Challenges Facing Poor Food-importing Countries: Can WTO Disciplines Help?

By Panos Konandreas

Introduction

After decades of relatively low and often depressed prices of basic foodstuffs, the world entered a period of tight food supplies at the beginning of the new millennium, which was manifested by higher food prices and increased volatility. Several short-term policy developments and longer-term structural changes affecting world agriculture are responsible for this outcome (McCalla 2009, Timmer 2009). These developments adversely affected the capacity of food-import-dependent developing countries to access supplies. Poor households in countries that already spend much of their income on food and have limited coping mechanisms at their disposal suffered in the process.

The above developments coincided with the implementation of agricultural reforms under the Uruguay Round Agreement on Agriculture (AoA) that came into effect in 1995. The AoA sought to establish a fair and market-oriented agricultural trading system through negotiated commitments on domestic support and border protection and the establishment of related rules and disciplines. While food security problems in poor developing countries are deep-rooted and multidimensional, trade reforms – both bilateral and multilateral – have an important effect on food security, especially for countries which depend on the world market for a considerable part of their consumption.

Beyond anticipated effects related to AoA reforms,¹ a host of several corroborating factors and policy responses have aggravated world food markets in recent years. In particular, the world food market has been dramatically affected by factors external to agriculture, above all energy prices, which drew large quantities of food commodities into biofuel production, speculative activity in food commodities from the financial sector, and unilateral export restrictions put in place by several exporting countries. In a span of a few years, global food markets have entered a period of constrained supply, after a very long period of ample supplies characterized by demand-constrained global markets.

As this transition from constrained demand to constrained supply was unfolding, some provisions of the AoA were put at a test as to their continuing relevance and adequacy, since they had been negotiated at a period of relative glut in world food markets. While existing AoA disciplines on the imports and domestic support provide a degree of comfort and predictability to exporting countries, similar disciplines on the export side, catering for the interests of net food-importing countries, have proven inadequate.

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¹ In particular, there was an expectation that food prices might rise somewhat as a result of a reduction of domestic support in formerly food-producing and -exporting developed countries. Similarly, it was expected that the levels of subsidized exports and food assistance would fall as a result of reduced surpluses and binding export competition commitments at the WTO.
The negotiations under the Doha Round have stalled for some time following the difficulties to reach an agreement in July 2008. Draft texts\(^2\) negotiated up to that time included some improvements in specific provisions of the AoA; however, its architecture and overall thrust remained that of an agreement dealing with periods of oversupply. No systematic attempt has been made since then to assess the changes that would have been necessary to address problems faced by consumers and importing countries, which are especially prominent in situations of global food shortages.

This paper starts by briefly reviewing trends in the food situation of food-insecure countries and the growing challenges these countries face in securing their food needs. This is followed by an overview of policy measures employed by countries during the recent episodes of higher food prices and some brief comments on the effectiveness of such measures. In the third part, specific areas of inadequacy in the existing AoA for which improvements could strengthen food security in import-dependent vulnerable countries are pointed out.

1. Food insecurity in poor developing countries and growing challenges

The food security of poor developing countries has been challenged in recent years on account of high world market prices and price volatility.\(^3\) Two categories of import-dependent countries are considered here: the Least Developed Countries (LDCs), as defined by the United Nations, and the Net Food-Importing Developing Countries (NFIDCs), as established under the WTO. Both groups of countries were specifically mentioned in the context of the Marrakesh Decision\(^4\) regarding the possible negative effects that could be experienced during the reform programme leading to greater liberalization of trade in agriculture.

The average supply of calories and protein in LDCs and NFIDCs is well below and much more variable than the aggregate for developing countries. Gains over the past half century have been modest. Considering the fact that available supplies are often also distributed very unequally within countries, such trends are indicative of their food security vulnerability. One manifestation of the precariousness of the food security situation in these countries is their frequent need for external assistance in response to food emergencies, with some of them permanently in that state.

