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Food Price Volatility: Implications for ACP countries

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Cédric Pène, World Trade Organization

Trade as an aspect of the response for combating the volatility of agricultural and food

Executive Summary

My contribution falls within the framework of the inter-Agencies report for the G20 on 2 June 2011 relating to the responses to be made on the question of price volatility in the food and agricultural market and as a continuation to the contributions made by the first panel, particularly that from Carmel Cahill from the OECD, on the part played by trade as one of the tools intended to ensure food security.

Current WTO rules, future rules which may arise from the Doha cycle and agricultural and food price volatility

a) WTO rules make no specific reference to the volatility of agricultural prices.

The aim of the agreement on agriculture is to "set up a system governing trade in agricultural products which is fair and market-based" while taking account of the objective of food security as well as the need for the existence of special and differentiated treatment for developing countries.

It is therefore in the light of the importance of trade as an aspect of the global response to the problem scenario of price volatility that the WTO rules, particularly the Agreement on Agriculture which emerged from the Uruguay Cycle, have a crucial part to play:

* by limiting agricultural subsidies which tend to produce distortion in the rich countries and by levelling out tariff protection, over the medium term these rules favour a better allocation of resources, particularly as regards developing countries in possession of comparative advantages, which is a guarantor of food security in the medium term;

* they encourage transparency and predictability of public measures, thus tending to downplay the undesirable effects of measures that are likely to accentuate agricultural price volatility;

* they take into account the needs of developing countries, particularly the most vulnerable, by way of various flexible measures, which include agricultural policies inspired by goals focusing on food security and a reduction in the effects of agricultural price volatility.

b) In its present state the agriculture agreement is imperfect, and the conclusion of the Doha cycle should help steer it in the right direction.

* On the matter of tariff protection, the reduction of customs duties will make it easier to establish connections between exporting and importing zones, and will allow countries possessing a comparative agricultural advantage to profit by it to a greater extent.

At the same time, a number of tools including devices useful to all as well as special products, special defensive measures and reduction rates differentiated for developing countries, particularly the most vulnerable, will allow WTO members, specifically developing countries, to maintain a certain level of protection for their least robust sectors.

* The area relating to export competition is equally relevant regarding agricultural price volatility. The same goes for export subsidies. As a general rule, the quantity and value of export subsidies rise as prices fall. The result is that they do not help the importing countries to reduce their food bill when prices are high; rather they tend to drag world prices down when they are already high. Within the current draft terms and conditions in the framework of the DDP, the developed countries are required to abolish export subsidies by the end of 2013.

* On the matter of internal support, substantial reductions in the subsidies which tend to distort trade, as laid down in the current draft terms and conditions, would lead to more realistic world prices and contribute to a better allocation of resources at the global level.

The current text of the Agreement on Agriculture allows for the inclusion in the green category, i.e. exempt from all reduction requirements, of certain types of support such as infrastructure services or research aid, and also grants the developing countries the right to subsidise without limit certain kinds of inputs and investments for low-income producers with limited resources. The governments concerned may then implement policies designed to increase agriculture sector productivity, which is one of the aspects of the response to be offered to the problems of agricultural price volatility.

The present Agreement also provides for an exemption to reductions in measures governing the holding of public stocks for reasons of food security or domestic food aid, on the condition that these measures comply with certain basic criteria such as transparency and inclusion in a food security programme laid down in national legislation.

The current draft terms and conditions again include here the proposal that the flexibility allowed to developing countries be increased. The governments in question can then set up tools whereby the consequences of price volatility as regards the most at-risk population sectors can be limited.

* Lastly, quantitative prohibitions or restrictions on exports can be set up to tackle food product price inflation or to prevent shortages in the exporting country. However, these measures could exacerbate the situation in other countries by reducing the supply on the world market and by exaggerating rises in world prices. This was what happened during the world food crisis of 2008, for example.

The WTO rules express this delicate balance. Quantitative rules are, as a general rule, banned by the 1994 GATT agreement, but there is an exception which allows governments to prohibit or limit exports on the condition that these measures are "[...] applied temporarily to prevent a critical situation due to a shortage of food products or other products essential to the exporting contracting party, or to remedy that situation".

