Ten ways to fix agricultural trade: Benchmarks for the Hong Kong ministerial

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As WTO members approach the sixth WTO ministerial conference in Hong Kong, negotiations on agriculture—and therefore negotiations across the board—are in turmoil. WTO members are unable to agree on what they want from global trade rules for agriculture. Some want much lower tariffs and to eliminate most domestic support. Others want lower tariffs (although maybe not on *every* product) and to keep their domestic support more or less intact. Still other WTO members want to keep both higher tariffs and the right to assist certain commodities with very generous support. For all the rhetoric to the contrary, there is no shared acceptance among WTO members that wholly liberalized world trade in agriculture is the objective of the trade rules.

Global trade in agriculture is in a mess. The mix of national policies and multilateral rules now in place has sent commodity prices plunging. Farmers around the world, in rich and poor countries both, are driven to find alternative income or to leave their land altogether because they can no longer cover their costs and earn a living.

No one thinks the WTO alone can solve these problems but efforts to reform developed country agriculture are firmly anchored in the WTO negotiations on the Doha Agenda. The debate at the WTO has centered on three aspects of agricultural policy: domestic support, tariffs and export subsidies. The proposals now in play reflect the domestic politics of WTO members, especially developed country members and the export interests of multinational agribusinesses that trade in commodities and processed food. The negotiations present serious contradictions and dilemmas that more powerful WTO negotiators have ignored, despite the promises made in Doha to put development at the heart of the negotiations.

Even if governments were miraculously to agree to eliminate *all* trade-distorting elements of agricultural policy at the Hong Kong ministerial, world markets would not start to maximize developing countries' welfare. The focus of the WTO talks misses almost entirely the problem of dumping (the export of products at below cost of production prices). Worse, the WTO Agreement on Agriculture and the proposed changes now being negotiated fail to incorporate existing binding commitments on governments to realize fundamental rights including the human right to an adequate standard of living, food and work.

As governments meet in Hong Kong, it is time for a radical restructuring of the multilateral trading system. The WTO Agreement on Agriculture has failed rural communities around the world. The successor agreement, now under negotiation, is set to perpetuate that failure. Before WTO members commit to another bad trade deal, they should consider the following proposals as a new basis for the agricultural trade system.

1. A ban on agricultural dumping. Current WTO rules tackle dumping by allowing countries to tax imports that are sold for less than the price in the home market. However, dumping starts at home, when farmers cannot get a fair price from the market. U.S. production of key export commodities, including maize, soybeans, rice and cotton, are consistently sold at less than cost of production prices in the domestic market. Among the issues contributing to this problem is chronic overproduction that has made dumping endemic except when bad weather reduces output. WTO rules to address agricultural export dumping are inadequate. In markets as distorted by oligopoly power and government interference as commodity markets are, dumping margins should be measured against production costs and a fair return, not against domestic prices. To enforce these rules, the WTO should require timely reporting of complete cost of production numbers for all crops that a country wants to export. WTO rules against dumping should be strengthened and simplified.

2. Allow border measures. The 1947 General Agreement on Tariffs and Trade allowed countries to use agricultural tariffs if they managed their production, but they were prohibited from exporting any surplus that might result. This approach should be revived. Trade negotiators should focus on the trade-distorting impact of programs: some of the most expensive agricultural support when measured as a proportion of the total value of production, or against the world's lowest cost producer, have little net impact on world markets. No firm or country should have a legal right to export or a legal obligation to import. Yet elements of the WTO Agreement on Agriculture create just such rights and obligations. Countries should have the policy space to determine how to structure and support their basic level of national agricultural production, so long as their national policies do not damage other countries' ability to do likewise.

3. New criteria for subsidies. Many agricultural subsidies are problematic, but not all subsidies result in unfairly traded exports. The subsidy classification system in the WTO is too politicized. Developed country negotiators have manipulated the different colored boxes to suit their domestic needs. Worse, the measurement of amber box support penalizes countries that attempt to manage their production to avoid structural over-supply, a major cause of dumping. Negotiators need better guidelines for disciplining agricultural subsidies. If support payments are used, for example, they must be accompanied by strictly enforced production limitations and controls on exports (an export tax might address the implicit export subsidy such products receive). Export subsidies should be eliminated immediately. WTO members should conduct a frank assessment of the boxes to reassess how best to limit trade distortions while respecting countries' policy space to set and implement national agriculture and food security objectives.

