



## Quaker United Nations Office



INSTITUTE FOR AGRICULTURE AND TRADE POLICY

### Agricultural trade and investment rules for the 21<sup>st</sup> century WTO Public Forum 15<sup>th</sup> September 2010<sup>1</sup>

**Institute for Agriculture and Trade Policy & Quaker UN Office Geneva**

The world of agriculture policy has changed fundamentally since the WTO's Doha Negotiations started. This session aimed to present some of the challenges facing world agriculture today, and how these could be addressed. In particular, the session focused on the need for agriculture to provide food for the world's population in a sustainable way. Presenters discussed in particular the potential for sustainable agriculture to feed the world, and the role that food reserves can play in ensuring food security.

Ben Hobbs pointed out that a large proportion of total agricultural production in developing countries is from small farms, so a direct way of reducing hunger and raising incomes in rural areas would be to increase productivity and profitability of small farms. He cited evidence that such increases can be achieved by introducing more sustainable farming techniques. As well as increasing yields and bringing down production costs by reducing inputs, these techniques have other benefits such as availability of healthier and more diverse food and lower carbon emissions. Hobbs said that small farmers are already adopting these techniques but the needed enabling policies are lagging behind. Daniel De La Torre Ugarte recalled that countries view food as a national security issue, and will take drastic measures to ensure food supplies. He pointed out that severe price peaks can result from changes in supply or demand, and that reserves are useful to preserve price stability and ensure availability of food. He proposed a global system of reserves, the objective of which is to reduce extreme price variations. De La Torre Ugarte described shortcomings of privately-held reserves, and ran through some of the issues about WTO compatibility of public food reserves. He concluded that the WTO rules are for the most part flexible enough to accommodate the kind of food reserve that he proposes.

Jerome Bunyi stated his view that there is scope for more sustainable agriculture, but said that economic constraints often push farmers to unsustainable practices. He acknowledged the need for public support for sustainable agriculture. Given that developing countries have less financial means, the international community should help channel more resources to sustainable production. Trade rules should also provide more flexibility for developing countries to achieve a higher level of food self-sufficiency and to be less susceptible to international market volatilities. Djibo Bagna described some of the challenges facing farmers in West Africa, including lack of appropriate government support or policy framework. He called for agriculture trade to be dealt with differently from trade in other goods, given that food is essential to people's very survival.

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<sup>1</sup> The full session can be listened to at [www.wto.org/audio/forum10\\_lunchsession\\_e.mp3](http://www.wto.org/audio/forum10_lunchsession_e.mp3)

**Ben Hobbs, Senior Policy & Advocacy Officer, Asia & Middle East Division, Christian Aid**<sup>2</sup> described the paradox of farming households going hungry to illustrate that something is wrong with the agricultural system. Indeed, people living on small farms make up half of all undernourished people in the world, three-quarters of Africa's malnourished children, and the majority of people living in poverty. Mr Hobbs went on to highlight that small farms contribute to a large share of total agricultural production: approximately 40% of cereal production in India, 49% of national agricultural production in Kenya, and as high as 85% of total production in Malawi. The most direct way of reducing hunger and lifting incomes in rural areas would thus be to increase the productivity and profitability of small farms.

Oft-cited causes of low productivity are soil or climatic constraints, lack of investment/extension support (in irrigation for instance), the weak position of small farmers in the economic system, and declining or fluctuating farmgate prices. A less discussed cause of low productivity and incomes is the farming strategy itself, which often involves mono-cropping, over-reliance on purchased, external inputs (fertilisers, pesticides and seeds) and export-oriented strategies. This strategy has a number of downsides: inputs are expensive, it does not encourage production for household consumption, it increases the risk of complete crop failure or total income loss when crops are bad, it can be harmful for soil and water, and neither enhances nor benefits from knowledge within the farming community.

Hobbs recalled that yield growth has slowed considerably in recent years, one of the causes being soil degradation brought about by farming practices that involve chemical inputs and mono-cropping.

