

Na Cancún: hoe nu verder? Waar zijn wij vóór? Ronde tafel gesprek op 12 december 2003

After Cancún: How to arrive at a better organisation of international agricultural trade?

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Introduction

In the late 19th century, developments in transport and industry caused oversupply and a steep price fall in agricultural markets. Free market adjustment proved difficult and many European countries introduced protection. When prices fell again in the 1930s, all other western countries followed. Under the New Deal, the US Department of Agriculture began working for international commodity agreements to support world market prices and allow a balanced co-ordination of international trade. Despite the opposition of free traders in the State Department, it had clauses introduced in the GATT (1947) that could serve as a framework for such an approach. In the following decades, international agreements were concluded for sugar, coffee, cocoa and rubber. However, the sugar agreement was soon hampered because the US, in defiance of GATT rules, applied import quotas but refused to control its domestic production. Together with increased dumping by the EU this caused the failure of a new sugar agreement in the late 1970s. Ten years later, the coffee and cocoa agreements lapsed due to divisions between producing countries and lack of support by importing countries. Since then, these products have suffered from recurrent price falls and chronic oversupply.

Meanwhile, agreements for staples (other than sugar) that were grown in developed countries were impossible because the US and the EU resisted sufficient production and export controls. Nevertheless, the US applied acreage idling to avoid completely ruining the prices of grain, its major export crop. In the 1980s, the EU started free riding on this effort by dumping increasing grain surpluses. In exchange for limiting its exports, the EU demanded a revision of the free entry for oilseeds and protein crops that the US had negotiated at an earlier date. The American government refused, and responded by lowering its grain price supports and compensating its farmers by direct payments. This allowed it could to form a coalition with the Cairns group of agricultural exporting countries in the Uruguay Round and to acquire an agreement that prescribed reductions in price supports but exempted certain direct payments.

In the following years, the US and the EU substituted direct payments for price supports in ways that allowed them to maintain large exports at prices below their production costs. In the Doha Round, they want to negotiate a further shift in this direction. Developing countries refuse to see this as 'liberalisation'. They call it a change from open to disguised dumping and demand the dismantling of this kind of support. Besides, many developing countries claim the right to protect their farmers against cheap imports. Many have tariff bounds that exceed applied tariffs, while 'special and differential treatment' gives them flexibility in reducing these ceilings. But the World Bank and the IMF have prevented countries from using these margins, and a new WTO agreement might reduce these bounds below what countries consider necessary for poverty reduction and sustainable growth.

Possibilities for improvement

Developing countries are right that the US and EU proposals in the WTO boil down to a shift to disguised dumping while the rest of the world is subjected to tariff disarmament. Yet eliminating direct payments will not suffice to restore normal returns to the average developing country producer. The case of coffee once again shows that completely liberalised markets still suffer from price-depressing overproduction. Low prices will still prevent developing country agriculture from growing and playing its role as an engine of development. More generally, low prices may also affect the global availability of food in the long term. Today's abundance is based on resources that are gradually being depleted, and timely investment in skills and new technologies may be needed to avoid unnecessary scarcity in the future. If such investment is hampered by low farm incomes, after some decades, abundance might give way to soaring food prices that wreak havoc in net food importing poor countries.

While (pseudo-)liberalisation will not help poor countries or secure global food supply in the long term, neither will unregulated protectionism or regional food self-sufficiency. Regional self-sufficiency is not a viable solution, if only because, in the future, East and South Asia will not be able to feed their populations without considerable imports. Moreover, the pursuit of food self-sufficiency by western countries may prevent developing countries from specialising in export crops in which they enjoy a comparative advantage.

What is really needed, is an approach that facilitates trade and effectively curtails dumping, while allowing countries to give adequate support to their agriculture. Such was the aim of the international commodity agreements, and the key question is how the obstacles that thwarted these agreements can be overcome. A vital pre-condition is the creation of a multilateral trade organisation with more power than the WTO, where decisions are based on consensus. At least a weak majority rule is needed to enable a large majority of countries to enforce the compliance of a small unwilling minority. Because such power should be balanced by an enhanced accountability to governments and peoples, such a new organisation should be placed under the United Nations. A practical solution would be a merger of UNCTAD and WTO.

