Trade Policy for Food Security: Farm Policies of Developed Countries

By Prof. Timothy Josling
Freeman Spogli Institute
Stanford University

ICTSD
International Centre for Trade and Sustainable Development

Published by

International Centre for Trade and Sustainable Development (ICTSD)
International Environment House 2
7 chemin de Balexert, 1219 Geneva, Switzerland
Tel: +41 22 917 8492 Fax: +41 22 917 8093
E-mail: ictsd@ictsd.ch Internet: www.ictsd.org

Chief Executive: Ricardo Meléndez-Ortiz
Programmes Director: Christophe Bellmann
Programme Team: Jonathan Hepburn, Marie Chamay, Ammad Bahalim and Matthew Jordan.

Acknowledgements

This think piece has been produced under the ICTSD Programme on Agricultural Trade and Sustainable Development. It was prepared by Timothy Josling in preparation for an expert meeting entitled "What kind of trade policy framework is needed to support food security goals?," organised by the International Centre for Trade and Sustainable Development (ICTSD) and the United Nations Food and Agriculture Organization (FAO) from 25-26 March 2010 in Cartigny, Switzerland. The activities of this programme have benefited from support from the FAO, the UK Department for International Development (DFID) and the Dutch Ministry of Foreign Affairs (DGIS).

For more information about ICTSD's programme on agricultural trade and sustainable development, visit our website at www.ictsd.org

ICTSD welcomes feedback and comments on this document. These can be forwarded to: jhepburn [at] ictsd.ch

Citation: Timothy Josling (2010). Trade Policy for Food Security: Farm Policies of Developed Countries. International Centre for Trade and Sustainable Development, Geneva, Switzerland.

ISSN 1887-3551

Farm Policies in developed countries have been widely blamed for creating problems for food security in developing countries. These problems have included high barriers to developing country exports, low prices in world markets for staple foods, unstable prices that inhibit investment, and more generally an imbalance between agricultural progress in developed and developing countries. Many of these criticisms are well aimed, and this note will not attempt a defense against those arguments that are less than persuasive.

Instead, the intention is to step back and see in which direction these developed country policies are moving and whether this direction will make it more or less easy for the establishment of a food security framework at the multilateral level.

The nature of developed country farm policies has changed dramatically in the past twenty-five years. These changes have been well-documented.

Governments have largely given up their role as guarantors of farm prices and as buyers of last resort. They have reduced those policy prices that remain towards world market levels. They have in most cases given up the practice of subsidizing exports, and even of restricting exports in times of high prices. They have, in place of price manipulation, introduced payments to farmers based on a variety of criteria only loosely tied to their output of particular products. And they have in most cases introduced environmental criteria into those programs that make such payments.

But these policies have largely been undertaken in an environment of high tariffs. This has been particularly true in cases where the product is deemed "sensitive" in domestic political terms. The Uruguay Round was largely unsuccessful at reducing these tariffs, though some additional market access was obtained through tariff-rate quotas. Regional and bilateral trade agreements have also not had a major influence on the protection of sensitive sectors, though some dilution of this protection has taken place. The Doha

Round, if it were to be completed, would go a long way toward exposing protected sectors in developed countries to competition from abroad, even though tariffs would come down more slowly for the sensitive products.

As a result of the significant tariffs that remain, the domestic policy changes have not reduced markedly the amount of support for developed countries. That support is almost as high as it was twenty-five years ago when the OECD first started to track this measure systematically. The change in the level of support still varies with world market conditions, indicating that "decoupling" is by no means complete. So the first question that arises is whether this process of policy reform at the national level, reinforced by the Uruguay Round Agreement on Agriculture, has had any significant impact on food security for developing countries?

One way to answer that question is to compare policy reactions in developed countries in the "food crises" of the 1970s and 1980s with that observed in the recent spike in prices in 2007-2008.The event that drove the market for grains in the early 1970s was the failure of the 1972 USSR crop. Production of wheat dipped by about 13 million tons and there were inadequate reserves to avoid the Soviet Union having to go somewhat reluctantly into the international market.[1] In what became known as "the great grain robbery" the

Soviets bought 13.7 million tons of wheat and coarse grains. In effect, 18 million tons of wheat were released from stocks to make up the production shortfall and provide for modest consumption increases (Josling, 1981). The sharply lower stock levels in turn caused countries to anticipate their import needs and grain prices reacted strongly in 1972 and remained high for two years. What made the USSR purchase the more significant was the parlous situation in other countries. Global food production dipped in 1972, by 3 percent, at a time when demand was rising. Making the situation worse was the rise in oil prices. The price of crude oil rose from $4 a barrel to $7.50 a barrel in October 1973: a second price rise in 1979 took the oil price to $32 a barrel. The impact on fertilizer prices was dramatic, doubling the price of nitrogen. The emerging "green revolution" seemed threatened (USDA, 1986).

