

Will free trade solve the food crisis?

What is going on?

Hardly a day has passed in the past few months when high food prices, and the political and humanitarian consequences of those prices, have not been in the news

A flurry of tariff reductions has greeted the crisis. The World Bank reports that at least 24 countries have reduced tariffs and/or value-added taxes on imports. Yet even as the tariffs fall, some governments in the major exporting countries have imposed or raised export taxes on food commodity exports.

An April briefing from the International Food Policy Research Institute lists Argentina, Bolivia, Cambodia, China, Egypt, Ethiopia, India, Indonesia, Kazakhstan, Mexico, Morocco, Russia, Thailand, Ukraine, Venezuela, and Vietnam as countries that have restricted food exports, imposed price controls on food, or both. Trade economists' ideal of a single world market requires both importers and exporters to be ready to trade at all times, regardless of political pressures at home. In the real world, of course, this is impossible. Governments must at least be seen to be doing everything possible to protect their people from hunger, regardless of trade obligations.

Some analysts have used the crisis to argue in favour of the conclusion of the Doha Agenda. With tariffs falling anyway, and the need for income support programmes reduced by high world prices, the moment is judged propitious to lock in changes through new multilateral trade rules. Given the experience of the past decade, such confidence is bewildering.

Further opening up agricultural markets is likely to increase volatility of agricultural prices. At the national level, governments' ability to support agricultural production using direct interventions in markets has been significantly reduced over the past two decades. Structural adjustment programmes

and international trade agreements have curtailed governments' ability to manage commodity production and trade. Tools previously available to help increase production in times of scarcity, to even out supply between bountiful and less good years, or to help producers adapt to changing production constraints, are more expensive or banned under existing trade and investment agreements.

Trade liberalisation and the neglect of domestic agriculture have increased the dependence of net food importing developing countries dependence on food imports. Today, these countries pay more than ever for the food they import to meet their populations' needs.

World markets in many crops remain a small fraction of total production yet the rules that govern world markets have disrupted the much larger share of food production that is for domestic markets.

Rather than establishing fairer markets, multilateral trade rules have strengthened the position of the most powerful players in the food system, particularly transnational agri-businesses. These firms have thrived on market deregulation. In many places, they have pushed small and diversified growers out of the markets in their bid to establish stable and homogenous suppliers for their processors. Cargill announced in April that third quarter profits rose 86% to US\$1.03 billion.



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Price rises could boost animal welfare

The ethical argument for why we should treat animals better has been well established; they are sentient and we have a duty to animals in our care. Some argue that the animal welfare focus is limited to when times are good and we can afford to extend our sympathy beyond ourselves. This is an economically flawed argument. As the cost of food rises above the rate of inflation there will be effects both at the producer and consumer ends of the food chain.

At the production end the value of the individual animal increases relative to farmers' incomes, so the relative costs of mortalities and underperformance increases. Every animal represents a higher investment, so husbandry becomes more of an economic driver within the farm business than where the animals have a lower value.

This is seen all over the world - livestock farmers living on peasant incomes demonstrating high levels of care for their stock. Poor animal welfare in these systems comes as a result of poor education and lack of access to modern

technologies and veterinary medicines, not as a result of the commoditisation of their livestock.

At the other end of the food chain, rising food costs will force consumers to 'value' food once again, as it becomes an increasing part of their expenditure. As with all discretionary spend items, the more they cost the more consumers focus on quality.

The main driver for better quality food is people's desire for better - not just more - food. The link between good quality meat and good animal welfare is well established.

The same is true for animal health: healthier animals protect the producer's investment. There is a strong argument that the rise in food prices will be good for animal welfare. ■

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Is free trade a solution?

At the April 2008 spring meetings of the IMF and World Bank, the WTO Director General, Pascal Lamy, said, "In this period of increased financial uncertainty around the world, the rules-based trading system of the WTO provides a hugely important source of economic stability for governments, for business and for consumers".

