

The Breakdown of the Doha Round Negotiations

What Does it Mean for Dealing with Soaring Food Prices?

Introduction

In the period leading up to the July 2008 WTO ministerial meeting, the current crisis of soaring food prices was used both to argue for a speedy resolution of the negotiations, and to argue against any further reductions in protection that might result from a new agreement.

Those arguing for a substantive agreement to further liberalization of agricultural markets suggested that current levels of protection and support have depressed global market prices and curtailed incentives for investment in increased food production in many food importing countries, contributing to recent surges in import bills.

Those arguing against further liberalization pointed to evidence, previously used by proponents of a deal, that liberalization would result in upward pressure on prices as surplus production (and exports) in subsidizing countries falls, causing further difficulties for net consumers. Perhaps more importantly, they raised concerns that further reducing the policy space available to developing countries to provide adequate protection in promoting the development of their agriculture would result in further reductions in investment in the sector, which could leave countries even more susceptible to rapid increases in food import bills in future crises. It was one of the proposed mechanisms for protecting vulnerable agricultural sectors, the Special Safeguard Mechanism, that proved to be the stumbling block which led to the breakdown of the negotiations.

But are the arguments relating to food prices valid? Does the collapse of the round have significant implications in the context of soaring food prices? To answer these questions, this brief examines the extent to which existing - and proposed - changes to WTO rules and provisions affect response measures to soaring food prices.

Using WTO-Consistent Remedial Measures

Currently, policy makers in many countries suffering from high food prices have focused on remedial measures. Some of these measures are policy instruments covered by WTO rules. Where this is the case, there is concern that the WTO commitments might prevent countries from pursuing appropriate response measures. In other cases, existing rules may not be adequately binding so

- Imbalances in WTO rules resulted in inappropriate policy responses to soaring food prices
- The widespread use of export restrictions has weakened the reliability of world markets as sources of food
- The breakdown of the Doha Round offers an opportunity to promote more appropriate policy responses in future food crises

one country's policy response may have adverse effects on other countries.

WTO Rules and Provisions with a Bearing on Soaring Food Prices

Import tariffs

Reducing import tariffs can help lower the domestic price of imported foodstuffs during periods of high world market prices. However, import duties on basic foodstuffs are generally low - in the range of 5 to 10 percent in most low-income, food-deficit countries in the pre-crisis period. So further reductions would counterbalance only a small part of increased food prices. WTO rules allow countries to reduce these tariffs to zero, but this may be an inappropriate response if it curtails a major tax revenue flow whilst only partially offsetting an increase in food import prices.

Export prohibitions, restrictions and export taxation

These measures are technically legal under the WTO rules, which do not prevent countries from imposing export restrictions. Export taxation is not disciplined at all. Such measures have been used by many countries without much regard for the weak restraining provisions of the WTO rules. In contrast to the reductions in import tariffs, the effects on the world market were direct and immediate; an already tight market situation was exacerbated to the detriment of net food importing countries. Weak rules in this area create uncertainty about the world market as a reliable source of food supplies. Although a few countries have proposed stronger rules, most have resisted changes to these provisions. However, soaring food prices might induce the wider membership to revisit proposals for strengthening the current weak provisions beyond that envisaged in the draft Modalities text.

Food aid

Current provisions act as guidelines rather than binding rules for the provision of food aid. They have not

constrained in any way actual practices. However, the availability of food aid has generally been declining during periods of high food prices. On the basis of the draft Modalities, the provision of food aid other than for emergencies is likely to be effectively disciplined, and this is a desirable outcome. To prevent food aid from being used to circumvent export competition provisions and to limit disincentives to domestic production in recipient countries, there should be a clear definition of what constitutes an emergency situation. Whether an emergency should include cases of soaring food prices is likely to remain a contentious issue. Regarding the unintended effects of food aid, if related WTO disciplines are tightened as envisaged in the draft Modalities, most food aid would be provided to countries and people with limited resources to meet their needs. This will constitute largely additional consumption with no undesirable effects on the world market and third countries.

Export credits, export credit guarantees or insurance programmes

There are currently no specific rules prescribed as regards export credits, export credit guarantees or insurance programmes. However, tighter rules are envisaged under the draft Modalities text. As in the case of food aid, tighter disciplines are generally beneficial as they would prevent the circumvention of export subsidy commitments. They would also encourage donors to extend the assistance provided through export credits, export credit guarantees and insurance programmes to countries most in need. Nonetheless, certain improvements could be made in the draft Modalities text, notably defining clearly what the “exceptional difficulties” allowing special treatment for the LDCs and NFDCs are, and in considering concessional interest rates under these exceptional circumstances, rather than simply the repayment period.