The key question is how to boost productivity and incomes on small farms. Evidence, including from Christian Aid research this year, shows that this can be achieved by working with small farmers help the introduction of more sustainable farming techniques. This aims *inter alia* to reduce reliance on external inputs, to benefit from farmer knowledge and for farming communities to adopt cheaper, affordable technologies. Some examples of farmer-led sustainable agriculture include farmers' participation in crop breeding and research or measures to conserve soil and water, such as agroforestry; water-harvesting, bunding, contour ploughing, and low or zero tillage.

Christian Aid is supporting this type of work in countries like India, the Philippines, Zimbabwe and Burkina Faso. It is documenting the benefits for small farmers, which include higher yields (both for single crops and for total farm production), improved soil fertility, lower production costs due to minimising use of agrochemicals, better health due to less exposure of people, food and water to chemicals such as pesticides, more food available for household consumption and better range of food available. In addition in some cases farmers can command premium prices (for certified organic produce).

In 2009 MASIPAG<sup>3</sup> and Misereor<sup>4</sup> carried out a large study in the Philippines that found that 88% of the organic farmers questioned said that their food security was "better" or "much better" than in 2000 – compared to 44% of the conventional farmers. 18% of conventional farmers said they were "worse off" than in 2000 (compared to just 2% of the organic farmers). Lower production costs had also helped to boost net incomes. These types of findings are repeated elsewhere.

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<sup>2</sup> The powerpoint version of Mr Hobbs' presentation is available on request from [quno@quno.ch](mailto:quno@quno.ch)

<sup>3</sup> MASIPAG is a farmer-led network working for sustainable use and management of biodiversity through farmers' control of genetic and biological resources, agricultural production and associated knowledge.

<sup>4</sup> Misereor is a German Catholic development agency.

In addition to increases in production and income, this type of farming has broader economic social and environmental benefits including helping generate demand for local goods and services, providing increased employment (thus reducing out-migration), increased biodiversity on and around farms and lower greenhouse gas emissions.

These findings demonstrate that a major expansion of Green Revolution technologies is not in fact required to lift the productivity of smallholder farming in Africa and Asia – this can be achieved far more cheaply and sustainably by helping farmers to adopt sustainable farming techniques.

The sustainable techniques do however need more governmental support. For instance, small farmers' food security needs should be given higher priority, national seed laws should enable, not penalise farmers who want to breed, re-use and exchange seeds, subsidies going to chemical inputs should be reduced, and farmers adopting sustainable farming practices should have more financial support, particularly during the transition period, when yields may temporarily dip and farmers are getting used to the new methods. Other governmental policies that can help include increasing research into low-input as opposed to high-tech agriculture, for instance, into "orphan crops" such as millet, vegetables and pulses, that grow well on more marginal agricultural land, ensuring a regulatory framework for the sale of certified organic produce but without damaging the interests of small farmers who have traditionally grown crops organically but without certification, and ensuring that small farmers have better security of tenure.

**Daniel G. De La Torre Ugarte, Professor of Agricultural Economics, University of Tennessee**<sup>5</sup> recalled that of 5.5 billion people in developing countries, 2.5 billion are in households involved in agriculture and 1.5 billion are in smallholder households. In many developing countries, agriculture accounts for over 50% of employment and more than 25% of GDP. When talking about agriculture, we are not talking about a few large companies but rather millions of farmers. Production is highly concentrated in a handful of countries (Argentina, Brazil, Canada, the USA, Australia, the EU, the Ukraine and China), who therefore have an uneven impact on world prices. Industries can delocalize but agricultural production capacity for the most part cannot. He also recalled that – unlike other goods – food is essential to survival, and countries will take drastic measures to secure food supply.

