

# WTO Agreement on Agriculture: Time to Rethink the Framework?

Parthapratim Pal

## 1. INTRODUCTION

The WTO negotiations on agriculture in the Doha Round of trade talks are not progressing well. In the latest “Revised Draft Modalities for Agriculture” text dated 6<sup>th</sup> December 2008, some key issues remain unresolved. Lack of agreement on important issues has pushed the negotiating schedule completely out of track. In the time-table published in the Doha Ministerial Meet, it was suggested that negotiations for new round should be concluded by 2005. Repeated failures to attain consensus on key issues have kept pushing back the deadline and after the recent stalemates, doubts have been raised whether the Doha Round is ever going to be concluded<sup>i</sup>. Though multilateral trade negotiations have a tendency to drag on and the previous round of negotiations (the Uruguay Round) went on for seven years before a deal was signed, the Doha Round is already into its eighth year now and nobody is sure when it is going to be concluded. In August 2008, Pascal Lamy, the Director General of WTO, however, felt that significant progress was made on various important issues and said “we have never been so close to an agreement”. He went on to mention that there are only two major issues where there was no convergence. The first is regarding the working of Special Safeguard Mechanism (SSM) in agriculture and the second is the issue of regulating cotton subsidies given by the United States. Lamy expected that the trade negotiators will start working on these contentious issues soon enough and a deal was not too far away. But in the world of WTO, *nothing is agreed until everything is agreed*. Therefore, when the negotiations started again, it was not a resumption of the dialogue carrying forward from where it stopped. Rather, all the quid pro quos are being re-examined and new equations are formed. It also appears that a number of important agriculture related issues are now tangled in inter-sectoral bargaining. In the recently released modalities text, the Chairman of committee on Agriculture says:

“It has been made pretty clear to me in consultations generally, and on a subject like Special Products in particular where Members concerned would, I suspect, be able to go with what is in the text at a pinch. But whether or not that actually happens will be contingent on overall balance – including not just other parts of the agriculture text but elsewhere in the negotiations. And that balance can be decisively affected by where elements that are still not settled end up. The same can be (and has been) said for any issue you choose: domestic support; export competition; etc”.

Such comments indicate that unless there is a sudden change in the dynamics of the negotiations, the Doha round is easily going to go on for some more time. It is not surprising that the Doha round is taking so long to get concluded. In the earlier rounds of multilateral trade talks, negotiations were essentially done by a few developed countries and most developing countries had little or no role in these negotiations. In this round, the number of active players in negotiations has increased significantly. Dani Rodrik<sup>ii</sup>, Professor of International Political Economy at the John F. Kennedy School of Government, Harvard University, points out that in the Doha round there are 153 countries, of which Rodrik reckons probably 60 or 70 are actively involved in the negotiations. And as the WTO works on a ‘consensus’ based approach, every member has a potential veto power<sup>iii</sup>. Therefore, it is not completely unexpected that this round of trade negotiation is dragging on for so long.

In agriculture, the negotiations are reportedly stuck on two issues- the Special safeguard mechanism (SSM) and the issue of reduction of subsidies given to its cotton farmers by the United States. SSM is a mechanism through which a WTO Member country can temporarily impose a tariff rate that is higher than the bound tariff rate on the import of a particular product. The idea behind such a safeguard instrument is that it should allow a country to use temporary protective measures to insulate its domestic agricultural product or products from the short-term fluctuations of international prices and also from sudden import surges. Consequently, SSM is a temporary and short-term measure and is not meant to insulate a country from the price signals emanating from long-run or secular movements of commodity prices.

In this round, the disagreement is about the extent of import surge that is required to trigger an SSM. Negotiations around the draft agricultural modalities led to the demand that developing countries should have the right to SSMs only if imports equal or exceed 40 per cent of average imports during the three preceding years. Developing countries including India and China objected to this saying that a 40 per cent import surge can potentially destroy the livelihood of millions of poor farmers. Disagreement over the import trigger broke the negotiations. The USA sees the SSM to be a potentially protectionist instrument while developing countries insist that it is a legitimate safeguard mechanism consistent with the broad goals of the Doha Development Agenda.

It is interesting that something like SSM, which is a temporary mechanism and which is only applicable under very special circumstances is deemed important enough to be the deal breaker. As a result of the breakdown of the talks, the issue of US cotton subsidies, which affect income and livelihoods of millions of farmers in many African countries, could not be discussed. In agriculture the biggest stumbling block in negotiation has always been the huge amount of subsidies that is given to the farmers in developed countries. WTO has been trying to reduce these policies over some years now. However, political pressures from some of the rich developed countries have always ensured that sufficient leeway is given to developed countries in reduction of subsidies. Even in this round of negotiations and in spite of steep subsidy reduction commitments, the maximum subsidy limit imposed by WTO on either EU or USA, is much more than these countries plans to spend on their farmers. However, if sector specific commitments on cotton subsidies were discussed, it was possible that it would have required USA to cut down on the money they are spending on cotton farmers now. Therefore, many feel that to avoid such a politically sensitive issue in an election year, the SSM issue has been used by the USA to derail the negotiations.

Overall, what comes out of these negotiations is that the Doha Round has a long way to go. The texts by Chairman of agriculture and NAMA released on December 2008 have highlighted that there are still significant differences among the members over a number of issues. In fact, since the Hong Kong Ministerial Declaration of December 2005, the agriculture negotiations have not gained much ground in WTO.

However, between 2005 and 2008 the world economic system has undergone some major changes. When the Doha round of negotiations was started in 2001, it was a regime of secularly declining commodity prices. Most developing countries approached the WTO negotiations with that price regime in mind. As a result, most of the safeguard options discussed in the negotiations implicitly had in mind the problems developing countries might face from declining commodity prices. Since then, due to a number of reasons, commodity prices have experienced a historic boom and a subsequent bust. It was realized that developing countries were not really prepared to face the problems caused by such movements of commodity prices. This paper

argues that the countries need to ask for more policy space from WTO and should have a menu of policy options available to them to counter problems with international commodity prices.

