

The State of Agricultural Commodity Markets 2015–16

Trade and food security: achieving a better balance between national priorities and the collective good

Questions and Answers

1. Why is trade relevant for food security?

Global trade in agricultural products is expected to continue to rise significantly over the coming decades, with countries inevitably becoming more engaged either as exporters or importers. As a consequence, trade will play an increasingly important role in determining food security across all regions of the globe. The challenge has therefore become one of ensuring that the expansion of agricultural trade works for, and not against, the elimination of hunger, food insecurity and malnutrition. The linkages between trade and food security are highly complex and have been subject to intense debates, at the national and global levels. *The State of Agricultural Commodity Markets 2015–16* aims to reduce the current polarization of views on the impacts of agricultural trade on food security, and provide guidance on how agricultural trade should be governed.

2. How has the structure of global agricultural trade changed over the past decade and what are the implications for food security?

Global trade in food and agricultural products has grown almost three-fold in value terms over the past decade, and rates of growth are projected to continue to rise, with some regions – such as Asia, North Africa and the Near East – increasing net imports and others – most notably Latin America – increasing net exports. Changing patterns of food consumption, driven mainly by increasing incomes, population and urbanization in developing countries, are influencing the composition of trade globally. While imports are dispersed over a larger number of countries, exports of agricultural commodities are increasingly concentrated in a few countries and regions, generating concerns over possible disruptions in global supplies in the future.

Another concern is that higher-than-historic food prices have contributed to food import bills of least-developed countries increasing by about five-fold between 1992 and 2011, although the food import bill as a percentage of GDP has remained stable, and total exports from these countries have also increased.

3. How does trade affect the four pillars of food security?

Trade affects many of the economic and social variables that ultimately determine a population's food security and nutrition status – including growth, incomes, poverty levels, food prices and government budgets. In the longer run, trade can also induce structural changes; changes in market structures; infrastructure development; productivity and composition of agricultural output; the variety, quality and safety of food products; and the composition of diets.

Changes in these variables affect all four dimensions of food security to different degrees. For example, trade has direct implications for availability of food because in most countries imports constitute an important part of total food supplies. Trade can also stimulate productivity-enhancing changes and innovations in domestic production and associated supply chains. On the other hand, competition with imports can have disruptive effects on local producers, many of whom could be food-insecure themselves, reducing their access to food.

4. What are the benefits and risks of open trade for food security?

Opening to trade increases food availability in importing countries and exerts downward pressure on consumer prices while affording opportunities to benefit from expanding exports of certain products. However, it also brings with it potential risks. As the cost of importing food has increased over the past decade, many countries have become concerned about the reliability of global markets as a source of affordable food. Moreover, although global markets tend to be less volatile than domestic markets, greater reliance on international markets can leave countries vulnerable to the actions of trading partners and to short-term market shocks. Nevertheless, greater participation in global trade is likely to be an increasingly important part of most countries' food security strategies. However, the process of opening to trade, and its consequences, will need to be appropriately managed if trade is to work in favour of improved food security outcomes.

5. How can a country decide on the appropriateness of alternative trade policy options for food security? Is there a single “most appropriate” trade policy instrument to address food security?

There is no “one size fits all” when it comes to the design of an appropriate trade policy supportive of food security objectives. *The State of Agricultural Commodity Markets* argues that the extent and direction of greater trade openness are largely context-specific.

In the context of food security, attention is often focused on the use of trade policy to pursue short-term objectives such as those addressing the impacts of market shocks and the resulting changes in trade flows and prices that consumers and producers face. The report suggests that moving beyond static, short-term considerations and positioning the debate in the perspective of longer-term dynamics of structural transformation in growing economies would have significant implications for the development and use of trade policies compatible with improved food security.

6. How does trade policy change during agricultural transformation?

The level of agricultural development of a country matters in determining the appropriate trade policy. In countries with underdeveloped agriculture sectors, productivity enhancement objectives are likely to be more important initially because of the significant multiplier effects that are generated through sustainable intensification of agricultural production. As the economy develops and the gap between urban and rural incomes widens, income support tends to become a more important objective. In more mature economies, the objectives of trade and related policy reach far beyond agricultural production and food security. Overall, trade reforms should be considered as part of broader policy packages aimed at achieving sustainable development goals, including eradication of hunger, food insecurity and malnutrition.

7. How are food security concerns being addressed in the WTO?

Trade agreements, including the multilateral agreements negotiated at the WTO, are at the very heart of the trade and food security debate as they set out the rules for national trade and agricultural policies. The consequences of these rules for a country's food security are partly determined by the disciplines that apply to other countries' policies, but also by the “policy space” that the country itself is granted under WTO rules.

The WTO Agreement on Agriculture (AoA) provides the basis for improved articulation of trade and food security concerns in the governance of the multilateral trading system, specifying limits for national policies under each of its pillars: market access, domestic support and export competition.

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In the AoA, specific flexibilities are provided to developing countries to help them pursue their food security goals. However, there is continuing debate on the level of flexibility available to countries within the AoA. The recent debate on how public food stockholding programmes should be accounted for under the current rules for domestic support is a case in point.

8. Under the WTO rules, how much policy space do developing countries have to tackle their food security objectives?

Analysis of the three pillars of the AoA shows that policy space for food security is generally available within the current WTO disciplines, although it may not be available for particular countries, commodities or tariff lines. Moreover, whether such policy space is relevant and useful for developing countries enhancing their food security remains a controversial issue. The proposed special products provisions and special safeguard mechanism (SSM) have therefore been requested by many developing countries to provide additional flexibility for them to use the available policy space to promote their food security as needed. The difficulty lies in finding a balance between ensuring that countries are not restricted in their use of policies in the pursuit of national food security concerns and at the same time that they do not negatively affect the food security of their trading partners.

9. What changes in governance processes need to take place to ensure that trade and agricultural policies are more aligned, benefiting food security?

In many developing countries, the objectives and priorities of agriculture and trade development strategies are identified through separate processes that are often weakly linked. This has compounded the lack of coherence among trade-related priorities and approaches and has affected countries' capacities to design and implement appropriate trade strategies and policies that support agriculture sector development and associated food security improvements.

Building synergies between the “processes” that guide policy discussion and decision-making in trade and agriculture will help in reconciling multiple views, objectives and trade-offs. It will assist in reaching agreement on common and shared objectives and priorities across sectors and in identifying the mix of policies and financing packages most appropriate for achieving them. It will also assist in identifying relevant policy space, and increase the predictability of policies over the long term. In other words, strengthening policy-making “processes”, rather than focusing only on the pros and cons of different “policies”, will help to increase policy coherence for food security.