The situation in the oilseed market was sparked by a different event: the decline of the anchovy catch in

[1] *The previous Soviet purchase of wheat from the US had been in 1965/66. Production fluctuations were more commonly reflected in consumption shifts, including the reduction of the livestock herd when feed supplies were tight.*

Peru (due to an El Nino climate pattern) reduced fishmeal production and raised the demand for soybeans. In addition to the grain purchase, the Soviets bought 900 thousand tons of soybeans at a time when supplies were tight.

The policy reactions of the major economies were to try to avoid the contagion of high food prices by price controls, import subsidies and export restrictions. In the US the price of soybeans was particularly sensitive, as it had a knock-on impact on poultry and processed food prices. All oilseed exports were banned for a brief period (4 days) in 1973. A more targeted "moratorium" on grain exports was introduced in 1974, aimed at the USSR as the most volatile importer: this was repeated in 1975 when fears of another major purchase of grain would further boost inflation. This led to the conclusion of a long-term agreement between the US and the USSR under which the USSR would purchase at least 7 million tons of grain a year but notify the US if harvest failures might require an increase in such imports (Thirtle, et al, 2009).

The EU introduced export levies during the high price period to prevent the impact from adding to inflation. Artificial "green currencies" had a similar effect in keeping down UK prices. Oilseed production was encouraged, and support prices for grains were raised, as a result of fears of shortages combined with a cost-plus price setting mechanism in the CAP.

By contrast, the response in 2007-08 was muted. The response to the current economic crisis has not (yet) included any major policy shifts toward agricultural protectionism. In an historical context this fact is remarkable: on this occasion "the dog did not bark". The only response by the EU and the US has been the use of a quasi-automatic countercyclical trade measure already authorized in preexisting legislation. The EU suspended cereal duties and phased out export subsidies for dairy products as prices rose, though these came back as prices receded – to the disappointment of overseas competitors. But it is difficult to see how the EU could have avoided these moves without in effect repudiating its own agricultural policy. In a similar case, the US reintroduced dairy export subsidies under the Dairy Export Incentive Program (DEIP) in response to the fall in world dairy prices in 2009 (Josling and Tangermann, 2009).

Though "do no harm" is a good objective for developed country policy in the realm of food security, a second question arises as to whether the policy changes have also done good. In one respect, these policies have potentially worsened the crisis of 2008-09. The growth of biofuels has added a new dimension to the link between domestic policy and global conditions. Countries around the world have introduced policies that favor the production or use of non-fossil fuels, both to diversify their energy sources and to gain environmental benefits. Such policies often emphasize ambitious and extensive biofuel mandates, supported by programs including government financing for biofuel project development, forgiveness of loans and favorable credit for biofuel production, blender credits for fuel blenders, and tax rebates for fuel suppliers. These policy instruments have resulted in high levels of support for producers of first-generation biofuels, and expanded the markets for producers of agricultural feedstocks (particularly corn, sugar cane and oilseeds) used in the production of biofuels (Josling, Blandford and Earley, forthcoming).

Apart from the introduction of biofuel subsidies, which have been largely been an unanticipated appendix to farm programs, the question remains as to whether "decoupling" support from prices and production has been helpful to the developing countries? Has the move toward direct payments had any negative impact on food security? As mentioned above, these direct payments maintain large transfers to the farm sector essentially replacing benefits obtained through price supports. This should make the producers themselves more responsive to world market conditions, and indeed the reaction to the high prices in 2008 was to increase production in developed countries. In general, the more prices are allowed to vary in developed countries the less the variability of world market prices. So a move to direct payments is inherently stabilizing. But a distinction can be drawn between the EU and the US in this regard. The US programs include direct payments that are paid even in times of high prices. Though politically contentious, these payments survived almost intact in the 2008 Farm Bill. But the countercyclical payments and the marketing loan payments also survived, and these payments still respond to price changes. So a significant part of US agriculture (corn, wheat, soybeans, cotton and rice) are still insulated from the full impact of world

market conditions. The EU has moved almost all its farm payments to the Single Farm Payments (and Single Area Payments) scheme that is not connected to the state of world markets.

What are the prospects for the further reform of these expensive and controversial programs? And how will the growing fiscal stringency factor into the debate? Will we see a continuation of the trend towards the "decoupling" of support from production? Will the payments be further linked to environmental goals and desirable farming practices? Or will the pendulum swing back the other way, as fears of food price spikes mix lead to concerns over food security and to the encouragement of greater production of basic foodstuffs? The next two years will see decisions taken that will effectively shape farm programs for the rest of the decade. The Common Agricultural Policy of the EU needs to be accommodated within the Union's next multiyear budget horizon, for 2014-2020.