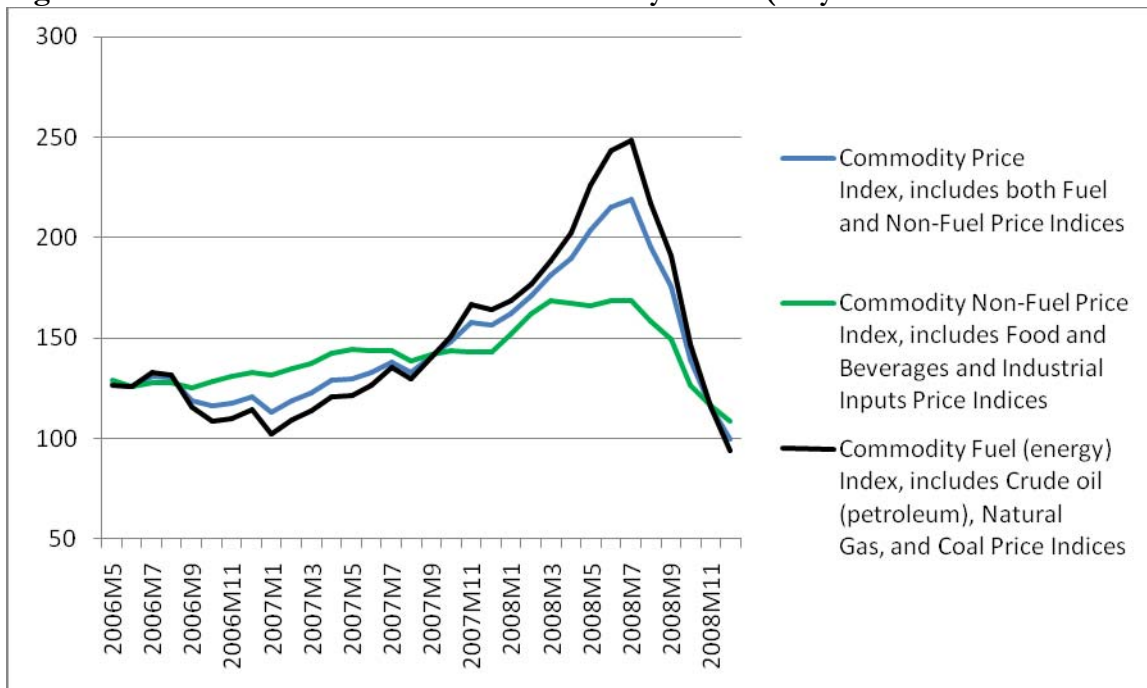
This paper analyzes international commodity prices and investigates some of its impacts on select Asia-Pacific countries in Section II. This leads to certain observations regarding the WTO rules which are discussed in Section III.

## II. CHANGING SCENARIO IN THE INTERNATIONAL COMMODITY MARKET

The international commodity price boom and subsequent bust have affected the agriculture sector in most countries. International commodity prices were on an upswing since early 2005. The ascent became more pronounced since January 2007. The IMF commodity price index (base 2005=100) increased from 112 in January 2007 to 219 in July 2008. However, since then the commodity prices have declined sharply and in December 2008, the IMF commodity price index value has dropped to 99.5 thereby wiping out all the gains it made since 2005 (Figure 1).

One feature of the recent commodity price boom is that it has been quite broad-based as prices of all three major commodity groups—metals, foods and agricultural raw materials and fuel—have jointly increased since early 2005. Similarly, during the phase of declining prices, major commodity price indices have moved in tandem. However, as it can be seen from the Figure 1, the movement of fuel and energy price index is more pronounced than the movement in index of food, beverages and industrial inputs.

**Figure 1: Movement of International Commodity Prices (May 2006 to December 2008)**



Source: IMF Commodity Prices

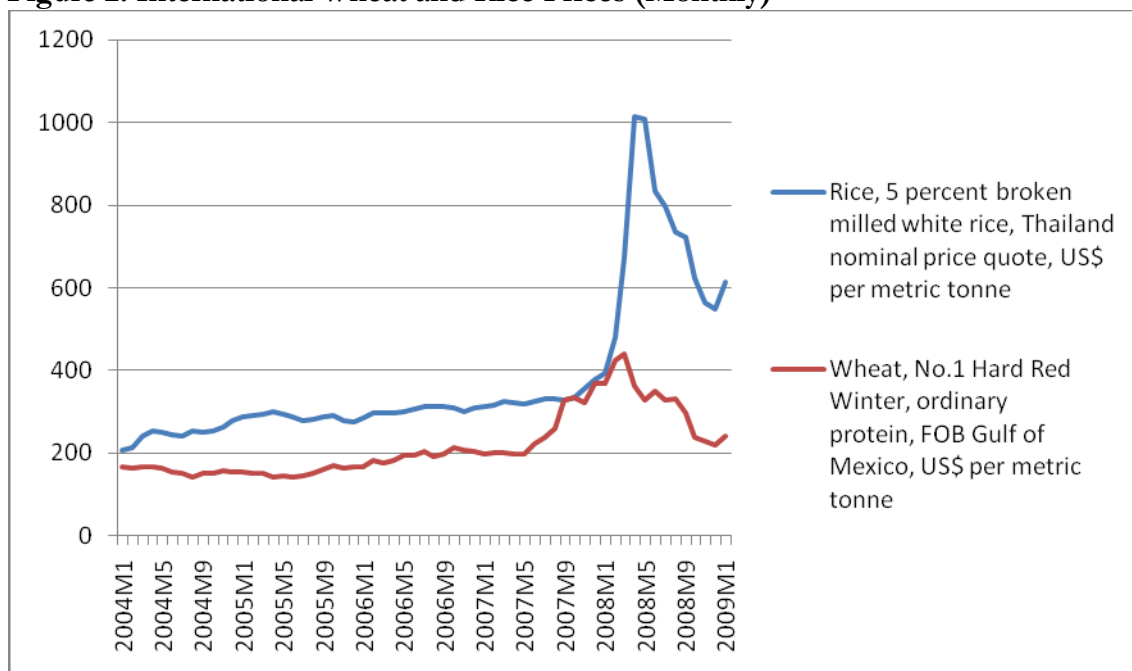
A number of factors have contributed to this movement of commodity prices. The increase in fuel prices has been triggered by increases in demand for fuel from both developed and developing countries. Moreover, factors like OPEC's control of oil production, hoarding oil by some major countries (for example, purchasing oil to fill up the Strategic Petroleum Reserve or SPR by USA) and speculation with oil helped build up an upward pressure on oil prices<sup>iv</sup>.

