SARD and... agricultural trade

Agricultural trade policies affect the livelihoods of millions of agricultural producers and rural people in the developing world. In developing countries agriculture is a major source of income and employs the majority of the rural workforce. In fact, 49% of the population of developing countries today depends on agriculture for their work and livelihoods[3].

Appropriate agriculture trade policies can help address poverty and hunger, as well as provide livelihood and food security in the developing world, by enabling greater job opportunities and incomes from agricultural production, processing and trade.

Sustainable Agriculture and Rural Development (SARD)
Agriculture and rural development are sustainable when they are ecologically sound, economically viable, socially just, culturally appropriate, humane and based on a scientific approach.

Rural development policy must aim to meet the nutritional and other human needs of present and future generations; and maintain, and where possible, enhance the productive and regenerative capacity of the natural resource base, It must also provide for the durable employment of those generations, reduce their vulnerability and strengthen their self-reliance.

Did you know?

- Developed countries are the main world agricultural exporters. The EU and US together accounted for 53% of the world's total agricultural exports in 2005[8]. The share of world agricultural exports from developing countries decreased in the last 40 years from 40% to 30%[3].
- Developing countries, including the Least Developed Countries (LDCs), used to be net agricultural exporters but became net agricultural importers after the 1980s[4]. By 2002 LDCs were spending more than twice as much on agricultural imports than they were receiving from their agricultural exports[4]. Today agricultural imports represent around 25% of LDC's total merchandise imports[3].
- In 1994, the Uruguay Round Agreement on Agriculture (AoA) was signed with members pledging to reduce subsidies and tariffs. However, from 1995 to 2004 developed nations increased their total agricultural supports, as measured by Total Support Estimates (TSE): a 5% net increase by the EU and a 60% net increase by the US[6].
- Agricultural trade among developing countries increased sharply during the 1990s. 'Developing countries are rapidly becoming their own best markets for agricultural products'[3].

Why is action needed?

- For the majority of developing countries agricultural development is a prerequisite for their overall development. Agricultural trade policies must therefore enable the agricultural sector of developing countries to grow and provide jobs and higher incomes.
- 37 developing countries depend on unprocessed, agricultural commodities for more than 50% of their total export earnings[4]. The world market price for several of these commodities (including coffee, cocoa, tea, sugar, cotton) has decreased in real terms by over 54% since the 1980s[2].
- Developed countries' escalating tariffs and non-tariff barriers impede developing countries from exporting processed agricultural products and capturing value-added.
- Developing countries need to receive support to diversify and develop agro-industries to capture value-added and increase revenues.
- In most OECD countries production support measures (PSE) encourage intensive agriculture, benefit large farmers, lead to overproduction and distort trade. 74% of the OECD's US$279 billion spent in production subsidies in 2004 were linked to input use or output levels which supported environmentally-destructive intensive agriculture and encouraged production surpluses[5]. 80% of Europe's production subsidies were received by 20% of the largest farms in 2005[1].
- The global agricultural markets that are most distorted by the agricultural support policies of most developed countries are those of important staple foods of the developing world: cereals (wheat, maize, rice), dairy products, meats and oilseeds. In 2004 the US accounted for 35% of world cereal exports, 42% of oilseeds and 22% of meat[2]. The EU accounted for 28% of world milk exports[2].

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What are the Policy Goals?

Trade policies must ensure that rural populations, and in particular the rural poor, can derive adequate livelihoods from agricultural production, processing and trade at local, national and international levels. To achieve this, policy reforms must increase trade opportunities for developing countries, as well as re-prioritise agricultural development to enhance developing countries' capacity to participate and gain from agricultural trade. Policies must therefore:

- Put an end to OECD agricultural supports that harm developing countries: eliminate export subsidies and effectively decouple production subsidies to prevent overproduction.
- Enhance South–South cooperation in agricultural investments and trade.
- Promote and finance the development of agro-industries in developing countries.
- Create market access for developing countries' processed agricultural products by removing escalating tariffs and non-tariff barriers.

