



## WTO, Agricultural Deregulation and Food Security

By Sophia Murphy, Institute for Agricultural and Trade Policy

Can deregulated world markets ensure food security for the world? No negotiator of the Uruguay Round Agreement on Agriculture (AoA) could honestly say that this was the first intent of the agreement. Rather, the agreement focused on how to apply General Agreement on Tariffs and Trade (GATT) disciplines to trade in agricultural products through curtailing public expenditures and border protections such as tariffs and import quotas. Yet, the AoA preamble lists food security as one of the legitimate "non-trade" objectives of agriculture policy.

The AoA can be divided into three areas: market access, which deals with tariff barriers and import quotas; domestic support programs, such as price support payments to farmers; and export subsidies. In each area, the agreement lays out rules to dismantle barriers to trade by reducing tariffs and public expenditures on agriculture. The proponents of the agreement, including the U.S. and many developing countries, argued that food security would be enhanced if developed countries stopped stimulating production through price supports and export subsidies. The market-access gains afforded

Southern nations through reduced Northern tariffs were also expected to raise developing countries' foreign exchange earnings, enabling them to buy what food they needed from world markets.

Food security depends on an adequate supply, distribution, and access to culturally appropriate food for every individual. It depends on intricate social, cultural, economic, and political relationships that differ enormously from place to place and over time. Few would deny that international trade plays a part in this process, but

food security varies from country to country. For example, though most developing countries expected to gain from the AoA, negotiators acknowledged when they signed the Uruguay Round agreements in Marrakesh in 1994 that poor net food-importing countries could be harmed by the reduced availability of subsidized food in the world market. As a result, they added the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on

Least-Developed and Net Food-Importing Developing Countries. This decision promised these countries financial assistance both to ensure that adequate food imports could be maintained and to improve their agricultural productivity and infrastructure.

The AoA makes concessions to developing and least-developed countries' (LDCs) special needs, including a longer implementation period (ten rather than six years) and lower reduction commitments for programs that support agricultural production and trade. The principle of special and differential (S&D) treatment was used to provide developing countries with these more favorable terms. LDCs are exempt from tariff reductions (although they must bind them to a maximum level) and cuts to domestic support programs (although they are subject to a spending ceiling). LDCs are also exempt from export subsidy reduction requirements.

In Article 20 of the agreement, governments committed to a review of the implementation of the AoA to inform new negotiations. The framework for these negotiations is to be decided at the 3rd World Trade Organization (WTO) Ministerial Conference in Seattle in December. The U.S. wants to reduce tariff barriers, eliminate and prohibit export subsidies, discipline the market interventions of state trading enterprises (government marketing boards controlling price and supply of agricultural products), and ensure that trade in biotechnology products is not hampered by "unscientific" restrictions. The draft framework includes no specific mention of food security concerns, even for LDCs.

The U.S. has obligations to ensure that trade rules do not undermine food security. Not only is this objective mentioned in both the preamble and Article 20 of the AoA, but the U.S. has also made other international commitments to ensuring that trade policy supports food security. For example, at the World Food Summit in 1996, two years after the Uruguay Round agreements were signed, governments agreed, "we will strive to ensure that food, agricultural trade and overall trade policies are conducive to fostering food security for all through a fair and market-oriented world trade system."

By reviewing trends in domestic production levels, export revenues, import costs, and world prices of staple crops, it is possible to measure the impact of trade liberalization on countries' abilities to both produce and buy the food they need. These macro indicators provide important (albeit incomplete) reference points for an evaluation of the impact of the AoA on food security.

### Key Points

- The Uruguay Round Agreement on Agriculture mentions food security as a legitimate "nontrade" concern of agricultural policy, but the agreement focused exclusively on liberalizing trade in agricultural products.
- Proponents of the AoA said it would strengthen food security by removing distortions in agricultural trade.
- Article 20 of the AoA requires that parties evaluate the implementation experience to inform new negotiations on agriculture, due to begin in January 2000.

The AoA prescribes a model for agriculture that has basically only one dimension: increasing agricultural production for exports, importing what cannot be produced without tariff protection or subsidies to producers. This model is imperfectly articulated and includes various exceptions that have proved of more use to developed than developing countries.