How much money the agricultural ministers will be able to spend on EU rural programs will be a major factor in the political decisions on the budget. In the US discussion of a new Farm Bill, which will be needed by the end of 2012, has also started. Again the struggle will be about the amount of funding that will be allocated to agricultural programs and how much to nutrition and conservation. And to complete the eternal triangle, the WTO Doha Round, which is limping toward a 2011 finishing line, would if agreed put additional pressure on domestic farm spending after 2012.

The Lisbon Treaty, which came into effect in December 2009, gives the European Parliament a greater say in farm policy. The agricultural committee of the EP is likely to try to slow if not reverse the reform movement and to push the CAP in the direction of market stability and protection. It will be left to other EP committees to emphasize the trade and development implications of the CAP. So the new Agricultural Commissioner will face the challenge of finding a way to steer the reform of the CAP through both the conflicting national positions of agricultural ministers and the more ideological divisions in the EP. What emerges may be less coherent than the reform path taken by his two predecessors.

In the US the danger of recidivism is less, in part because the farm policy has yet to turn the corner toward broad-based whole farm payments tied to sound environmental practices. But reform is likely to be increasingly difficult to advance in a period of budget stringency. Most of the funding for farm programs is regarded as "entitlements" and not subject to cuts in "discretionary" spending, though Congress can always revisit the provisions of the farm legislation. The parts of the farm program that are more vulnerable to budget cuts are those that support conservation and environmental stewardship. The task of the groups that favor reform will be even more difficult in 2012.

So the need for speedy conclusion of the Doha Round is clear. If the draft modalities from December 2008 survive the endgame, neither the US nor the EU will have room in the trade-distorting categories of domestic support to revive price-based policies after 2015. In that sense the impact on food security will be positive. But the main impact of the Round could well be to give confidence to investors that agriculture in developing countries has a more secure place in the global food system. The real problem with the farm policies of the past half-century has been that the majority of investment (including investment in research) has gone to stimulating production in developed countries. So until the balance is restored the true potential of developing countries will be underplayed.

In addition, perhaps the largest scheme for making food more affordable for the poor has also been in a developed country. The US Food Stamp program (now called the Supplemental Nutrition Assistance Program, or SNAP) spends about $50 billion each year. It is notified to the WTO Agriculture Committee as a Green Box program, the largest component of the Green Box in the US or any other Member. The distribution of food stamps is *de facto* countercyclical, as support for its financing strengthens when food prices rise. This is perhaps not totally in line with notions of global food security, though it is difficult to argue against it on these grounds. What is needed is a multilateral dimension to the program. A global food stamp program may be fanciful, but any tentative move in that direction might help to rebalance food and farm policies. The need at times of high prices and food scarcity is to provide more purchasing power for poor consumers.

Without this element the trade system tends to work to their disadvantage: richer consumers manage to keep up their food consumption. And much of the benefit would accrue to developing country farmers, as they would be in the best position to supply the food.

The trade framework for the future should therefore be built upon open markets in food and agriculture to allow developing countries to supply both northern and southern food demand; policies in developing countries that promote investment in agricultural production; the phasing out of production-enhancing policies in the north in favor of those that reflect the social cost of intensive farming in crowded areas; and demand-enhancing policies in developing countries that shelter them from price spikes. In more practical terms this implies a Doha Round cut in tariffs, by both developed and developing countries; the reinvigoration of international investment and assistance to developing country agriculture, including the unblocking of technical barriers to such investment; the elimination of export subsides and the capping of trade distorting domestic support at a very low level in developed countries; and the development of some mechanism to transfer purchasing power to poor consumers in times of high prices.

REFERENCES

Josling, Tim and Stefan Tangermann, (2009). "Agriculture: the Dog that Did Not Bark?" In Simon J. Evernett, Bernard Hoekman and Olivier Cattaneo (eds.) *Effective Crisis Response and Openness: Implications for the Trading System*, The World Bank and CEPR.

USDA, 1986. *Embargoes, Surplus Disposal, and US Agriculture*, Economic Research Service, Agricultural Economic Report Number 564, December

Josling, Tim, 1981. "Price, Stock, and Trade Policies and the Functioning of International Grain Markets" in A. Valdes (ed.), *Food Security for Developing Countries*, Westview Press, Boulder.

Thirtle, Colin, *et al.*, 2009. "An Explanatory Review of the World Food Commodity Price Events of 20078," Report to the Chief Scientific Advisor, UK Department for Innovation, Universities and Skills

Josling Tim, David Blandford and Jane Earley, (forthcoming). *Biofuel and Biomass Subsidies in the US, EU and Brazil: Towards a Transparent System of Notification* International Policy Council on Food and Agricultural Trade