Yet the global food crisis is a clear example of how the rules have failed. The Doha Agenda is not the answer. The WTO has no mandate even to discuss, let alone tackle, the major sources of uncertainty in the food system. In the following list of problems causing rapid food inflation - climate change, natural resource depletion, the quadrupling of oil prices, the lack of competition in world commodity markets, speculation on commodity exchanges, the rapid expansion of biofuels production, hoarding supplies - the WTO has nothing to say or actually worsens the problem with its rules pushing deregulation and increased international trade.

However many WTO rules there are in the world, they won't hold when a crisis really hits. How did Malawi pull out of chronic food shortages? By ignoring the advice of its creditors (particularly the World Bank) and reintroducing subsidies to fertilizers, so as to boost production. Global trade benefits immeasurably from clear, strong rules. All commercial transactions do. But those rules have to pay attention to social, environmental and political realities or they cannot last.

Most food trade takes place within national borders. World supply and demand have a powerful impact in these local markets, but the influence is effectively one-way. Governments must respond to the food crisis responsibly, and with due attention to multilateral concerns. Many of the world's hungriest people depend on traded food for their next meal. But it is just as important that trade imperatives do not drive the debate. Strengthening domestic production and building resilient local markets should provide the building blocks for larger national, regional and global markets.

For agriculture, as for other sectors, the WTO has failed to provide the stability that is so evidently lacking in today's food markets. The key to stability in food is public stocks, which are a whole lot more certain and predictable than the wave of export restrictions newly imposed in the face of popular protests in a number of countries. The world market in many foods is residual: most production is not traded anyway. If exporters then decide to limit or ban exports, the price shocks are magnified for importers, most of whom can ill-afford sudden price increases.

What should governments do?

An international panel of 400 or so contributors, meeting under UN auspices, released their report, the International Assessment of Agricultural Science and Technology for Development or IAASTD, on 15th April. In brief, the report calls for radical changes to modern agriculture to meet the challenges of hunger, climate change and increasingly fragile and eroded ecosystems.

The first step for governments should be to shape trade according to their country's collective preferences. This requires enlarging national policy space, not least over trade and investment rules. Governments' trade obligations should be determined by their commitments to protect and promote human rights, including the right to food, and to their commitments under environmental agreements, such as the Convention on Biological Diversity and Framework Convention on Climate Change.

The second objective should be to raise productivity, especially in Africa, where the potential gains, and need, are greatest. This does not mean fertiliser applications and more hybrid seeds, at least not at the core. It means redefining productivity to look at food output per acre rather than yield per plant, and investing in ecologically sound and socially just technologies. This will require public investment and planning, including in post-harvest storage, roads, and communications infrastructure. Developing countries should focus on opportunities to build local capital flows, to generate local jobs and maximize the potential 'spill-over' benefits in processing and services industries.

Third, public stocks need to be re-established, with planning for local, national and regional roles. Such stocks provide an important buffer against price spikes and food insecurity. Despite their cost (real and in lost theoretical market efficiency) they are an important strategy, especially for countries whose food security has come to rely on world markets. The world market will function better with the stability that well-managed stocks can provide.

Fourth, disciplines to curb speculative activity in food markets should be explored. Trading in commodities-derived financial instruments make prices more volatile. Volatile prices hurt producers and consumers alike. Regulations to control derivatives are essential if futures and options are to provide a usable risk management tool for producers and processors. Buyers should be able to manage price risks by purchasing futures contracts that have a transparent relation to real supplies. Farmers and smaller commodities buyers cannot afford to use futures contracts to manage price risks when commodities exchange prices are too heavily affected by speculative investors.

Fifth, bioenergy policies need to be designed so as not to undermine food security or the environment. Governments, especially in the largest energy consuming countries, need to pursue energy security based on a substantial reduction of their energy use. This requires a reorganisation of economies, including the agriculture sector, away from heavy dependence on fossil fuels and towards locally integrated markets.

These changes are not just possible; they are essential to the continuing viability of our food and agriculture system. The price crisis offers us the opportunity to re-engage the public sector in deliberate and far-sighted investment in ecologically sound and socially just outcomes. Let's face it-would you like the market to decide whether you eat tonight? ■