

# TRADE POLICY IMPLICATIONS FOR AFRICA'S AGRICULTURE

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Martin Khor

## ABOUT THE AUTHOR

Martin Khor, formerly Director of the Third World Network, is Executive Director of the South Centre, an intergovernmental body with 51 member states from the developing world.

## INTRODUCTION

The recent global crisis of high food prices, and of food shortages in some countries, has given prominence once again to food security concerns. In recent years there was complacency about food security and national self-sufficiency, as it was thought that cheaper imports would be always or usually available, and local food production was not so necessary as previously thought. Many developing countries reduced food production, many of them under advice of the international financial institutions.

The rising world prices of many food items in the past few years have meant more expensive imports, and inflation of food prices in local markets. There have also been cases of shortages, as some countries placing orders – for example for rice – have found that the supply is not forthcoming or guaranteed, sometimes because of export restrictions by the exporters of the food item. Many developing countries have been caught in this situation, resulting in street protests as people, particularly the unemployed and poorer families, found it difficult to cope.

Because of this new situation, the paradigm of ‘food security’ has suddenly shifted back to the traditional concept of greater self-sufficiency, instead of prioritizing the option of relying on cheaper imports. It is now recognized that in the immediate future, there is need for emergency food to be supplied to affected countries, but that a long-term solution must include increased local food production in developing countries. This raises the question of what constitute the barriers to local production and how to remove these barriers.

Factors for this crisis include changes in climate (such as drought for example affecting wheat production in Australia), the rising cost of inputs especially oil and oil-based inputs for agriculture, and the switch of land use from production of food to biofuels. However, a longer term reason is the decline in agriculture in many developing countries, in most cases due to the structural adjustment policies of the International Monetary Fund (IMF) and World Bank. The countries were asked or advised to (1) dismantle marketing boards and guaranteed prices for

farmers' products; (2) phase out or eliminate subsidies and support such as those for fertilizer, machines, agricultural infrastructure; (3) reduce tariffs on imported food products to low levels.

## THE IMPACT OF TRADE LIBERALIZATION

Many countries that were net exporters or self-sufficient in many food crops experienced a decline in local production and a rise in imports which had become cheaper because of the tariff reduction. Some of the imports are from developed countries, which heavily subsidize their food products. The local farmers' produce were subjected to unfair competition, and, in many cases, the farmers could not survive. The effects on farm incomes, on human welfare and on national food production and food security were severe.

### Ghana's experience

The case of Ghana<sup>1</sup> illustrates this. The policies of food self-sufficiency and government encouragement of the agriculture sector (through marketing, credit and subsidies for inputs) had supported an expansion of food production (for example in rice, tomato and poultry). The policies were reversed starting from the mid-1980s, and especially in the 1990s. The fertilizer subsidy was eliminated, and its price rose very significantly. The marketing role of the state was phased out. The minimum guaranteed prices for rice and wheat were abolished, as were many state agricultural trading enterprises, and the seed agency responsible for producing and distributing seeds to farmers, and subsidized credit was also ended.

Applied tariffs for most agricultural imports were reduced significantly to the present 20 percent, even though the bound rate (committed in the World Trade Organization,

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<sup>1</sup> See Khor, M. 2008. *The impact of trade liberalization on agriculture in developing countries: The experience of Ghana*. Third World Network, Penang.



WTO) was around 99 percent. This, together with the dismantling of state support, led to local farmers being unable to compete with imports that had become artificially cheapened by high subsidies, especially in rice, tomato and poultry.

- Rice output in the 1970s could meet all the local needs, but by 2002 imports made up 64 percent of domestic supply. Rice output in the Northern region fell from an annual average of 56 000 tonnes (in 1978–80) to only 27 000 tonnes for the whole country in 1983. In 2003, the United States exported 111 000 tonnes of rice to Ghana. In the same year, the United States government gave USD 1.3 billion subsidies for rice. A government study found that 57 percent of rice farms in the United States would not have covered their costs if they did not receive subsidies. In 2000–2003 the average costs of production and milling of white rice was USD 415 per tonne, but it was exported for just USD 274 per tonne, a price 34 percent below its cost of production and processing.
- Tomato was a thriving sector, especially in the Upper East region. As part of a privatization programme, tomato-canning factories were sold off and closed, while tariffs were reduced. This enabled the heavily subsidized European Union (EU) tomato industry to penetrate Ghana, and this displaced livelihoods of tomato farmers and industry employees. Tomato paste imported in Ghana rose from 3 200 tonnes in 1994 to 24 077 tonnes in 2002. Local tomato production has stagnated since 1995. Tomato-based products from Europe have made inroads into other African markets. In 2004, EU aid for processed tomato products was Euro 298 million, and there are many more millions of Euros in indirect aid (export refunds, operational funds for producers' organisations, etc.).
- Ghana's poultry sector started its growth in the late 1950s, reached its prime in the late 1980s and declined steeply in the 1990s. The decline was due to withdrawal of government support and the reduction of tariffs. Poultry imports rose by 144 percent between 1993 and 2003, and a significant share of this was heavily subsidized poultry from Europe. In 2002, 15 EU countries exported 9 010 million tonnes of poultry meat for Euro 928 million, at an average of Euro 809 per tonne. It is estimated that the total subsidy on exported poultry

(including export refunds, subsidies for cereals fed to the poultry, etc.) was Euro 254 per tonne. Between 1996 and 2002, EU frozen chicken exports to West Africa rose eight-fold, due mainly to import liberalization. In Ghana, the half million chicken farmers have suffered from this situation. In 1992, domestic farmers supplied 95 percent of Ghana's market, but this share fell to 11 percent in 2001, as imported poultry sells cheaper.