\(^2\) See WTO 2008.
\(^3\) There has been a turning point in the long-term trend of world prices of basic food commodities. This situation is expected to continue at least in the medium term, which underscores the uncertainty faced by these import-dependent vulnerable countries. For a more thorough analysis, see Konandreas (2012).
Figure 1: Food: calories/person/day: Grand total - supply

Source: Faostat Database

Figure 2: Food: g protein/person/day: Grand total = supply

Source: Faostat Database
Their growing demand for food continues to require ever increasing imports. In the case of cereals, self-sufficiency ratios (SSRs) hover around 90% and 70% for LDCs and NFIDCs, respectively. LDCs' relatively higher SSRs come at the expense of lower consumption levels. In addition, while NFIDCs have generally kept the pace of other developing countries in increasing productivity, LDCs have only achieved modest gains. Cereal yields in LDCs are only half of those attained by developing countries and one third of those achieved by developed countries. Much of the increase in output has not come from productivity increases (largely due to the limited use of productivity-increasing inputs, such as fertilizers and irrigation) but from the expansion in cultivated area.

Cereals comprise the largest item in the food-import basket, accounting for some 42% and 40% of the value of food imports of LDCs and NFIDCs, respectively, followed by oils and fats and sugar. Together, these three commodity groups account for over three quarters of the value of food items imported by LDCs and over two thirds for NFIDCs. The share of food aid in their total cereal imports has declined sharply, from nearly 30% at the beginning of the 1990s for LDCs (8% for NFIDCs) to about 8% at the beginning of the 2010s (less than 0.5% for NFIDCs).

Figure 3: Cereal yields (mt/Ha)

Source: FAOSTAT
In the past, the increased cost of food imports was largely due to increases in the quantity imported. By contrast, in recent years, price increases have had a much stronger effect on the additional cost of food imports than volumes imported have. Thus, for LDCs, while the aggregate volume of commercial cereal imports increased by less than three times from the early 1990s to the early 2010s, the cereal import bill increased by over six times during the same period. Similar sharp increases in the cereal import bill have been experienced by NFIDCs, as volume increased by nearly 70% and the cereal import bill almost quadrupled. For both LDCs and NFIDCs, there is considerable variation between countries. For some countries, all the increase for the cereal import bill was due to price.
The escalating burden of food imports – necessary to meet immediate consumption – represents a serious threat for the economies of most LDCs and NFIDCs. The share of food imports to total merchandise exports is very high even under normal years, especially for LDCs, and it skyrocketed during price spikes for some countries. The imperative of importing food often comes at the
expense of other imports, including capital goods necessary for long-term development. Indeed, the deterioration of their balance-of-payments position places pressure on foreign reserves with adverse implications for growth and development (World Bank 2008, IMF 2008). In certain countries, poor households, which spend much of their income on food, have been especially hard hit (WFP 2009, Zezza et al. 2009). They were forced to reduce not only food consumption but also other basic necessities such as health and education (World Bank 2008).

Figure 7: LDCs share (%) of food and animal products in total merchandize exports (1990-2009)

Figure 8: NFIDCs share (%) of food and animal products in total merchandize exports (1990-2009) - logarithmic scale

Source: FAOSTAT
2. Policy responses to recent episodes of world market volatility

Food prices in world markets have spiked three times in the past five to six years (in mid-2008, early 2011 and again in mid-2012). This period of global market volatility in food commodities has been characterized by considerable activity in trade and domestic policy on the part of several countries. A relevant question to ask in this respect is to what extent such policy interventions have affected food security in the countries taking such measures and in third countries. It is also relevant to question to which extent the existing trade rules under the WTO have provided countries with the needed flexibility and whether they succeeded in restraining countries from adopting policies that could potentially harm others.