Increase in fuel prices has led to an increased demand for alternative fuels and as a result, over the past few years, there has been a significant increase in bio-fuel production in the world. According to figures quoted by the World Bank, global Ethanol production has increased from about 4,500 million Gallons in 2000 to around 13,500 million gallons in 2007. Increase in biofuel production has eaten into foodgrains production in some countries. Coupled with this, poor weather in a number of major food exporters like Australia and Ukraine has led to a production shortfall of food<sup>v</sup>. To make matters more complicated, commodities have emerged as a new form of speculative asset. Over the past few years, the US financial markets are not performing well. Weakening US dollar, a falling rate of interest and a declining real estate market have made commodities attractive speculative assets<sup>vi</sup>. Confluence of these real and speculative factors has led to the unprecedented increased in commodity prices during 2007-08.

Another feature of this price rise has been that the two most important staple foods of Asia, viz. rice and wheat, have experienced major spikes during 2007 (see Figure 2). Rice prices, particularly shot up very steeply. As these commodities account for a large share in the food basket of the poorer people, these price movements posed major challenges for domestic governments in these countries<sup>vii</sup>. Though most countries of Asia-Pacific have managed to reduce the pass-through of international price fluctuations to their domestic economy, these price movements posed major policy challenges for the governments of this region<sup>viii</sup>.

The impact of this massive increase in food, fuel and minerals prices is not uniform across the countries. Increase in food prices raises the real income of net sellers of food while it hurts the net buyers. For example, if we take the Asia-pacific region, WTO database on trade in different commodity groups indicate that countries like Australia, Indonesia and Malaysia-that are net exporter of food, agricultural commodities and minerals and fuels- have benefitted from this commodity prices. But on the other hand, countries like Bangladesh, Pakistan and Cambodia- who are net importer of all the three major commodity groups- have faced problems. Table 1 shows the average trade balance of select Asia-Pacific countries for these commodity groups for the period 2004-07.

**Figure 2. International Wheat and Rice Prices (Monthly)**



Source: IMF Primary Commodities Statistics

**Table 1. Trade balance of different Asia-Pacific Countries for Commodities (during 2004-07)**

	Food	Agricultural Goods	Minerals and fuels	Commodities
Countries	1	2	3	1+2+3
Australia	Net Exporter	Net Exporter	Net Exporter	Net Exporter
Bangladesh	Net Importer	Net Importer	Net Importer	Net Importer
Cambodia	Net Importer	Net Importer	Net Importer	Net Importer
China	<i>Mostly net exporter</i>	Net Exporter	Net Importer	Net Importer
Fiji	Net Exporter	Net Importer	Net Importer	Net Importer
India	<i>Mostly Net Exporter</i>	Net Exporter	Net Importer	Net Importer
Indonesia	Net Exporter	Net Exporter	Net Exporter	Net Exporter
Japan	Net Importer	Net Importer	Net Importer	Net Importer
Macao, China	Net Importer	Net Importer	Net Importer	Net Importer
Malaysia	Net Exporter	Net Exporter	Net Exporter	Net Exporter
Nepal	Net Importer	Net Importer	Net Importer	Net Importer
New Zealand	Net Exporter	Net Exporter	Net Importer	Net Importer
Pakistan	Net Importer	Net Importer	Net Importer	Net Importer
Philippines	Net Importer	Net Importer	Net Importer	Net Importer
Sri Lanka	Net Exporter	Net Exporter	Net Importer	Net Importer
Thailand	Net Exporter	Net Exporter	Net Importer	Net Importer
Viet Nam	Net Exporter	Net Exporter	<i>Mostly Net Exporter</i>	Net Exporter

*Source: WTO Database, Note: Commodities include 'Agricultural goods' and 'Minerals and fuels', 'Food' is a subset of 'Agricultural goods'.*

The World Bank Publication Global Economic Prospects of 2009 indicates that net commodity exporters from the Asia-Pacific region have overall benefitted from this price boom. According to this report, most countries of East Asia (with the notable exception of China), have benefitted from high food and fuel prices from 2005 through mid-2008. During this period, terms of trade improved by a cumulative 10.3 percent in Vietnam, 4 percent in Indonesia, and 4.8 percent in Malaysia<sup>x</sup>. Australia and New Zealand are also major commodity exporters and have gained from this price rise. For instance, Australia experienced steep increase in its terms of trade which, in early 2008, were 40 percent above their long-term level<sup>x</sup>. The other countries of Asia-Pacific, that are essentially net buyers of food and fuel, have suffered from this twin shock of rising food and fuel prices. Trade balance on these countries worsened and as a direct fall out there been a general rise in price level across all the countries of the Asia-pacific region. In most of these countries, domestic inflation has soared and ensuring adequate access to food has become a major challenge. However, interestingly, the price rise has not been confined only to net food importers. In fact, inflation has risen faster in net exporting countries in this region<sup>xi</sup>.

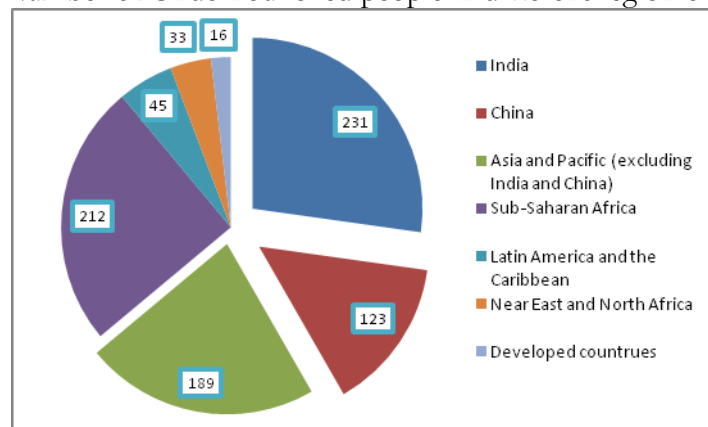
A recent paper by Ivanic and Martin, attempts to find out the impact of food price rise on poverty. The authors conclude that the short-run impacts of higher staple food prices on poverty may differ considerably by commodity and by country, but, poverty increases are much more

frequent, and larger, than poverty reductions. The authors conclude that the recent large increases in food prices appear likely to raise overall poverty in low income countries substantially<sup>xiii</sup>. World Bank estimate suggests that a doubling of food prices over the last three years could potentially push 100 million people in low-income countries deeper into poverty. Given the actual increase in price of food and fuel in 2008, latest estimates by the World Bank indicate that worldwide 130-155 million people will be pushed to poverty because of high food and fuel prices. Additionally, deceleration of growth rate will trap another 46 million people below the poverty line<sup>xiii</sup>.