In 2003, Ghana's parliament raised the poultry tariff from 20 percent to 40 percent. This was still much below the bound rate of 99 percent. However, the IMF objected to this move and thus the new approved tariff was not implemented. The IMF representative in Ghana told Christian Aid that the IMF pointed out to the government that the raising of tariffs was not a good idea, and the government reflected on it and agreed. Many farmers' groups and non-governmental organizations (NGOs) in Ghana have protested on this to the government.

## THE WORLD TRADE ORGANIZATION AND FREE TRADE AGREEMENTS

Some developments in the trade negotiating arena are also a source of concern. The Doha negotiations at the WTO are mandated to substantially reduce domestic support in developed countries. However, to date, the offers of the United States and the EU indicate their overall trade distorting support (OTDS) would be reduced at the bound level, but not at the applied level. Also, the figures in the Chair's agriculture text of 19 May 2008 would not reduce the actual present domestic support for the United States. The maximum or bound OTDS level for the United States would be USD 13–16.4 billion, while the actual support in 2007 was reported to be around USD 7–8 billion.

Another source of concern is the new Farm Bill of the United States. According to several analyses, including those made by the United States administration, the Farm Bill will continue the present system of subsidies, and in some ways or for several commodities, it will expand the support. For example the Bill guarantees that 85 percent of the domestic market for sugar will be met by local production. The bill also allows a farm family with an income of up to USD 1.5 million to

obtain subsidies, compared to the limit of USD 200 000 per farmer proposed by the Bush administration. The Bill thus 'locks in' the United States' system and levels of subsidies for the next five years; it also constrains what its negotiators can offer in the WTO's Doha negotiations.

A major loophole in the WTO's agriculture agreement is that countries are obliged to reduce their bound levels of domestic support that are deemed 'trade distorting' but there are no constraints on the amount of subsidies deemed non distorting or minimally distorting, which are placed in the so-called Green Box. Recent studies have shown however that many of the Green Box subsidies are also trade distorting. The Doha negotiations are unlikely to place new effective disciplines on the Green Box. Therefore, the major subsidizing countries can change the type of domestic subsidies they give, while reducing the 'trade distorting subsidies' and continue to provide similar levels of farm subsidies.

Meanwhile the developing countries are being asked to reduce their agricultural tariffs further. The Chair's proposal at the Doha talks is for a maximum 36 percent tariff cut for developing countries, and 24 percent for small vulnerable economies. This is sizable, and compares with the 24 percent cut in the Uruguay Round. Most developing countries are advocating that the instruments of special products (SP) and special safeguard mechanism (SSM) be set up as part of the WTO talks to promote food security along with farmers' livelihoods and rural development. SPs would exempt important food products from tariff cuts or at least allow for more lenient cuts. SSM would enable a developing country to impose an additional duty on top of the bound rates in situations of reduced import prices or increased import volume, in order to protect the local farmers. However, there is considerable opposition from some exporting countries to having these instruments work in an effective way.

In the bilateral or regional free trade agreements (FTAs) involving developed and developing countries, the developing countries are asked to reduce or eliminate their tariffs by even more. For example, in the Economic Partnership Agreements (EPAs) between African, Caribbean and Pacific (ACP) countries and the EU, the ACP countries are asked to eliminate their tariffs on 80 percent of their tariff lines over different time periods. Agricultural products are among those affected.

## CONCLUSION

- The economic and trade policies followed by many developing countries, often at the advice of international financial institutions, or as part of multilateral and bilateral trade agreements, have contributed to the stunting of the agriculture sector in developing countries. The developing countries must be allowed to provide adequate support to their agriculture sector and to have a realistic tariff policy to advance their agriculture, especially since developed countries' subsidies are continuing at a high level. The developed countries should quickly reduce their actual levels of subsidy.
- The agriculture policy paradigm in developing countries must be allowed to change. Countries should have the policy space to expand public expenditure on agriculture. Governments in developing countries must be allowed to provide and expand support to the agriculture sector.
- Developing countries should place high priority on expanding local food production. Accompanying measures and policies should thus be put in place. The countries should be allowed to calibrate their agricultural tariffs in such a way as to ensure that the local products can be competitive, that farmers' livelihoods and incomes are sustained, and that national food security is assured.
- The proposals of developing countries (led by the G33) on special products and special safeguard mechanism, aimed at food security, farmers' livelihoods and rural development, at the WTO should be supported. Effective instruments that can meet the aims should be established.
- The policies of the World Bank, IMF and regional development banks should be reviewed and revised as soon as possible so that they do not continue to be barriers to food security and agricultural development in developing countries.
- The actual levels (and not just the bound levels) of agricultural domestic subsidies in developed countries should be effectively and substantially reduced. There should also be new and effective disciplines on the Green Box subsidies to ensure that this category does not remain an 'escape clause' that allows distorting subsidies that are detrimental to developing countries.

- There should be a review of many of the FTAs between developed and developing countries, including the EPAs between the EU and ACP countries. In light of the food crisis and the changing paradigm on food security, developing countries that have signed or are in the process of negotiating FTAs should ensure that the FTAs provide enough policy space to allow sufficiently high tariffs on agricultural imports that enable the fulfilment of the principles of food security, farmers' livelihoods and rural development.