Monitoring policy responses during the recent period of price volatility has been largely ad hoc;\(^5\) however, several efforts have been made to classify policies and to try to assess their impact, especially their effectiveness in meeting policy objectives stated by governments. A common classification of policies has been along the following lines:\(^6\)

- Trade-based policy responses that use border measures, such as reducing tariffs and restricting exports aiming at reducing price transmission and/or increasing domestic supply;
- Domestic market-based measures, including domestic food stockholding activities through administrative procurement and the release of supplies at subsidized prices;
- Consumer-oriented policy responses that provide direct support to consumers and vulnerable groups in the form of food subsidies, social safety nets, tax reductions and price controls, among others;
- Producer-oriented policy responses intended to help farmers increase production, using measures such as input subsidies and producer price support.

Trade-based policies were among the easiest to implement from an administrative point of view. In importing countries, the reduction of tariffs has been the most widely adopted measure. Clearly, the effectiveness of this measure depends on the initial tariff setting and the extent of the reduction. The higher the pre-existing tariff and the greater the reduction, the more likely it will have an impact on prices. However, this option is severely limited when applied tariffs are already low, as is generally the case in many poor countries, and even their elimination is a small relief when import prices shoot up by several multiples of prevailing tariff levels.

In the case of exporting countries, a common trade policy instrument has been export taxes and export restrictions and prohibitions. While the imperative of containing an increase in domestic prices is often very strong, especially in the short-term, the overall and longer-term impact on the composition of domestic consumers as net buyers and net sellers of food – with the former being the beneficiaries at the expense of the latter – is often not considered in such a policy choice. The adverse effects on net sellers may have wider short and long-term implications, especially for the rural poor in developing countries. Indeed, although some of the food insecure are net buyers of food, they are

\(^5\) Broad surveys of policy initiatives in a large number of developing countries have been reported (Demeke et al. 2008; FAO 2009a; Viatte et al. 2009; FAO et al. 2009).

\(^6\) See for example Demeke et al. (2008).
likely to be employed on farms and are potentially being harmed on the earnings side as sellers of unskilled agricultural labour to farms with reduced earnings (Anderson and Nelgen 2012).

The release of public stocks was among the most common domestic market-based measures applied by countries during 2007–08 to contain the effects of rising food prices. These were associated with providing targeted and untargeted subsidies for staple food. Clearly, the degree to which market prices are influenced depends on the amount of food stock released and the degree of targeting involved. In a small open economy, changes in domestic supply and demand, such as those resulting from public stockholding activities, are not likely to have a significant impact on prices. However, for large countries with dominant public procurement and distribution systems, this type of intervention is directly accountable for domestic price formation and also has indirect effects on world market prices.

Consumer-oriented policy responses that provide direct support to consumers (safety nets) have been relatively less common than market and trade interventions in developing countries, as mobilizing the necessary cash or food is expensive and beyond the means of the poorest among them. Specific consumer support policies reported include cash transfers, direct food assistance and measures aimed at increasing disposable income. While such policy interventions are administratively more demanding, they are nonetheless among the best food security approaches to reach populations in need and to provide them with a substantial transfer value in relation to the cost of the policy. At the same time, market distorting effects are minimal. By contrast, trade restrictions, such as the import duties and export taxes/restrictions discussed above, that lower overall market price benefit both those in need and those who are better off, which makes them rather inefficient transfer instruments.

Trade measures that aim to insulate domestic markets from world price changes not only fail to help the food insecure but also impose greater adjustment on other countries, which in turn respond with similar measures, so that each successive intervention undermines the efforts of others to stabilize domestic markets. Anderson and Nelgen (2012) estimate that changes in restrictions on global grain trade during 2006–08 were responsible for estimated increases of around two fifths, one fifth and one tenth in world prices of rice, maize and wheat, respectively. Both export taxes/restrictions by exporting countries and changes in import tariffs by importing countries were responsible for this effect, although the former to a greater extent. Furthermore, their results suggest that the combined responses by governments of all countries were sufficiently offsetting as to do very little to insulate domestic markets in the intervening countries from the world market spike.