The World Food Programme estimates are similar. It projects that 130 million people will be pushed to poverty because of the increase in food prices<sup>xiv</sup>. It is also suggested that the increase in food prices will be catastrophic for food and nutrition level of the poor. According to estimates by International Food Policy Research Institute (IFPRI), poor people spend around 75 percent of their income on food products and a 50 percent increases in all food prices across the board (holding income constant) will result in a 30 percent decline in iron intake; this, in turn, will result in a significant increase in the prevalence rate of iron deficiency among women and children<sup>xv</sup>. The real impact is likely to be more severe, as there has been a near doubling of food prices between 2006 and 2008.

The FAO publication “Status of Food Insecurity in the World” of 2008 also paints a bleak scenario. The report suggests that mainly as a result of high food prices, the number of chronically hungry people in the world rose by at least 75 million in 2007 to reach 923 million<sup>xvi</sup>. What is even more disturbing for the Asia-Pacific region is that around 64 percent of these 923 food insecure people are living in this region (See Figure 3). It also projects that rising prices might have pushed as many as 41 million people in the Asia-Pacific region into hunger- which more than any other region of the world. Also notable is the fact that among the seven countries with maximum number of undernourished population (India, China, the Democratic Republic of the Congo, Bangladesh, Indonesia, Pakistan and Ethiopia), five are from the Asia-pacific region.

Figure 3. Number of Undernourished people in different region of the World



Source: SOFI 2008

The FAO report has also examined the impact of high food prices on household welfare. Not surprisingly it was found that the impact depends on whether a household is a net food buyer or seller. However FAO data from nine developing countries show that about 75 percent of rural households and 97 percent of urban households are net food buyers. And among the poor household from the rural sector about 88 percent are net food buyers<sup>xvii</sup>. It is fairly obvious that net food buyers will be negatively affected by an increase in price of food. Given the overwhelming majority of net food buyers among poor in developing countries, the net effect is

likely to be negative. It is also important to highlight here that even for the net sellers, the benefits, to some extent, are likely to be offset by high fuel and input prices. It is notable that since 2003, the index of fertilizer and crude oil prices has far outpaced index of foodstuff prices. Overall, the FAO report concludes that the soaring food and fuel prices poses a major threat to household level food and nutritional security among the poorer people across the world. Given that Asia-Pacific countries have more than 60 percent of undernourished people of the whole world, the impact on these countries is likely to be significant.

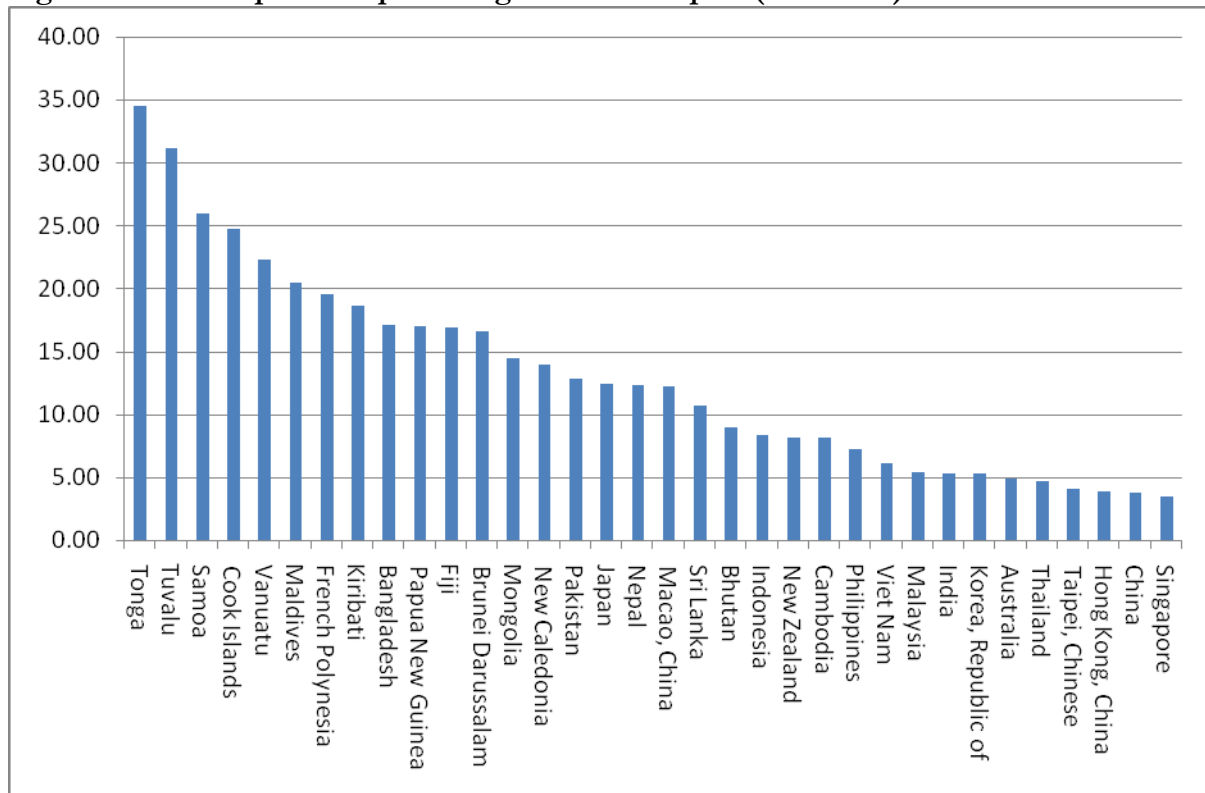
On the national level, increase in food and fuel prices poses major challenge for the countries of this region. The net food and commodity importing countries from South Asia and some countries from the Pacific regions have faced increased current account deficit because of this increase in international commodity prices (See Table 2). From the Table it can be seen that for all the countries that have a current account deficit (CAD) in average (for the period 2004 to 2008), the deficit in 2008 is higher than the average value of CAD. It also shows that some of the countries from the Pacific region have experienced a drastic deterioration of their current account balance since 2004. This is not surprising because some of these countries are highly dependent on imported food for their food security (Figure 4).