Why do we need food reserves? Disruptions to food supply can result in difficulties in obtaining food as well as severe changes in prices. Supply-side disruptions to food supplies can include weather conditions or political instability. These can be local or global (affecting one or more major producers) and can be occasional (such as in the case of a natural disaster) or chronic (drought, political instability). Although demand tends to stay constant, changes in demand can come from unexpected surges, such as demand for ethanol in 2007-2008.

What are the functions of a reserve? A reserve can help to secure the supply of commodities at the local, regional level or global levels. It can be also be used to stabilize world prices. A global system should provide protection from extreme price fluctuations. Local systems may provide availability when there are local shortages. De La Torre Ugarte's presentation focused on the objective of reducing price fluctuations.

Mr De La Torre Ugarte addressed the issue of who should provide the reserves, arguing in favour of publicly-held reserves. He cited the argument of commercial firms who said they would provide reserves, saying that government "interference" in the market was not needed,

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<sup>5</sup> Based in part on a study by Sophia Murphy, *Trade and Food Reserves – What role does the WTO play?* available at [www.iatp.org/iatp/publications.cfm?accountID=451&refID=107697](http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=107697) The powerpoint of Daniel De La Torre's presentation is available from QUNO on request [quno@quno.ch](mailto:quno@quno.ch)

and that free trade would guarantee availability from one country or another. In fact, commercial agents have no incentive to hold reserve stocks, and when they do hold stocks, they usually are not transparent. At the same time, trade cannot necessarily provide food when it is needed: however free the market it is, supply may just not be available.

What does stabilizing the price mean? A food reserve could buy food when prices are too low, to try and eliminate very low prices, and release the commodity into the market when prices get too high. The idea is not to fix the price of agricultural commodities but to try and avoid sharp fluctuations. Access to food is hard when prices are too high. And when prices are too low rural incomes go down, and has a high environmental cost.

He considered the relationship of trade rules to reserves, under four headings: (1) paying for the reserves, (2) governing the reserves, (3) operating the reserves and (4) managing the stock. About paying for the reserves, the Agreement on Agriculture (AoA) would not permit reserves to be used as a price support mechanism, but the kinds of reserve he is proposing would not be attempting to do this. The reserves would be bought at food market prices with as objective reducing price variability rather than supporting prices.

Regarding governance, if the reserves are government-operated, they would easily meet the conditions set by the WTO's Agreement on Government Procurement. If the reserve is operated by another entity, it would be likely to be a State Trading Enterprise (STE), which are strictly regulated under the WTO. But the reserve mechanism De La Torre Ugarte is proposing would be acceptable under WTO STE rules, given that it does not seek to maximize revenue for anyone, or to exercise market power. In other words, the STE would not have monopoly rights and would operate with commercial motivation – even if the objective is to stabilize prices rather than make a profit. Also, this reserve operation is likely to be small in terms of volume compared to global supply and so would not affect world prices.

Regarding operation of the reserves, one might initially think that the price band would be incompatible with the WTO. However here we do not want to establish an operative price band, we only want to establish a band in terms of extreme price variation, so this could be compatible with the current AoA. To be useful, the reserve would have to have a minimum volume, but it could not go above a certain volume – to avoid incurring undue costs. Thus buying and selling these stocks, as long as the prices are within market values, would be likely to be compatible with WTO rules. If other prices are applied, for instance to support farmers when prices are low, then AoA subsidy rules (Aggregate Measures of Support (AMS)) would apply.

De La Torre Ugarte concluded that the AoA provides most of the flexibilities that would be needed to establish food reserves.

**Jerome Bunyi, Agriculture Attaché, Mission of the Philippines to the WTO** said that the Philippines adopted Green Revolution technology in the 1970s. This resulted in increased production but also degraded the soil and burdened farmers with debt due to the cost of inputs.