In fact, it has been widely noted that the AoA seems to have more S&D provisions for rich countries than for poor. The AoA includes several "boxes" that disproportionately benefit developed countries. Boxes are categories of exemptions from the AoA's reduction rules in order to meet particular social or environmental objectives. The "green box" (Annex 2) contains policies that affect both developed and developing countries, but it primarily lists spending exemptions, thereby excluding countries that do not have revenue to invest in agriculture. The "blue box" (Article 6.5) exempts deficiency payments to farmers based on their acreage or quantity of livestock. This was entirely for the benefit of the U.S., which has since discontinued such programs, and the European Union, which remains heavily dependent on these measures in the implementation of its agriculture policy.

In the U.S., 1996 domestic farm legislation shifted the basis for making payments to grain farmers from the types and quantities of crops produced to so-called "decoupled" payments. This was expected to break the production enhancing element of government support. In practice, however, farmers have increased production in response to both high and low world prices, against the expectations of trade theorists. The new payments remain as a subsidy to agriculture, without the benefit of controlling production levels.

In contrast, the S&D provisions for developing countries—e.g., longer implementation periods—have failed to offer the flexibility they need to address their food security needs. Many countries submitted their tariff schedules and estimates of domestic support without sufficient care. In so doing, they have lost the flexibility to build in trade-offs between tariff levels on specific products and to ensure that sensitive areas continue to receive support (for example, subsidies to encourage yield increases in food deficit areas). Many developing countries register a negative balance of support to their farmers because local prices are less than world market prices.

Analysis from the Food and Agriculture Organization (FAO) shows that, despite record low prices over the last

three years, poor developing countries' food bills have increased by an average of 20% since 1994, the year the AoA was signed. At the same time, worldwide commodity prices are setting new lows, damaging countries' abilities to pay for imports by reducing their capacities to earn foreign exchange. Output levels even within specific countries have fluctuated during the implementation period, but many developing countries remain locked into a trend of growing dependency on food imports while their revenues from commodity exports decline.

In practice, the Marrakesh Ministerial Decision on food security has been useless. In a year of record high prices (1996), with cereal prices up 40% over the previous year, the WTO Committee on Agriculture took the advice of the International Monetary Fund (IMF) and refused to implement the Marrakesh Decision. The IMF argued that the price spike could not be directly attributed to the AoA and that therefore members were not responsible for implementing the decision.

In concurring with this argument, the powerful members of the WTO reneged on their commitment to assist poorer countries that faced difficulties under the new trade rules.

The U.S. negotiating positions, submitted in July 1999 to the WTO Committee in preparation for the 3rd Ministerial Conference, do not reflect a concern for developing countries' food security. Only one mention is made of LDCs—in relation to improving market access, which ignores World Bank and UN Conference on Trade and Development (UNCTAD) analyses that supply constraints are the biggest barrier to improving poor countries' export performance. Market access has hardly changed with the implementation of the AoA, and developing countries' share of world agriculture markets has remained static.

The U.S. position ignores the provision for an assessment of the implementation experience to date, outlined in Article 20 of the AoA. Instead, the U.S. proposals echo the structure of the existing agreement, with no acknowledgement that developing countries face serious implementation problems.

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## Key Problems

- The AoA prescribes a model for agriculture that is not flexible enough to protect food security.
  - The AoA is tilted in the interests of developed rather than developing countries.
  - The U.S. negotiating position for the agriculture talks addresses neither the food security needs of developing countries nor the lack of equity in the AoA's framework.
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Multilateral organizations need to be more responsive to the food security concerns of developing countries. To ensure that this happens, U.S. officials and policy-makers should support the following two initiatives:

First, there needs to be consistency among U.S. policies in various multilateral organizations to ensure that trade policy does not undermine commitments to protect food security, eradicate poverty, and protect the environment. Food security is a clear example of an

objective that requires inter-sectoral cooperation. The WTO needs to work with other multilateral institutions experienced in specific dimensions of the nontrade concerns that touch the WTO's work. The cooperation exhibited by the IMF, the International Trade Commission, the UNCTAD, the UN Development Program, and the World Bank at the 1997 High Level Meeting on LDCs provides a useful model. Such collaboration requires resources and a commitment from governments to integrate trade policy into other areas of international development planning.

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## Key Recommendations

- The integrity of the global trading system depends on improved policy coherence and creating new institutions to ensure that developing countries can participate fully.
  - Trade rules need to be specifically designed to give developing countries flexibility in deciding their agriculture and trade policies.
  - The new negotiations on agriculture need to address the dumping of food from developed countries (including the U.S.), which unfairly competes with developing country producers.
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Second, the U.S. government should fund (and otherwise support) capacity-building to strengthen the participation of poor members of the WTO. Many member countries of the WTO cannot afford an office in Geneva, let alone enough staff to attend all the meetings that occur (often three or more simultaneously). There has been an increase in the training and other assistance offered to developing country officials since 1994, but the problem remains serious. The proposal to create a legal office in Geneva to service developing countries' disputes at little or no cost exemplifies the kind of innovations needed to make the system more balanced.