Production-oriented measures include actions directed at supporting producers through non-market and market mechanisms. Most measures taken concerned non-market-based production support, including production subsidies, untargeted input subsidies and improved access to credit. Rarer market intervention measures included support to value chain management, support of producer prices and market information. By and large, developing countries – especially the poorest among them – have considerable scope for providing non-product and product-specific support to their farmers, especially under the special and differentiated treatment (SDT) provisions of the AoA. The limited use made of these flexibilities has been due to a lack of resources.

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7 Besides stockholding, concurrent or additional interventions in the domestic market included the suspension or reduction of VAT and other taxes as well as administrative price control or restrictions of private trade.
3. Some implications for WTO disciplines

No systematic analysis has been undertaken to assess the WTO compatibility of policy responses pursued by either exporting or importing countries during the recent period of world market volatility. However, as a general rule, considering that the period of concern was a period of high world market prices, conformity with WTO disciplines would not be expected to be a major issue, as the latter are generally intended to discipline policies during periods of depressed prices. Nevertheless, this experience was instrumental in revealing some weak points of the multilateral trading system (MTS) as well as the elements that need to be fixed for the system to be of value to all participants.

Three categories of concerns may be identified: (a) issues related to the interpretation of existing provisions; (b) issues related to the weakness of existing provisions in balancing out the interests of exporting and importing countries (and the absence of disciplines to restrain countries taking policies potentially harmful to others); (c) disciplines missing from the system altogether (especially in helping food-insecure countries improve their food security). Finally, some elements of the Uruguay Round Agreement that could be of importance to food-insecure countries have not been implemented at all.

A prominent example of a measure in the first category is public stockholding for food security purposes, an instrument that has proven to be of great importance to several countries in the recent period of price hikes. In the context of less reliable global markets, net food-importing countries saw the importance of building up domestic food stocks to address specific food security needs. Such stockholding operations entail the procurement by the public sector of food supplies at administered prices (i.e. through market price support) and the subsequent distribution of these supplies to vulnerable parts of the population and/or their release into the market at subsidized prices. Such operations have raised questions about the compliance of some developing countries with domestic support commitments, considering that most of them can provide market price support only up to their de minimis level of 10% of the value of production of the respective food commodities procured. The way such market price support is calculated remains a contentious issue and resulted in the "peace clause" decision under the ninth WTO Conference in Bali, which will remain in place until a permanent solution is found.

A telling example of weak existing disciplines is the export prohibitions and restrictions provisions of the AoA. Export taxation is not disallowed, and this tax could be prohibitively high because, unlike import tariffs, it is not bound. Essentially, current WTO rules allow the use of export prohibitions and restrictions in the face of domestic shortage; however, due consideration must be given to the effects on the food security of importing members. It is not clear to what extent the numerous WTO Members that resorted to export prohibitions and restrictions during the recent past have given due consideration to others’ food security needs. One would have hoped that this situation would have provoked extensive formal consultations in the WTO Committee on Agriculture (CoA) regarding the scope and duration of the measures put in place or the possible adverse effects for other Members who may have had a substantial interest as importers of food commodities subject to such export prohibitions or restrictions.

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The asymmetry of WTO disciplines as regards importers and exporters of food commodities was pointed out during the Doha Round negotiations on agriculture, and several countries have proposed stronger rules in this area. However, there is resistance on these issues from other WTO Members, and it is questionable whether stronger disciplines on export prohibitions, restrictions and export taxation will materialize anytime soon.