Organic Consumers Association (OCA)

Background on liberalisation

Starting in the 1980s, developing countries liberalised their agricultural markets through stabilisation and Structural Adjustment Programmes (SAPs) which involved:

- controlling inflation and reducing the fiscal deficit by cutting public spending
- removing domestic price controls, lowering or removing tariffs, replacing quantitative import quotas with tariffs to be phased out, removing export taxes, quotas and licenses
- a withdrawal of the state in expectation of a more dominant role of the private sector by privatising state agricultural services and enterprises including marketing boards
- replacing the objective of self-sufficiency with one of food security through the market
- promoting primary agricultural exports

The policy issues

Trade distortions by developed countries

World agricultural markets remain highly distorted, particularly because of developed countries' agricultural supports. These include a variety of measures such as direct production subsidies, export subsidies and import barriers (tariff and non-tariff) which together are calculated as Total Support Estimates (TSE). In 2004, OECD countries spent US$378 billion in agricultural TSE; the EU spent US$143 billion and the US US$109 billion[6]. 74% of the OECD's TSE were used to support production (PSE) in 2004[6].

Through these subsidies, developed countries manage to export agricultural products at prices below the full costs of production. This is popularly known as 'dumping'. Although other factors are also involved, 'dumping' plays a significant role in the reduction of world market prices for staple foods (wheat, rice, maize, milk, beef) and other commodities (cotton and sugar). From 1980-2005, the price of maize has declined in real terms by 55%, of rice by 50%, of wheat by 46%, of cotton by 60% and of sugar by 54%[2].

The impact of food imports sold below production costs

Imported food that is sold at prices below a developing country's costs of production forces local producers to lower their prices to a level where they are no longer able to earn a living from agriculture. As a consequence they reduce their production to subsistence levels and the countries' food production levels also drop. Developing countries thus become more dependent on food imports to meet their food needs.

Increasing dependence on food imports

Since the 1970s, food imports by developing countries have increased. In the 1970s however, they exported more food than they imported and had a US$1 billion food trade surplus. After a period of significant policy changes in the 1980s which included the liberalisation of agricultural markets, developing countries increased their food imports at the same time as their export earnings declined. By the 1990s, developing countries in aggregate had an US$11 billion food trade deficit that is expected to expand to more than US$50 billion by 2030[4]. An increase in food imports, without a compensatory increase in export earnings, is becoming an expensive method for developing countries to meet their food needs.

Trade among developing nations

In the future, the biggest agricultural markets will be in developing countries. The percentage of developing country exports reaching other developing countries has increased from 33% in 1980 to 40% in 2002[3]. Equally, the share of developing country imports originating from other developing countries increased from 38% in 1980 to 45% in 2002[3]. West Asia and South East Asia have both increased their share of agricultural trade with developing countries whilst Latin America and Africa are still heavily dependent on trade with developed countries.

Value chains

Agricultural trade is increasingly occurring within value chains controlled by powerful global businesses such as transnational corporations and supermarkets. Agricultural corporations have a high level of market power concentration on the production (often through subcontracted firms), processing, trade and retail of a range of traditional, staple and high value agricultural commodities. Exports of processed agricultural products are growing rapidly and currently represent 50% of global agricultural trade[3]. Linked to this growth is the expansion of supermarket chains from developed into developing countries.

What are the Policy Options to increase opportunities for trade?

Increase political pressure on developed nations

to ensure they eliminate all direct and indirect export subsidies and reform production subsidies to discourage intensive agriculture and prevent overproduction. Appropriate support measures to producers should promote environmentally-sound agricultural practices and benefit primarily small farmers.

Encourage South-South cooperation and trade

There is a growing consensus that not all individual countries will gain from agricultural trade liberalisation. Regional Trade Agreements (RTAs) among developing nations could therefore provide a mechanism for developing countries to achieve the benefits of liberalisation without becoming too exposed to the negative effects of full integration with the global economy. Currently there are still many issues to address in the functioning of RTAs, but if properly implemented they could help increase trade of processed agricultural products between developing countries. Policy changes must therefore encourage and enhance South-South trade by addressing current barriers and constraints and promoting trade of agricultural products, particularly processed ones.

Address market power concentration

International regulation is needed to address the market power concentration of corporations and supermarkets trading in primary and processed agricultural products. It is essential to restore fair competition and balance, and to provide producer countries with more bargaining power so they can derive a greater share of the benefits of agricultural trade.

What are the Policy Options to enhance capacity for trade?

