Trade Policy for Food Security: Farm Policies of Developed Countries

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Themes

• Farm Policies in industrial countries (IC) have generally had a negative impact on developing-country (DC) agriculture
  – High barriers against DC exports that might compete with domestic sectors (temperate zone products)
  – Competition from subsidized exports in third markets
  – Food aid tied to the need to clear domestic markets
  – Unstable prices for temperate zone farm products

• But they have encouraged technical advances in agriculture (mainly in ICs)

• And have generated adequate supplies of basic foods at reasonable prices on world markets (to the benefit of DC consumers)
Themes

• Food policies in ICs may also have a somewhat negative impact on developing countries
  – Export restraints in high price periods (to keep down consumer prices) have raised world prices
  – Food safety and quality regulations sometimes seem to be biased against DC imports
  – Food Assistance programs in ICs have marginally disadvantaged consumers in other countries

• But private sector activities (food processors, supermarkets, fast-food chains) have stimulated trade and developed supply chains that often provide new opportunities for DC agriculture
Themes

• The interesting questions are of future direction rather than of past impacts:
• Are the “new” farm and food policies of ICs more compatible with food security?
• How might the trade rules be adjusted to make sure that conflicts between IC policies and food security are minimized?
• Can one create a better “balance” between IC and DC agriculture?
The “new” farm and food policies of ICs

• Main feature is the removal of governments from management of commodity markets
• Replacement with direct payments, with multiple criteria but relatively detached from production and prices
• Emphasis changing to environmental implications of farming
• Increasing concern for food quality and safety
• Production methods becoming important in marketing foods (animal welfare, non-GM, etc.)
• New uses being promoted for farm products (e.g. biofuels)
Impact on Food Security?

• Government exit from Commodity Price Support
  – Total support has not changed much in twenty years but price support has dropped markedly
  – Allows greater transmission of world prices to producers, improving stability of markets
  – Puts emphasis on crop- and whole-farm insurance and risk-management policies (such as ACRE) and emergency schemes (such as SURE)
  – Insurance approach generally good for food security as production less volatile
  – But ... raises possibility of pressure for some return to “countercyclical” actions in the future
Impact on Food Security?

• Introduction of Direct Payments
  – Generally reduces yields and hence beneficial to developing country farmers, if not to consumers
  – Cross-compliance in ICs likely to be marginally beneficial to developing country farmers, if not to consumers
  – But ... may lead to demands for comparable standards for imports from (inter alia) DCs
  – Impact of DPs on incentives to adopt technology uncertain
  – Impression of heavily-subsidized IC farmers is perpetuated even if production distortions are reduced
Impact on Food Security?

• Environmental Programs
  – Environmental stewardship policies generally reduce production intensity
  – Benefit for DC producers: unlikely to weaken food security significantly

• Quality standards for foods (including production methods)
  – Create markets in developed countries for developing country products with desirable attributes
  – But this may widen split between domestic and export sectors in developing country agricultures
  – Will lead to demands for DC exporters to adopt same standards as US, EU
Impact on Food Security?

• Biofuels subsidies
  – Significant subsidies to biofuel use (ethanol and biodiesel) divert corn and other crops away from food uses
  – Exacerbate price rises as in 2007-08
  – Squeeze food markets when stocks are low
  – Build in another link between oil prices and food prices
  – Add to instability in markets and to political risk
  – Pose a significant challenge to food security
How might the trade rules be adjusted …

• Doha Round will make a major contribution to “locking in” new farm policies and preventing return to price supports

• Direct payments presently in Green Box not subject to limits: may have to be reconsidered at some stage

• Food Quality standards need to be watched closely by SPS and TBT Committees to ensure that DCs do not suffer from bias in implementation

• Use of international standards would help to avoid such biases
... to make sure that conflicts ...

• Constraints on export restrictions should be part of Doha Round conclusion
  – Need to firm up notifications, consultations, limit restrictions to 12-18 months (as in Rev. 4)
  – But could go further with plurilateral agreement among exporters of particular commodities (wheat, rice, etc.) not to use restrictions under certain circumstances (declared food emergency?)

• This will reduce the possibility of governments returning to intervening in the market to control domestic prices
... between IC policies and food security are minimized?

• Biofuels Subsidies need to be notified in a consistent way:
  – Subsidies to biofuels are of benefit to producers of biomass (agricultural)
  – Subsidies to biofuels are also of benefit to biofuel producers and blenders (ethanol is agricultural and biodiesel is industrial)
  – Need to be notified to Committees on Agriculture and on Subsidies and Countervailing Measures

• Subject to disciplines of both AoA (as product specific AMS) and SCM (as specific subsidy)

• Negotiate down trade barriers to biofuels so as to avoid pockets of high-cost production
Can one restore the “balance” between IC and DC agriculture?

• Imbalance in production exacerbated (though not created) by IC farm policies
  – Most support payments go to IC farm sectors
  – Most risk-management schemes are in ICs
  – Most Consumer subsidies go to IC consumers
  – Most investment is in IC agriculture
  – Most research is on temperate zone products

• Restoring balance will take generations, but framework can be laid now
Can one restore the “balance” between IC and DC agriculture?

- Main burden will be on DC governments
- International development agencies can help
- International Research Institutes need adequate resources to continue switch to Southern crops
- Private sector foundations have begun to take an active interest in Southern agriculture
- Trade rules can help by encouraging expansion of markets for DC exports
- DC governments should use/embrace more open markets to guide domestic agricultural production along rational path
Can one restore the “balance” between IC and DC agriculture?

• Framework for such a project might involve:
  – Completed DDA to prevent recidivism in IC policies
  – Resolution of trade conflicts over biotech to avoid problems that DCs have with dual markets
  – Coordination among multilateral institutions to avoid mixed signals to DC policy-makers
  – Renewed commitment to research into DC crops
  – Scheme for supporting purchasing power of poor consumers in high-price periods