Prohibitions or restrictions on agricultural produce must comply with the provisions of the Agreement on Agriculture which prohibit any WTO members who adopt these types of measure from informing and consulting other interested members.

The disciplines, designed to improve transparency and predictability, are buttressed by these draft terms and conditions, which are intended in particular to restrict the life of these measures to a period of 12 months as a general rule.

The status of the Doha cycle on the eve of the Ministerial WTO Conference on 15-17 December

Two weeks stand between us and the 8th Ministerial WTO meeting.

The General Council is meeting at this very moment in Geneva and will discuss the possible outcome of this Ministerial Conference.

This date is important as it was generally seen as the final possible date for achieving a consensus on a point which a member or group of members would want to see included in the agenda on the date of the Conference.

The final declaration should 1) reaffirm the importance of the multilateral trade system and that of the WTO; 2) re-state the importance of the "development" component in the work of the WTO; and 3) sum up the situation as regards the Doha cycle.

On the matter of the DDA, the stated goal of the G20 leaders in November 2010 in Seoul to conclude the cycle in 2011 has unfortunately not come to pass.

The members have therefore focused their considerations over the past weeks on ways of continuing the negotiations in 2012 in order to finally achieve some concrete results.

As suggested by the Director General of the WTO on 21 October last, "the fact of the matter is that talks dealing with the DDP are deadlocked", and the aim is for the Ministerial Conference to "give a clear signal showing that our Organisation is still making progress. Our job is to transform the present negative state of mind into something positive - a sign of progress".

For their part, the G20 Heads of State declared in Cannes last 4 November that: "We stand by the terms of the Doha Development Programme (DDP). However, it is obvious that we will fail to conclude the DDP if we continue to conduct negotiations as we have in the past. We acknowledge the progress made so far. To help restore confidence, in 2012 we will implement new and credible approaches to move the negotiations forward, particularly on the matter of the concerns regarding the less advanced countries and, if they lead in that direction, the remaining items of the Doha agenda".

Talks have thus continued in this spirit over the past weeks, and the General Council Meeting currently in progress deals in particular with this point.

One of the ideas proposed concerns an attempt to press negotiations forward on a pragmatic basis in those fields where progress is possible, thus reaching agreements on specific questions – whether provisional or final – upstream of arriving at the single Doha commitment in its totality.

Current talks on export restrictions applicable to agricultural and food products

In conclusion, a few words on the matter of the rules applicable to export prohibitions and restrictions.

Over recent months, this question has effectively informed the discussions in the agricultural forums of the WTO.

Two proposals in particular have been discussed on this matter in the context of the preparation for the December 2011 Ministerial Conference:

a) One proposal, initially submitted last 14 November to the Ordinary Agricultural Committee jointly by the African and Arab groups, as well as the group consisting of the less advanced countries and the net food product importing countries.

In its latest version, dated 25 November, this proposal foreshadows the establishment of a working programme which should be able, *among other things*:

- to examine the feasibility of the rules intended to exempt purchases by the LDCs and NFIDCs, authorised by their authorities under conditions to be defined, and restrictions on exports established by the major exporters of the products in question;

- to examine the mechanisms required by the LDCs, NFIDCs and other vulnerable developing countries to deal with the problems of short-term funding for food produce imports.

b) A second proposal, lodged by the European Union together with a certain number of joint sponsors on 11 November on the barriers to exports of food products and humanitarian aid on the world food programme.

The aim of this proposal is to arrive at a declaration to extend the commitment adopted by the G20 Agriculture Ministers in Paris on 23 June last to the WTO, a commitment which was reaffirmed by the Heads of State in Cannes on 4 November whereby no restrictions or extraordinary taxes are to be placed on exports of food products purchased by the WFP for non-commercial humanitarian purposes.

Discussions on the possible inclusion of these two proposals, in a form yet to be determined, into the final result of the December Ministerial Conference, have been explored over the very last days. This is also one of the items of the agenda of the meeting of the General Council on this day.