Reverse dependence on food imports

In theory cheap food should be beneficial for developing countries and poor consumers. However, it must be understood that in many developing countries the agricultural sector is the biggest employer and the basis for the livelihood of the majority of the population. When food can be produced locally, it should be promoted and protected from food imports, particularly those sold below local production costs. To reduce import dependence and promote agricultural development, policies and projects for trade in domestic, sub-regional and regional markets should prioritise local food production, particularly by small farmers, following sustainable agricultural practices.

In the context of ongoing WTO agricultural negotiations, developing countries must be able to implement measures to protect their internal markets from agricultural products sold below production costs, by self-designating and exempting from full tariff reductions *Special Products* that are essential for their food security, livelihood security and rural development. Developing countries should also have access to the *Special Safeguard Mechanism*, a tariff to protect domestic markets from the disruptions caused by import surges of important agricultural commodities, as well as the volatility of world market prices.

Promote and facilitate processing of agricultural products

Public and private sector investments, as well as Official Development Assistance, should support the development of agro-processing industries in developing countries so they are able to diversify away from primary commodity production, capture value added and generate a range of higher-paid, non-farm employment opportunities in rural areas.

Increase supports to small farmers

Supporting small farmers is an effective way to reduce poverty, increase the amount and variety of food supplies in local markets, and enable poor women and men farmers to participate in

Declining agro-processing industries

Since the 1980s, agro-processing industries in developing countries have collapsed and exports of processed products declined:

- LDCs' exports of processed products, as a percentage of their total agricultural exports, halved from 15% in the early 1980s to 7.5% in the late 1990s[7].
- The world's top 10 coffee exporters, all developing countries, processed their coffee by roasting it and accounted for 8.5% of world exports of roasted coffee in 1975-1980 but this fell to less than 2% in 1998-2002[4].

markets in which they would otherwise be excluded. It is essential that credit and financial services be made available to poor and small farmers.

Access to crucial inputs, particularly seeds, land and water, must be increased. Access to appropriate technologies, marketing channels, information and communication services must also be enhanced. Small farmer associations and cooperatives must be supported and strengthened so that they can organise and collectively bargain for the supply of inputs, handle, process and market agricultural products, and negotiate fairer prices, particularly as the private sector is unlikely to target poor and small farmers.

Increase investment in the agricultural sector

Public and private sector investment in agriculture must increase. EAA (External Assistance to Agriculture) was reduced by half in real terms in the 1980s and stagnated in the 1990s[3]. The neediest countries currently receive the least amounts of EAA. Developed countries should increase their EAA. Developing country governments should also increase their budget allocations to agriculture and supervise and manage private investments to ensure they do not exclude poor and small farmers. Investments in agriculture should target production of nutritious, local food crops, as well as food marketing and processing.

Increase research and development

Research should target development of appropriate technologies for different farmers, with special attention to small, resource poor farmers. Research should be participatory, bottom-up and demand-driven. Technologies should preferably be low-cost, requiring few or no purchased inputs. Appropriate technologies must be ecologically sound and tailored to local areas. Since this research is more likely to be carried out by public rather than private bodies, public agricultural research must be adequately funded and actively developed alongside private sector research. Governments must ensure that technology promoted by the private sector does not just follow private interests and is not the only option available from which farmers can choose.

Tools and resources

FAO–Commodities and Trade Division
Advice to developing countries on commodity and trade policies, RTAs, value chains, WTO negotiations and other trade issues. http://www.fao.org/es/esc/en/21972/index.html

FAO–Trade in Agriculture, Fisheries and Forestry
Information, analysis and technical advice on trade as well as capacity building for WTO negotiations. http://www.fao.org/trade/index_en.asp

FAO–Trade Policy Briefs
A number of useful in-depth briefs on individual trade issues of importance.
http://www.fao.org/ES/esc/en/41470/89284/index.html

FAO–Agricultural Support Systems Division
Assistance to develop policies and strategies for agricultural services as well as production and post-production technologies in the agriculture and food sectors.
http://www.fao.org/ag/ags/index.html

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The "SARD and..." Policy Briefs are designed to encourage and assist governments in developing and implementing policies to achieve sustainable agriculture and rural development.

This series is produced by the SARD Initiative, a multi-stakeholder framework established to support the transition to people-centred sustainable agriculture and rural development. It is led by civil society, supported by governments and inter-governmental agencies and facilitated by FAO.
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