A prominent example for the third category related to missing disciplines of importance to food security is the biofuel policies pursued by some countries. Biofuels do not fall under the purview of the AoA, although related policies represent an indirect means of circumvention of commitments made under the AoA. The rise in energy prices during the past ten to fifteen years, coupled with policy decisions on the grounds of environmental benefits, have had an unprecedented effect on the demand for crops traditionally used almost exclusively to feed people. As a result, huge quantities of food commodities were diverted to energy production. Recent reductions in distorting policies and the improved rationalization of biofuel use targets in some major grain-based biofuel producers are welcome developments. This would need to be supplemented by more flexibility in biofuel mandates, making the latter conditional on the price of food, as well as other innovative approaches which could capitalize on the available feedstocks being diverted to food consumption in times of need (Wright 2011).

Finally, among the provisions agreed under the Uruguay Round but not implemented is the Marrakesh Decision. Against the possible outcome of increasing food prices, Ministers signing the Uruguay Round Agreements had also agreed in 1994 to the need for assistance for LDCs and NFIDCs that could face short-term difficulties in financing normal levels of commercial imports of basic foodstuffs. In addition to financial assistance to import food, the Decision called for differential treatment on export credits as well as technical and financial assistance to improve agricultural productivity and food production. Developing rules on export credits under the Doha Round should aim at targeting LDCs and NFIDCs that face liquidity constraints for the timely scheduling of their food imports, thus avoiding high prices and additional financial charges. In addition, the Decision’s objective to boost productivity is laudable considering the low levels of yields in these countries.

**Conclusion**

The multilateral negotiations under the WTO have been the dominant force shaping the international policy environment for the agricultural commodity trade during the past three decades. The process of integration of agriculture into the multilateral trading system is not yet complete, and the stalled Doha Round negotiations add doubts as to when some of the issues raised above may be adequately addressed.

The existing AoA contains numerous provisions specifically applicable to poor food-insecure developing countries on a SDT basis, aiming at providing more policy space and more flexibility in the implementation of the Agreement. Within this framework, developing countries undertook smaller reduction commitments during a longer implementation period than developed countries. LDCs were exonerated altogether from any reduction commitments.

Nevertheless, while these SDTs offer considerable policy space to food-insecure developing countries, certain provisions still need to be fixed, especially for specific policies (public stockholding for food
security purposes) favoured by food-insecure import-dependent developing countries threatened by uncertainties in the world market. However, although doing "more good" by interpreting and/or amending existing rules is important, it is equally essential to do "less harm" by strengthening provisions that could be detrimental to the food security of many countries – especially for export prohibitions and restrictions – and by developing disciplines and guidelines on the production of biofuels and relaxing related national biofuel mandates.

Some of the problems that developing countries encountered with the AoA relate to its architecture, the way it was constructed when the Uruguay Round was being negotiated. At the time, agriculture was in disarray as a result of the prevalence of production and trade-distorting policies in a number of OECD countries, which had led to the excess supply of a number of commodities in the world market, to the detriment of efficient exporters. By and large, developing countries had the opposite problem. They produced well below their needs, often as a result of their own disincentive policies in addition to unfair competition from subsidized imported commodities. Most of them actually taxed their farmers instead of subsidizing them.

This is the legacy of the AoA, an agreement meant to discipline overproduction and the related distorting policies responsible for it. Meanwhile, the world did not remain still. Agricultural and food markets have evolved, but trade rules have not. The oversupply in the world market disappeared and periods of scarcity, high prices and price volatility ensued. The provisions of the AoA have proven to be rather weak in safeguarding the interests of importing countries under these new market conditions. There is a clear asymmetry in the current disciplines for agriculture, which is most obvious between the disciplines on export restrictions (unbound) and import restrictions (bound). Existing disciplines can deal primarily with the challenges of structural oversupply but not with the prospect of scarcity, rising and volatile food markets, which are expected to continue in the future. Exporters can rely on well-defined rules to address distortions in the import side, but not vice versa.

Creating symmetry as regards the needs and aspirations of both exporting and importing countries is a prerequisite for maintaining trust in the multilateral trading system and world food markets. In turn, this is an essential ingredient in making progress towards concluding the reform process initiated in 2001 under the Doha Round.
References


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