He agreed that low-input and organic farming can be beneficial, particularly for small farmers, but pointed out that when we think about food security in a trade context we think about food security just not for small farmers but for all. He emphasized that trade is an important component in food security, and that small farmers are more sensitive to price signals. And low world prices – often related to trade – are frequently what drive mainstream smallholder farmers to unsustainable practices, as well as into poverty. He recalled that the world market is severely distorted by subsidies that push food prices down – and if prices are low, farmers' incomes are low. Thus the Philippines' stance in the WTO agriculture negotiations has always been in favour of “calibrated” liberalization, and not unbridled liberalization because of this recognition of the

need to protect small farmers. As developing countries cannot afford to subsidize much (even when WTO rules permit subsidies) they cannot support their farmers to compete against subsidized, imported food. So the Philippines, with the G33, has proposed an SSM (Special Safeguard Mechanism) in the WTO agriculture negotiations. The SSM would permit a country to impose additional tariffs on imports when prices fall below a certain level, in order to be able to protect small farmers. He recalled that food security as defined by FAO does not only involve self-sufficiency – imports have a role to play. But relying heavily on imports can also be disastrous for national food security, so countries have to calibrate the right balance between liberalization and protection of farmers.

Bunyi recalled that most developing countries' laws or constitutions agree that sustainability is important, and said that the Philippines is a pioneer in low-input farming through diversification and integrated pest management (IPM) for instance. He said that since yields might decrease initially in a transition to organic or low-input agriculture, government support would be necessary. He warned though that managers are driven by growth and productivity targets, so are likely to adopt whatever techniques seem most likely to increase productivity and for many, it conventional farming appears as the safest way of achieving this.

He pointed to the danger of organic farming in developing countries being promoted as being about premium pricing, saying that most consumers will seek value for money, i.e. the lowest possible price for reasonable quality, and would most likely not seek out premium price produce. Bunyi commented that premium pricing works in Europe and Japan because their level of economic development permits them to value people, labour, social development or the environment.

Regarding food reserves he said that in the Philippines in 2008, the price of rice (a major staple) rose substantially, not just because of lack of supply on world markets due partly to export restrictions and speculations but also because of hoarding at the local level. Concerns about unscrupulous business actors who might hoard stocks to drive prices up are relevant for food security but not yet addressed by WTO rules. It is also difficult to provide stricter WTO disciplines on export restrictions as it is unlikely that governments will want to give up their right to restrict agricultural exports during food emergencies.

Bunyi concluded with his view that there is scope for more sustainable farming methods provided that consumers or governments are prepared to pay for it. Since developing countries have limited resources the international community should channel more resources to sustainable production and create rules that will provide more flexibility for developing countries to have self-sufficiency levels such that they are less susceptible to international price volatility. This is particularly important given the unique nature of agriculture.

**Bagna Djibo, Chair, ROPPA (Réseau des organisations paysannes et de producteurs de l'Afrique de l'Ouest)** is a stock breeder and Chair of Niger's 'plateforme paysanne.' He agreed that there is a problem when farmers go hungry, stating that his main concern is what to do about this situation, in which the poor end up feeding the rich. He pointed out the difficulties that stricter food standards cause for small producers, hindering their attempts to escape poverty. Whilst Djibo is convinced that small producers are capable of feeding the population, he said that there are requirements, such as appropriate investment to support the desired type of agriculture – there should for instance be more investment in irrigation in West Africa. There should also be more support available for farmers, for instance in Niger it is difficult for a farmer – even if he has a large stock of cattle – to get a loan at an affordable rate if he does not have title to his land. These kinds of issues should be considered in studies. He also mentioned that when Niger experienced a food crisis in 2005, neighbouring countries had food. But policies and red tape, did not enable the food to be brought in to Niger from its neighbours.

He pointed out the inconsistency of having very rapidly allocated huge sums to bail out banks, but not being able to rapidly allocate funding for agriculture. Everyone has to eat – food affects everyone, not just small farmers. There must be more fairness and more consistency, food must not be considered like other kinds of industry such as the automobile industry. Djibo commented that trade rules do not sufficiently take into account the specificity and localized nature of agriculture, People in different areas live and produce under different conditions, and trade rules do not recognize these differences. The WTO should create a different mechanism for dealing with agriculture. Moreover, he expressed surprise that economists - rather than agronomists – are responsible for agriculture. Agronomists understand agriculture, so the fact that economists are responsible shows that too much emphasis is put on the economic, financial value of agriculture. He said that people are becoming discouraged with the current agriculture system, and that there must be more strategic consideration of agriculture because our very survival hinges on it.