To realise managed trade in agricultural products, the new organisation should follow different approaches for crops that are grown in developed *and* developing countries, and crops that are only grown in the latter.

Crops that are grown in developed and developing countries

With products like grains, beef, sugar or cotton, developing country farmers have been suffering from import substitution and dumping by developed countries. To redress existing distortions, therefore, a balanced arrangement should reduce the market shares of developed countries to more reasonable proportions, while allowing developing countries to increase their shares. Such an arrangement could be inspired by what was certainly the most positive aspect of the Uruguay Round agreement: the prescription to reduce the subsidisation of agricultural exports by certain percentages. Without the loophole of direct payments, this would have meant a rationing of developed country exports, as neither the US nor the EU was able to export without subsidies. The following elements could serve to elaborate this approach:

- Maximum export quota and minimum import quota, based on historical trade volumes, are imposed on developed countries. Developing countries are exempted, so that their share in world markets can increase.
- To encourage efficient specialisation based on comparative advantage, developed countries may trade these quotas among themselves.
- If global demand increases more than the additional supply by developing countries (as will probably occur), developed country export quotas are increased and import quotas decreased.
- The total amount of quotas is managed so that world market prices do not fluctuate beyond a pre-established price band.

This would be a simple set of rules that would reduce existing distortions and support international prices while leaving maximum room for market forces to increase economic efficiency.

Crops that are only grown in developing countries

Improving the prices of crops like coffee or cocoa requires arrangements that involve intervention in production and markets in developing countries themselves. Such arrangements are complicated because the increased numbers of actual and potential producing countries have made negotiations more difficult and free-riding more attractive. After the demise of the coffee agreement, two attempts by producing countries to initiate 'export retention schemes' have failed because of this problem. To reduce the transaction costs of negotiations, one could replace the commodity-by-commodity approach by a general scheme for rationing production between countries. However, this would not solve another serious problem. Like international commodity agreements, a general rationing scheme requires sufficient government control over stocks and export flows, and therefore the re-establishment of parastatal bodies that have been dismantled by liberal reforms. Experience shows that, in the socio-political configuration of many least developed countries, such organisations all too easily lead to bureaucratic exploitation of farmers.

An alternative approach could depart from private agreements between farmers, traders and processors. Many commodity chains have a strong concentration in the trade and processing phases. For instance, 6 trading houses control half the trade in green coffee beans, and 2 processors half the market for roasted and instant coffee. Combined action by farmer organisations, producing country governments and NGOs could make such companies sign an agreement that prescribes minimum prices and market conditions in exchange for improvements in products and processes. If an agreement covers a sufficient share of the world market, it could be declared 'generally binding' by a commodity committee of the supra-national trade organisation. (In a case like coffee, such a committee could be based on the International Coffee Organisation that survives from the international coffee agreement.) This approach would link in with current attempts to redress the coffee crisis. By applying the subsidiarity principle, it would give maximum room to market forces, while the increasing concentration in commodity chains is turned from a threat into an advantage.

Concluding remarks

Now that the US and the EU have failed to use the WTO for their own purposes, they may undermine multilateralism and try to have their way by bilateral and regional agreements. (Indeed, it may even become necessary to defend the WTO against the American government.) As long as

the two powers refuse to accept a new and stronger trade organisation that provides a balanced management of international agricultural markets, the only thing developing countries can do is to protect their own farmers against cheap imports. Many least developed countries have become net food importers, so that tariff protection may improve domestic prices in areas around importing ports. This will raise food prices for the poor, but this will normally be offset by positive effects on employment, incomes and investment. Besides, tariff revenue can be used for employment projects that support the poor and improve the transport infrastructure that is needed for getting agriculture and the wider economy moving. To allow developing countries to protect their farmers, it is vital to defend the room for tariff protection that these countries still have under WTO rules, and to stop World Bank and the IMF from pressuring these countries to abstain from using such room.

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