. The following proposals are a basis for a new agricultural trade system.

1. Ban on dumping. Current WTO rules tackle dumping by allowing countries to tax imports that are sold for less than the price in the home market, but this levy is insufficient and difficult to apply. Extensive and chronic over-production of many commodities have depressed prices and made dumping endemic. Dumping margins should be measured against production costs and a socially optimal profit, not against easily manipulated domestic prices. Few developing countries can protect their producers with subsidies. They should be allowed to use border measures, such as tariffs, instead.

2. Improve available data on costs and prices. To ban dumping, the WTO should receive on a timely and predictable basis accurate and complete cost of production numbers for all crops that a country wants to export, including the dollar value of domestic support measures that cover production costs. A minimum threshold level could be established, such that a country would be exempt from this assessment if it provided say three percent or less of the world market for a given commodity. Elements of the Organization for Economic Cooperation and Development (OECD)’s Producer Support Estimate (PSE) provide a possible starting point for this measurement.

3. Target real trade distortions. The 1947 General Agreement on Tariffs and Trade (GATT) allowed countries to use agricultural tariffs if they managed their production, but they were prohibited from exporting any surplus that might result. This approach should be revived. Instead of judging national programs by how much they cost, trade negotiators should discipline the trade-distorting impact of those programs. There is no right to export nor obligation to import; yet, those seem to be the assumptions of the present agricultural agreement. Countries have the right to determine for themselves what national agricultural production they wish to maintain and what they wish to import, so long as their national policies do not damage other countries’ ability to do likewise.

4. New criteria for subsidies. Many agricultural subsidies are problematic, but not all subsidies result in unfairly trad-

ed exports. Negotiators need a few guidelines to judge what disciplines to impose in a multilateral agreement on agricultural trade. Support payments should not fuel over-production, which is a major cause of depressed commodity prices. Most export subsidies fail this test, and so do some—but not all—domestic support payments. Decoupled support payments do fail the test. Subsidies should be evaluated against the costs and benefits they confer.

5. Allow state trading enterprises. The WTO should not prohibit State-Trading Enterprises either explicitly, or *de facto*, by outlawing policies necessary to the establishment and operation of a single desk seller. Export state-trading enterprises offer a competitive counterweight to concentrated export markets. STEs have real costs and are an obvious temptation for corruption. Nonetheless, properly overseen and with provision for control by farmers, they offer important benefits, particularly in countries where the private sector is weak or under-capitalized or where it is highly concentrated.

6. Increase transparency in commodity markets. Governments need to improve dramatically the transparency in international commodity markets. The UN Commission on Trade and Development (UNCTAD) had a mandate to monitor these markets, but developed countries killed the mandate in the 1980s. It is not currently possible to say with certainty, for example, which companies control what percentage of the global wheat trade. Furthermore, weak regulation of commodities futures and options markets has exacerbated market price volatility far beyond what would result from changing supply and demand equations or from legitimate hedging against crop failures and other supply shortfalls.

7. Regulate market concentration. Vertical and horizontal concentration in global commodity markets is a primary cause of market distortion. Possible policy responses include an international review mechanism for proposed mergers and acquisitions among agribusiness companies that are present in a number of countries simultaneously. At a minimum, transparency requirements now imposed on state-trading enterprises should be extended to companies with 20 percent or more of a national or global market in a given commodity. Similarly, joint ventures based on monopoly rights conferred by increasingly easy to obtain patents also require better regulatory scrutiny.

8. Safeguard food security. Developing countries have made proposals to allow the protection of their agriculture

through the designation of “special products” (crops strongly related to the country’s food security) and the creation of a special safeguard mechanism that would create a responsive and effective system to protect agricultural markets from import surges. These proposals alone cannot ensure food security, but they offer important protections against imports, whether dumped or not, that undermine national productive capacities.

9. Reform food aid. The WTO is not competent to judge what kinds of food aid serve a legitimate humanitarian or development purpose versus the donations that simply relieve pressure on the donor’s structural oversupply. Even expert bodies struggle with the complexities of making such judgments. Nonetheless, it is clear that food aid can and does displace both local production and third country exports. The UN Food and Agriculture Organization has an inter-governmental sub-committee dedicated to monitoring food aid donors’ disposal of food surpluses. The WTO should limit itself to instructing members to follow the food aid norms of a revamped Food Aid Convention that would be negotiated among beneficiary, as well as donor, countries.

10. Democratize the process. Good agreements from bad process are nearly impossible. While the U.S. and a few other WTO members congratulate themselves on the recent meetings in Geneva that resulted in a framework agreement on the Doha round of trade talks, at least 119 of the 147 member countries were largely excluded from the negotiations. Many of them have expressed frustration with the “informal,” undocumented and unaccountable proceedings. The negotiations continued a long-standing approach, of allowing only a handful of countries to reach agreement, and then giving the full governing body a short time (in this case less than 24 hours) to consent to a done deal. The WTO needs clear rules for official negotiations that guarantee effective participation of all 147 members.

The WTO is now over 10 years old. It is overdue for an objective evaluation of whether its prescriptions have benefited people, not just boosted cross-border trade statistics. It is time to craft policies that discipline all sources of market distortion and to measure success against the imperative of meeting agreed international development benchmarks. Such an agreement would truly be historic. ●

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