Organic agriculture can be sustainable because it allows nature to be taken into account and healthier food to be produced. There must be support for organic agriculture there must be consistent policies and strategies for this. In the WTO, this should be specifically considered. Djibo stressed that in Africa, people practice and always have practised low-input agriculture, and are keen to continue to practice ‘agriculture familiale’ – family agriculture. This permits diversification of crops and also provides jobs. He emphasized how important agriculture is as a source of employment – accounting for 85% of all jobs in Niger (as compared to about 5% in Europe). So if this type of agriculture is abandoned and big companies take over production, Niger could face high unemployment, which would be a drain on public finances.

Another issue Djibo pointed to is value-added. Niger exports bananas and coffee without transforming them. Then it imports coffee back after it has been processed, paying a much higher price for it. He said that strong involvement of all actors along the value chain is needed, that sellers should be encouraged to speak to producers, producers to speak to processors, etc About food stocks, he said that if we really want to address food security, food stocks should be local, at village level, with transparent governance. He described a system that he had seen working in Canada, that successfully addressed supply, demand and accessibility issues.

In the discussion, Professor Tim Wise from Tufts University emphasized the price issue. He referred to Mexico – when the country opened its markets under NAFTA, corn imports from the USA increased 400%, there was a 66% decrease in producer prices for Mexican corn farmers, and corn was coming into Mexico at 19% below the US costs of production (i.e it was dumped). In ten years Mexico’s import dependency went from 7% to 32%. Professor Wise said it would be hard for a Mexican government that cared about increasing corn production on its small farms to do so without addressing imports, and NAFTA has eliminated the possibility of controlling imports through tariff measures. Wise asked Ben Hobbs what trade or other measures he would see as most critical for making that kind of transition and increasing small farms’ productivity. Wise asked Daniel De La Torre Ugarte to describe how the stock mechanism could be used to help keep international prices above dumping levels.

Rajendra Kumar from India recalled that India is predominantly an agricultural economy. But development is not measured in terms of agriculture. Agriculture is not treated as an industry, but should become one. He commented that subsidies may be necessary in developing countries to promote agriculture, as now there are no benefits available for farming. A challenge will be to motivate farmers’ children and educated people to get into farming.

Regarding the presenters’ view that there should be a global system to provide protection from extreme price fluctuations, and local systems for ensuring availability, Kumar said he thinks the opposite. Price fluctuations can be controlled locally, from the place where the farming is

actually done. But there should be a global system to ensure availability of stocks. Mr Kumar concluded that agriculture should indeed be discussed outside the WTO, in an independent global forum for agriculture.

Marcos Rochinski, General Secretary, Fetraf Brazil, said that he is a family farmer in Brazil. He acknowledged that there is hunger in developing countries but emphasized the importance of understanding that hunger must be combated with concrete public policies and, even more fundamentally, with political will on the part of governments. Brazil provides a concrete example on how to combat hunger in rural areas: for decades people thought the 'Nordeste' (Northeast Brazil) did not have capacity to fight hunger especially in rural areas, because like in Africa, there was no productive capacity. Now we can see the positive results of public policy in Brazil, because it has provided opportunities for small-scale farmers to get involved in marketing their goods. Small farmers can easily benefit from such opportunities if the policy environment is right.

Rochinski stressed that food security needs to be built with protection of markets for small scale farmers. But for a developing country to protect its small-scale farmers, it must also have mechanisms to reduce external dependency, especially on big businesses that provide farm inputs. This is a huge challenge because big businesses raise the costs of production.