More specifically with respect to the AoA and its implementation, there are two chief recommendations:

The first is to create a "food security box" within the agreement, either as a stand-alone item or as a series of amendments to the existing AoA articles. Using the principle of the "blue box," the food security box would list policies that are protected from the requirement of distorting trade as little as possible whenever these policies meet important social objectives. The food security box would aim to ensure that developing countries have the flexibility to support domestic agricultural production and food security. Tariffs and other kinds of taxes, for example, could be allowed as a way to protect domestic agriculture without incurring new expenditures. Policies to protect poor consumers from the sudden price swings of international commodity markets and to ensure the availability of staple crops

not generally traded internationally (white maize, sorghum, and others) could also be considered. The box would be for developing countries only.

Related to this, special measures are necessary to address the needs of net food-importing developing countries. A price trigger should be established that automatically releases resources to buy food in the world market when prices are high and exceed poor countries' abilities to pay. This would bypass any discussion of what caused the price increase and would move straight to resolving what has been accepted as an undesirable outcome. The price trigger should not be set at less than the cost-of-production prices.

Second, antidumping policies specific to agriculture should be considered. The U.S. should look at the discrepancy between cost-of-production prices and world market prices and should determine (with other WTO members) how to curb the persistence of extremely low prices for agricultural commodities in world markets. U.S. farmgate prices for many crops are consistently less than many countries' cost of production, and producers all over the world find themselves in competition with these prices as border protections are removed.

With increasing vertical integration in the food and agriculture sector at the U.S. and global level, the scope for distorted world prices has remained unchanged, if not worsened, since 1994. The consolidation of U.S.-based multinational companies in the food sector has been justified to (and by) the Justice Department on the grounds that international competition demands a relaxation of antitrust laws at home. Ironically, few companies anywhere in the world are able to compete with U.S.-based grain multinationals such as ADM and Cargill. The structure of international food markets requires international examination, monitoring, and regulation.

The lack of rules in agricultural trade that preceded the AoA contributed directly to food insecurity in the world. The right rules could make a difference. However, those who face persistent hunger in the world do not have the money to exercise effective demand in a "free" market. The trend toward increased trade in processed food, a demand made by relatively wealthy consumers in mostly urban areas, is indicative of this problem. While in some regions this indicates a real decrease in the number of people living in hunger (they can afford to spend more on food), in many others, it reflects the (normal) preference of food merchants for rich over poor consumers. Public action is essential to redress these problems.

Nobody needs to go hungry—each person that does is the victim of conscious policy choices and policy failures. The U.S.—richest country in the world, home to the largest grain traders in the world, and producer of enormous agricultural surpluses—is failing to play a leadership role. We all have a responsibility to ensure that U.S. policy helps end rather than increase world hunger.

# Sources for More Information

## Organizations

### Action Aid

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### Catholic Institute for International

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<http://www.ciir.org>

### Focus on the Global South

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Website: <http://www.focusweb.org>

### Food First/Institute for Food and

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### Institute for Agriculture and Trade Policy/IATP

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Email: [iatp@iatp.org](mailto:iatp@iatp.org)  
Website: <http://www.iatp.org>

### International Partners for Sustainable Agriculture

2100 L St. NW  
Washington, DC 20037  
Voice: (202) 778-6119  
Fax: (202) 778-6134

### Public Citizen

215 Pennsylvania Ave. SE  
Washington, DC 20003  
Voice: (202) 454-5106  
Fax: (202) 547-7392  
Website: <http://www.tradewatch.org>

### Solagral (Paris)

45 bis Ave. de la Belle Gabrielle  
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Fax: +33-1 43-94-73-36  
Email: [solagral@solagral.assoc.fr](mailto:solagral@solagral.assoc.fr)  
Website: <http://www.rio.net/solagral/>

## World Wide Web

### Food and Agriculture Organization (FAO)

<http://www.fao.org>

### World Trade Organization (WTO)

<http://www.wto.org>

### Institute for Agriculture and Trade Policy (IATP)

<http://www.iatp.org>

### United States Department of Agriculture (USDA)

<http://www.usda.gov>

### United States Trade Representative (USTR)

<http://www.ustr.gov>

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