**Table 2. Current Account Balance as a percentage of GDP  
of some countries of Asia-Pacific**

	2004	2005	2006	2007	2008	Average
Maldives	-16.2	-35.9	-40.3	-45.0	-48.3	-37.1
Kiribati	-3.4	-42.2	-27.6	-31.1	-43.7	-29.6
Fiji	-13.6	-14.0	-22.6	-15.5	-21.3	-17.4
Lao People's Democratic Republic	-16.9	-17.4	-10.8	-17.3	-16.3	-15.7
Vanuatu	-5.0	-7.4	-5.7	-9.9	-11.4	-7.9
Bhutan	-17.9	-30.4	-4.3	11.0	11.7	-6.0
Tonga	4.2	-2.6	-9.7	-10.4	-10.4	-5.8
Samoa	-6.8	-1.6	-4.6	-6.1	-9.4	-5.7
Vietnam	-3.5	-0.9	-0.3	-9.9	-11.7	-5.3
Sri Lanka	-3.1	-2.7	-5.3	-4.2	-7.5	-4.6
Cambodia	-2.2	-4.2	-1.1	-3.6	-10.3	-4.3
Pakistan	1.8	-1.4	-3.9	-4.8	-8.7	-3.4
India	0.1	-1.3	-1.1	-1.4	-2.8	-1.3
Solomon Islands	23.5	-9.8	-5.6	-2.8	-6.8	-0.3
Bangladesh	-0.3	0.0	1.2	1.1	1.0	0.6
Indonesia	0.6	0.1	3.0	2.5	0.1	1.3
Thailand	1.7	-4.3	1.1	6.4	3.1	1.6
Nepal	2.7	2.0	2.2	0.5	1.9	1.9
Philippines	1.9	2.0	4.5	4.4	2.4	3.0
Papua New Guinea	2.2	4.2	2.9	4.3	3.3	3.4
Myanmar	2.4	3.7	9.5	6.8	3.6	5.2
China	3.6	7.2	9.4	11.3	9.5	8.2
Malaysia	12.1	14.5	16.1	15.6	14.8	14.6

Source: World Economic Outlook Database, IMF

**Figure 4. Food Import as a percentage of Total Import (1998-2007)**



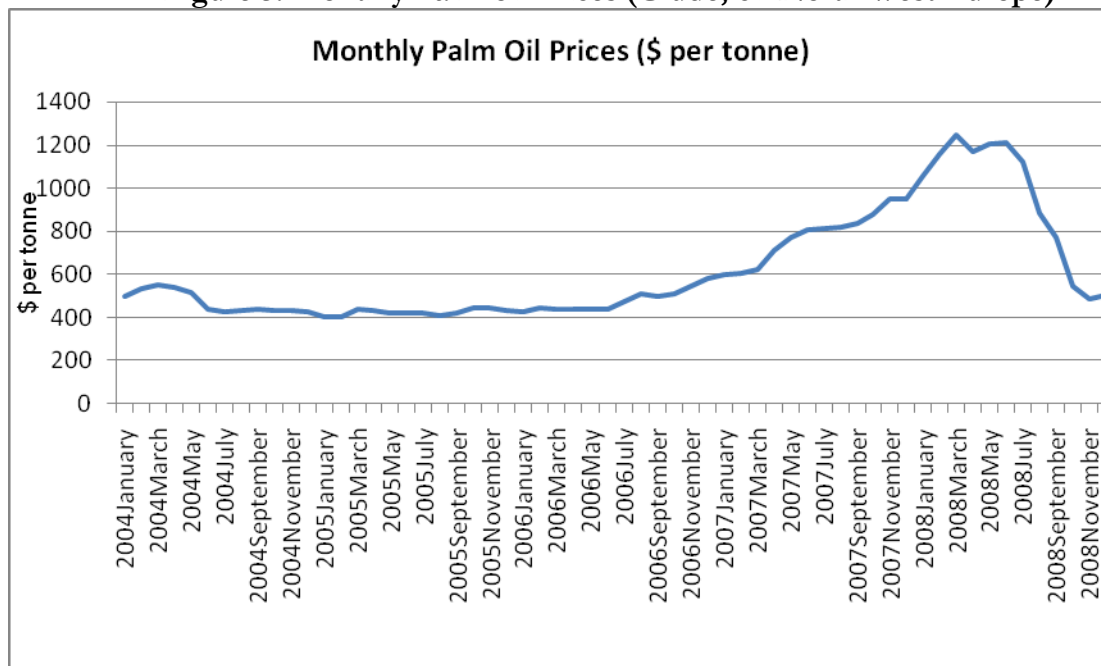
Note: The figure shows average for period 1998-2007, for some countries data are not available for all the years, Source: WTO Database

However, this increase in price rise was not sustained for long. International commodity prices experienced a sharp decline from around the middle of 2008. There is now an emerging consensus that the commodity price boom, to a large extent, was driven by increased speculation in commodities and commodity futures. The global financial crisis has led to a decline of this speculative market. Coupled with lower prices for oil and the resultant decline in demand for bio-fuels and some easing of supply problems for some major crops, this has led to a sharp decline of international commodity prices. A decline in the prices of agricultural products should have different impact on net buyers and net sellers. For net sellers or exporters, the volatility in commodity prices has created major problems. For example, palm oil is a major agricultural export product of Malaysia and Indonesia. Palm oil plantations account for 1.2 million hectares (2.97 million acres) of Malaysia's 4.2 million hectares of land allocated for agriculture. In Indonesia there has been a surge in planting activity during the past ten years and Indonesia has surpassed Malaysia as the top palm oil producer in the world. Palm oil producers in Indonesia and Malaysia depend on the external market as Indonesia and Malaysia export about 80 and 75 percent of their total palm oil production respectively<sup>xviii</sup>.