The Marrakesh Decision and a food financing facility

The Marrakesh Decision recognized that certain vulnerable countries who depend on the world market for a substantial part of their basic food needs may face additional difficulties in financing imports as a result of the reforms. Existing financing facilities, notably IMF's Compensatory Financing Facility (CFF), have been little used, possibly due to attached conditionalities. Potential beneficiaries have called for the establishment of a dedicated food financing facility. The decision being outside the three-pillar architecture of the Agreement on Agriculture (AoA) is not being directly negotiated under the Doha Round, although the difficulties faced by the least developed countries and the net food-importing developing countries are recognized. A functional instrument along the lines of the Food Import Financing Facility (FIFF), elaborated by UNCTAD and FAO in response to the call of the potential beneficiaries, would have helped countries affected by the present food crisis. It would also have reassured these countries that they could access world markets when they face

difficulties, and that these markets would remain an affordable source of food supplies. The rationale of this proposal, its market-based modalities of operation and which safeguards may be needed for its practical implementation need to be re-examined.

Stockholding and domestic food distribution programmes

Stockholding and domestic food distribution programmes have often been policies of choice for many developing countries in the past, and a common response to domestic and international market instability, with the objective to both provide a minimum support to farmers and also to help consumers through food distribution schemes. The existing AoA rules allow these instruments although there could be limitations in their application in countries close to their bound levels of disciplined domestic support (AMS). The draft Modalities text relaxes these restrictions considerably, making the conditions for stockholding and related public food distribution programmes less stringent. This may be of value in the future if, in response to uncertainties about soaring food prices, more countries put such schemes in place. The short-term effect of these programmes on the world market is generally positive, as it allows countries to depend less on the world market when prices are high, thus limiting further price increases in the world market. Other food importing countries also benefit from such operations

Wider Issues

Biofuel production and trade

WTO rules governing the support and trade of biofuels are not transparent and leave room for ambiguity and incoherence in policy responses. To the extent that economic considerations underpin the use of food commodities as feedstocks in biofuel production, their development could have a stabilizing effect on food markets, whereby energy prices act as a ceiling as well as a floor price for food commodities. The direct link to the energy sector could also limit the long-term downward trend in agricultural prices and provide incentives for investment in agriculture.

On the other hand, if countries intervene indiscriminately in the biofuels market through border protection, domestic subsidies and regulations, they may create more volatility and further distort food markets. This raises questions about the coherence of the multilateral trading system as a whole and whether what is negotiated in one agreement (i.e. domestic subsidization disciplines under the AoA) will be effective if there are loopholes elsewhere. This apparent incoherence of trade rules needs to be corrected.

Trade facilitation

The speed with which food supplies move in ports and across borders to reach the markets of importing countries is of great concern, especially for vulnerable landlocked countries. The longer it takes to move supplies, the larger the inventories have to be at the



destination, the higher the storage and transaction costs for traders, and the higher the price paid by the final consumer. The scope of the negotiations on trade facilitation is likely to be comprehensive and will greatly help harmonize the policies, regulations and improved customs practices to speed the passage of goods to and from ports and inland frontiers. Prioritising Aid for Trade resources to support such infrastructure could have a very high pay-off in alleviating the adverse effects of future food crises.

Concluding Remarks

It appears that current rules do not constrain responses, and that the draft agreement under negotiation was unlikely to have changed this situation. However, many rules could be improved to promote future policy responses that are more appropriate both to implementing countries and their WTO partners.

In refining WTO rules to allow for more appropriate responses to soaring prices, it is worth noting that over the past 40 years, there have been five episodes of high food prices (1974-76, 1980-82, 1988-90, 1995-97 and the current one), each lasting for about 2 years. This equates to about 25 percent of the period. For 75 percent of the time, world food prices and food import bills were on a downward trend or depressed. Many believe the era of “cheap” food is over and the future will see much tighter food markets. In a scenario of tight markets, not only will food prices and food import bills be higher, but price spikes will be more frequent. If that is the case, a legitimate question is whether WTO agricultural rules, designed for an era of cheap food, are also adequate for addressing the problem of high food prices or whether a more fundamental reform of rules governing global agriculture trade is required. The current impasse provides an opportunity for further debate and negotiation on rules and agreements that might reduce the potential negative impacts of future food price crises.

Further information

- Sharma, R and P. Konandreas (2008), WTO provisions in the context of responding to soaring food prices.
- FAO Commodity and Trade Policy Research Working Paper No. 25, FAO, Rome. <http://www.fao.org/es/esc/en/378/444/index.html>