4. Allow state trading enterprises. The WTO should not prohibit state-trading enterprises (STEs) either explicitly, or de facto, by outlawing policies necessary to the establishment and operation of a single desk seller. Export state-trading enterprises offer a competitive counterweight to concentrated export markets. STEs have real costs and have sometimes proved a strong temptation for corruption. Nonetheless, properly overseen and with provision for farmer control under public oversight, STEs offer important benefits, particularly in countries where the private sector is weak or undercapitalized or where it is highly concentrated. The question of monopoly and oligopoly power should be addressed and monitored whether the companies in question are publicly or privately owned.

5. Regulate market concentration. Concentration in global commodity markets is a primary cause of market distortion. Possible policy responses include an international review mechanism for proposed mergers and acquisitions among agribusiness companies that are present in a number of countries simultaneously. At a minimum, transparency requirements now imposed on state-trading enterprises should be extended to companies that control 20 percent or more of a national or global market in a given commodity. The extension of monopoly patent rights to life forms under the Trade Related Intellectual Property Rights Agreement, in particular the patenting of seeds manipulated by genetic engineering, has deepened the reach of existing food company integration and economic control. Governments must defend public access to the planet's natural resource base and genetic endowment.

6. Increase transparency in commodity markets. Governments need to improve dramatically the transparency in international commodity markets. The UN Conference on Trade and Development (UNCTAD) had a mandate to monitor these markets, but developed countries killed the mandate in the 1980s. It is not currently possible to say with certainty, for example, which companies control what percentage of the global wheat trade. Furthermore, weak regulation of commodities futures and options markets has exacerbated market price volatility far beyond what would result from changing supply and demand equations or from legitimate hedging against crop failures and other supply shortfalls.

7. Put food security first. Developing countries have made proposals to allow the protection of their agriculture through the designation of special products (crops strongly related to the country's food security) and the creation of a special safeguard mechanism that would create a responsive and effective system to protect agricultural markets from import surges. These proposals alone cannot ensure food security, but they offer important protections against imports, whether dumped or not, that undermine national productive capacities. The proposals from both the G-20 and G-33 to allow border measures to control imports of any product that has been subsidized through domestic or export support should be adopted.

8. Reform food aid. The WTO should agree criteria for food aid that is unquestionably vital for humanitarian purposes and effectively non-trade distorting. Other food aid programs should be subject to more careful review. U.S. food aid practices demand particular scrutiny because they fail to meet appropriate standards of flexibility and targeting that help ensure the recipients of food aid get the right food at the right time. The U.S. test to assess potential displacement of commercial sales (the Bellmon Analysis) is not adequate. The WTO should ban all food aid not in grant form. The WTO should support international efforts to strengthen and expand the Food Aid Convention to establish a forum where recipient countries have a voice and humanitarian and development concerns are given clear priority over domestic donor needs.

9. Manage global production. Chronic over-production of many commodities depresses prices and exacerbates dumping. Proper regulation and management of commodity markets is vital to ensure supply is balanced with demand and to prevent sharp fluctuations in prices. WTO rules must allow governments to reopen discussions on international commodity agreements to curtail global oversupply and ensure fair prices.

10. Democratize the process. Good agreements from bad process are nearly impossible. WTO negotiations are infamous for encouraging a handful of countries to negotiate among themselves who then present the full governing body with very little time (sometimes less than 24 hours) to accept or reject a deal. The WTO needs clear rules for official negotiations that guarantee transparency and effective participation of all 147 members.

The WTO is now over 10 years old. It is time for an objective evaluation of whether its prescriptions have benefited people, not just boosted cross-border trade statistics. It is time to craft policies that discipline all sources of market distortion and to measure success against the imperative of meeting international obligations of governments to their people. Such an agreement would truly be historic.