In 2007-08, international prices of crude palm oil saw massive increase (see Figure 5). A number of factors including increased demand for palm oil for food and bio-fuel usage and increased speculative activity in commodities contributed to this surge. This led to a significant increase in the area of cultivation and palm oil output in Malaysia and Indonesia. This massive expansion of cultivation of palm oil in these countries has also been associated with widespread deforestation and other environmental and social concerns.

But international palm oil prices have declined from \$1,248 per tonne in March 2008 to \$508 in December 2008<sup>xix</sup>. In the two Asian countries, viz, Indonesia and Malaysia which control about 85 percent global palm-oil market, such a steep decline in prices is affecting the farmers and palm oil exporters. It appears that in these two countries, present prices are close to the production costs of most smallholders and such low prices are squeezing the earnings and profits of these farmers. The smallholders, who account for about 25 to 30 percent of palm oil exports from these two countries, are likely to suffer more from this downturn. Companies which are involved in palm oil production and exports can cushion some of the impact of a price shock by investing in downstream products and add value to their exports. Even in a low-price regime, companies can survive by pushing exports of downstream products. However, smallholders are unlikely to have such advantage and the sharp decline in commodity prices will have a significant impact on food and livelihood security for these producers. It must also be mentioned here that there is several years lag time when palms are initially planted on the plantation until the first production of fruit bunches. The price boom of 2008 is likely to have resulted in a jump in cultivated area of palm in these two countries and given the long gestation period of palm, the farmers will be stuck with the unprofitable crop. This is likely to lead to possible bankruptcy and destitution among famers and unless there is major government support, this segment of the population is likely to suffer heavily from the commodity price downturn. Similar to the story of palm oil, many other cash crop cultivators in developing Asia are facing the same problem and a drop in commodity prices coupled with a reduction in export demand are likely to harm the farmers who are dependent on cash crops.

**Figure 5. Monthly Palm oil Prices (Crude, cif North West Europe)**

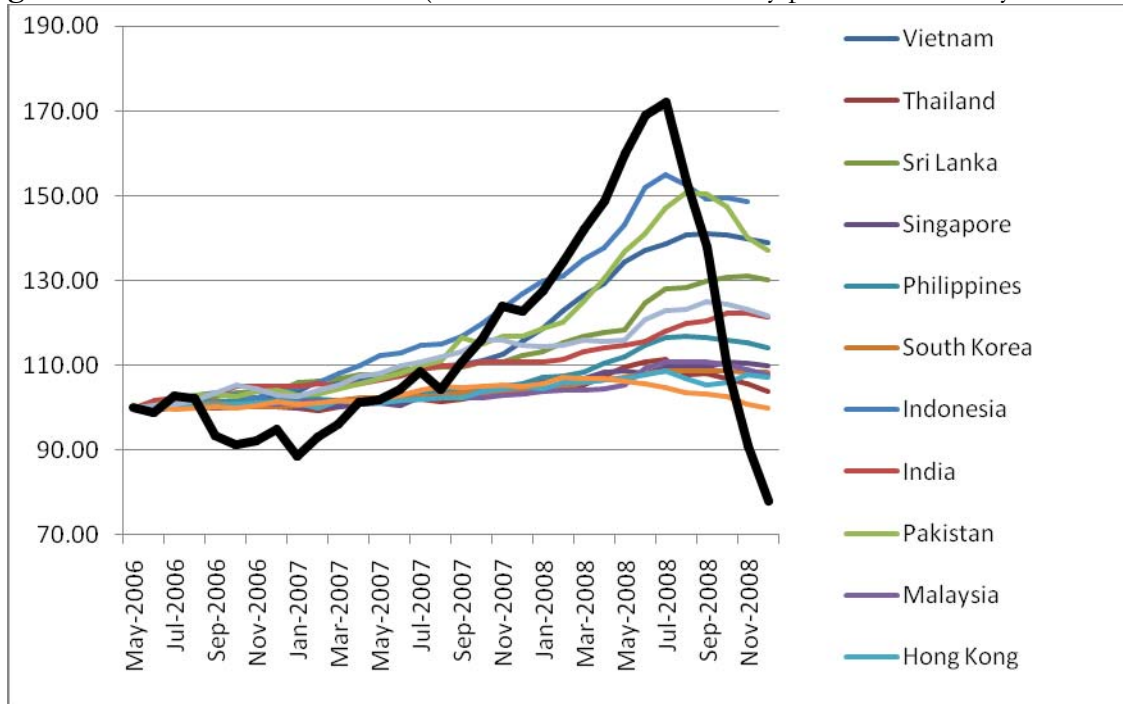


Source: FAO (<http://www.fao.org/es/esc/prices>)

For the net commodity importers or consumers, lowering of commodity prices should bring some relief. Data show that the decline in commodity prices has slowed down inflation in most of the countries of East and South East Asia. However, what is worrying is that prices seem to have stabilized at a much higher level. As figure 6 shows Consumer Price Indices (CPI) in most Asian countries have stabilized at a high level. It is interesting to note that though the international commodity price index has come down sharply since the middle of 2008, the CPIs have not moved in tandem. It is also notable that the increase in CPI is more pronounced in

countries where there are higher levels of poverty. This includes countries like Indonesia, India, Bangladesh and Pakistan. It is also notable from the figure that that the movement of CPIs does not match the decline in international commodity prices.

**Figure 6. Consumer Price Index** (base of CPI and commodity price index is May 2006=100)

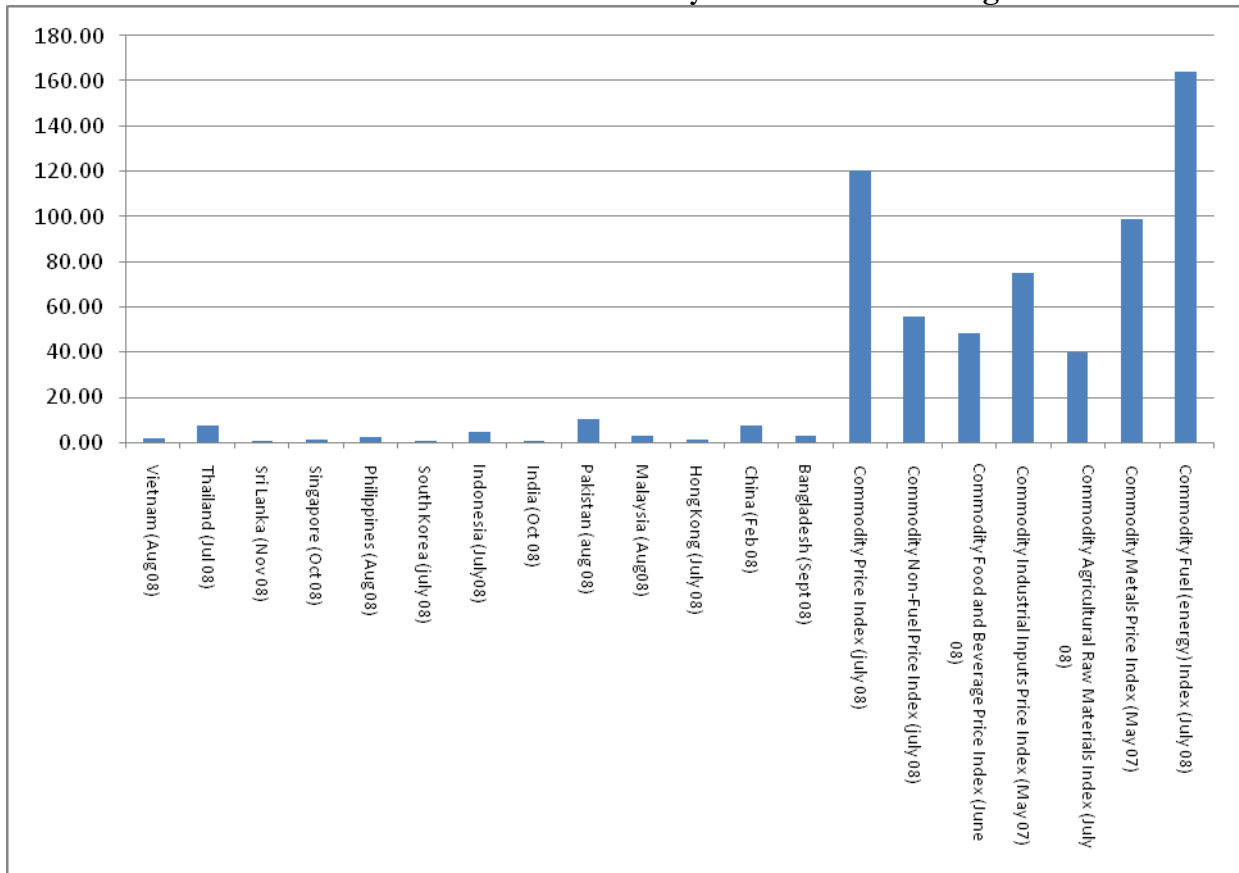


Source: CEIC database for CPI, IMF for commodity price index

To highlight how CPIs have moved vis-à-vis international commodity prices, Figure 7 shows the percentage deviation of the CPIs of select Asia Pacific countries in December 2008 from the maximum level attained during 2007-08. To put the numbers into perspective, the same for some major international commodity price indices have also been shown.

A few observations can be made from the figure. First, it is quite evident from the figure that the decline in international prices for almost all commodities has been much steeper than what is experienced in the domestic markets. Secondly, majority of the countries of this region experienced maximum price level around July –August 2008. Precisely this is the time when most commodity price indices reached their peak. There are two major outliers in this trend. Among the countries, China experienced the maximum CPI in February 2008. Even when most international commodity prices were rising, China managed to pull its CPI down. This apparently anomalous price movement can possibly be explained by the fact that the metal prices index peaked much earlier- around May 2007 and given China's metal intensities (they are 7.5 times higher than high-income countries and 4 times higher than other developing countries)<sup>xx</sup>, it is possible that Chinese price levels get affected most by movements in metal prices

**Figure 7. Movement of CPI and Commodity Price Indices: Percentage deviation in December 2008 from the maximum monthly value attained during 2007-08**



*Source: CEIC database, the months in the paranthesis indicate when the CPI or the price index have reached its maximum value.*

Theoretically, in a tariff only regime like we have in the post-WTO scenario, international and domestic prices tend to be more correlated with each other. However, data clearly show that they are not moving in tandem. While increased inflation in most developing countries during 2007-2008 was attributed to an increase in international food and fuel prices, the decline in international prices has not yet got transmitted to the domestic markets of most countries. Therefore the benefits of declining prices have not reached the poor in these countries as domestic prices affect the welfare of poor consumers and farmers, not world prices. It is difficult to explain why the domestic prices have not come down more but possible explanations may include appreciation of US dollar vis-à-vis most of the currencies of developing countries, trade policy barriers which may control flow of commodities at the border, government measures takes to reduce transmission and possibility of existence of normal marketing lags which may delay the transmission of prices. Also, in this context, it will be worth investigating the role of major retail players in the food market of these developing countries. Along with the factors mentioned above, it is possible that market powers of such players are responsible for asynchronous movement of domestic and international commodity prices in these countries (see Ghosh 2009)<sup>xxi</sup>.

### *III. COMMODITY PRICE MOVEMENTS AND THE WTO POLICY OPTIONS*

The movements in commodity prices in the last few years highlight that the policy measures available to developing countries may not be adequate to tackle movements of international commodity prices. The safeguard options like 'Special Products' and 'Special Safeguard mechanisms', which the developing countries are negotiating for in the Doha Round of trade talks, are essentially geared to protect them from the negative effects of declining commodity prices. In the modalities text, there are no substantive policy measures available to developing countries to protect them from increasing food prices.

It is notable that it was widely expected during the Uruguay Round of trade talks that after the implementation of WTO Agreement on Agriculture in 1995, food prices would increase and some measures were suggested in the Uruguay Round AoA to help Net Food Importing Developing Countries (NFIDCs). However, after 1995, contrary to the expectations, commodity prices declined and the measures suggested by the AoA became largely irrelevant in that context. And as the provisions to protect developing countries from declining and volatile international commodity prices were inadequate and cumbersome, import surges have occurred more frequently in the post-1994 period with only a few exceptions. A study by FAO shows that the percentage occurrence of import surges is higher in the post-1994 period for all commodities with the only exception of wheat, rice, maize and palm oil<sup>xxii</sup>.

Given these experiences, in this round developing countries should argue for more policy space and should ask for more policy options to deal with different price regimes. This is particularly important because of three broad reasons. Firstly, the projections are uncertain about medium to long term trend of commodity price movements. FAO tends to suggest that in spite of the recent decline in commodity prices, in the medium to long run, commodity prices are likely to move up. However, since July 2008 international commodity prices have declined sharply. Secondly, it appears that with increased speculation in commodity prices, traditional demand and supply factors may play a smaller role in determining international commodity prices. This will make projecting commodity prices more difficult. More importantly, this factor adds another distortive element to international agricultural trade which already face major market distortions from the huge amount of subsidies given to the sector in developed countries. Thirdly, agricultural trade in some major grains are controlled by a few international conglomerates and they possess enough market power to influence international and domestic prices.

The presence of so many distortive factors indicate that any initiative to make agricultural trade more 'market-oriented' will only reduce the policy space available to national governments to manage food and livelihood security of millions of people. Unless the underlying distortions in agricultural trade are taken care of, this will create a situation where the governments will not have the flexibility to deal with any unexpected situation that can arise out of either real demand-supply imbalances or due to increased speculative activities in agricultural commodities. This will increase the vulnerability of food and livelihood security of millions of poor people in developing countries.

The experiences with international commodities and financial recession suggest that developing countries should ask for a menu of policies to be available to them to deal with different price regimes. This should include both safeguard mechanisms to protect a country from uncertainties associated with international trade and increased policy autonomy to the governments to subsidize and invest to help agriculture in developing countries. The current framework does not allow enough policy options to developing to deal with the vagaries of increasingly uncertain international commodity price movements and it may also restrict some governments to ensure

food and lively security for its people. The provisions of SP and SSM are just too limited to deal with different and uncertain scenarios.

---

## End Notes

<sup>i</sup> The Economist has an article aptly titled “The Doha round...and round... and round” The Economist, August 2, 2008.

<sup>ii</sup> ‘Don’t Cry for Doha’ Dani Rodrik, 2008 ([http://rodrik.typepad.com/dani\\_rodriks\\_weblog/2008/07/dont-cry-for-doha.html](http://rodrik.typepad.com/dani_rodriks_weblog/2008/07/dont-cry-for-doha.html))

<sup>iii</sup> Though WTO has the provision of a ‘one-country one vote’ system in its constitution, so far voting has not been used in WTO.

<sup>iv</sup> A Senate Staff Report titled ‘The Role of the Market Speculation in Rising Oil and Gas Prices’ published in June 2006 by the ‘Homeland Security and Governmental Affairs’ of United State Senate concludes: “Over the past few years speculators have expended tens of billions of dollars in U.S. energy commodity markets.” and “Speculation has contributed to rising U.S. energy prices”. (<http://hsgac.senate.gov/public/files/SenatePrint10965MarketSpecReportFINAL.pdf>)

<sup>v</sup> Between 2004 and 2006, wheat production has gone down in USA and EU by 14 percent each and by 52 percent in Australia. Over the same period, coarse grain production in USA, EU and Australia has declined by 12, 16 and 33 percent respectively (World Bank 2008)

<sup>vi</sup> According to The Economist, the number of transactions involving oil futures on the New York Mercantile Exchange, the biggest market for oil, has almost tripled since 2004. It is interesting to note that the price of oil has also tripled over the same period.

<sup>vii</sup> For example, according to household consumer expenditure data in India, cereals account for more than 32 and 23.5 percent of total expenditure on food in rural and urban India respectively.

<sup>viii</sup> Asian Development Bank (ADB). 2008a. Food Prices and Inflation in Developing Asia: Is Poverty Reduction Coming to an End? ADB Special Report. Manila.

<sup>ix</sup> Global Economic Prospects 2009, pp 142

<sup>x</sup> [http://www.oecd.org/document/43/0,3343,en\\_33873108\\_33873229\\_41446379\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/43/0,3343,en_33873108_33873229_41446379_1_1_1_1,00.html)

<sup>xi</sup> Asian Development Outlook 2008 Update, (Url: [www.adb.org/documents/books/ado/2008/Update/Part02-Inflation.pdf](http://www.adb.org/documents/books/ado/2008/Update/Part02-Inflation.pdf))

<sup>xii</sup> ‘Implications of higher global food prices for poverty in low-income countries’ by Maros Ivanic and Will Martin, World Bank Policy Research Working Paper No WPS4594.

<sup>xiii</sup> “Crisis Hitting Poor Hard in Developing World, World Bank says” (<http://go.worldbank.org/PGNOX87VOO>)

<sup>xiv</sup> <http://www.wfp.org/english/?ModuleID=137&Key=2853>

<sup>xv</sup> <http://www.ifpriblog.org/2008/05/29/rising-food-prices-will-result-in-severe-declines-in-mineral-and-vitamin-intakes-of-the-poor.aspx>

<sup>xvi</sup> FAO suspects that there is a possibility of underestimation of the number of undernourished people and suggests that the actual increase will be more than the figure of 75 million it is projecting (see pp 8, SOFI 2008).

<sup>xvii</sup> The nine countries are Albania, Bangladesh, Ghana, Guatemala, Malawi, Nicaragua, Pakistan, Tajikistan and Vietnam. In this sample, Vietnam is somewhat different from other countries as in Vietnam only 46.3 percent of all households are net food buyer.

<sup>xviii</sup> USDA estimates (details here:

<http://www.fas.usda.gov/psdonline/psdreport.aspx?hidReportRetrievalName=BVS&hidReportRetrievalID=710&hidReportRetrievalTemplateID=8>)

<sup>xix</sup> Source: FAO

<sup>xx</sup> Source of the figures is Global Economic Prospects 2009

<sup>xxi</sup> The Outcry is muted, but the Food Crisis is getting worse- Jayati Ghosh, January 2009

([http://www.networkideas.org/news/jan2009/news12\\_Outcry\\_muted.htm](http://www.networkideas.org/news/jan2009/news12_Outcry_muted.htm))

<sup>xxii</sup> Nigris, Maurizio de (2005): ‘Defining and Quantifying the Extent of Import Surges: Data and Methodologies’, FAO Import Surge Project Working Paper No. 2, May 2005, FAO, Rome.