Agriculture and Trade Theme, final summary from the moderator

The trade discussion attracted 52 contributions of high quality and challenging content. In condensing a number of long, well-argued submissions, this summary necessarily loses some of the richness of the debate.

Overview
The issue that attracted the most attention was that of improving the functioning of international markets. Issues such as the multilateral trade negotiations attracted less comment, perhaps because there was a broad level of agreement among participants. Other recurring themes were the role of the private sector and increasing market concentration; the limitations of international trade as a vehicle for poverty reduction; the environmental consequences of increased trade agriculture; the growing importance of standards as a barrier to trade and a challenge for small producers; the benefits of Fair Trade, and the importance of ensuring small producer participation in a number of key processes. There were also some general overviews on agriculture, trade and poverty.

Reforming the market: the Commodity Crisis and Supply Management (SM)
This issue attracted more interest than any other topic, reflecting a flurry of interest from UNCTAD, developing countries, NGOs etc over the last two years. Most attention was focused on tropical commodities such as coffee, cocoa and vanilla. Several participants felt that DFID and other donors too easily dismiss the SM experiments of the 1970s and 80s as a failure:

> 'past systems to manage supplies may not have been perfect, but they benefited millions of some of the poorest people on earth.'

One participant summed up his view as:

> 'The only rational strategy for tackling this problem is to re-establish international mechanisms to deal with oversupply. There would be considerable technical difficulties in re-establishing supply management systems for the range of affected commodities but none that could not be overcome given sufficient political will. Relatively small cuts in exports linked to cuts in production could increase prices very considerably once supplies were adjusted to meet demand. There are many ways of improving the effectiveness of past International Commodity Agreements.'

This contributor believes that production cuts are the only way forward, perhaps involving export taxes and production quotas – other approaches such as buffer stocks and export quotas merely lead to the problems of oversupply and circumvention that brought down previous International Commodity Agreements (ICAs).

They would also have to involve farmers associations to a far higher degree than the previous generation of ICAs. He believes the present climate is actually more conducive to ICAs than the 1970s, when they were set up – low prices should galvanize support in developing countries, while improved information technology makes it easier to administer production controls (presumably this could involve satellite photography, as has been done in Coca eradication programmes). Other contributors in general endorsed the call to revisit the issue, and stressed the need to improve on past efforts:

> '[SM] can take many forms, and the right form for any market can only be discovered with reference to that market. In designing a supply management scheme it is necessary to be clear-sighted about whether the main aim is to counter price instability or to push prices up. Finally, while there are serious technical challenges,

the problems are just as often political and they should be addressed squarely as such.'

One contributor with hands-on experience of SM programmes in was more sceptical:

> 'It is not a question of not producing more commodities but rather focussing on changing attitudes so that markets are taken into account when planning what to produce. Supply management is very hard to achieve. I have looked at commodity stabilisation schemes that included supply management for desiccated coconuts by Philippines and Sri Lanka and commodity price stabilisation schemes in Western Samoa for cocoa and copra (which I helped end in 1986 because it gave farmers less in every year than they would have received in the global market), Philippines and Papua New Guinea and this approach is fraught with difficulties. The entire experience of the copra levy and coconut oil in the Philippines during the Marcos era was an unmitigated disaster.'

This participant thought an exclusive emphasis on SM could distract from more important ways of improving small farmer livelihoods:

> 'Even in those cases where there are few producers and SM is possible, as is the case for example with coconut oil, the Philippines moved from copra to oil and meal with only a very marginal improvement in revenues and none for farmers, but for long neglected further development, say into coconut milk which yields 20 times as much as copra or fatty acid extraction. Those who controlled coconut oil production during the Marcos era concentrated instead, unsuccessfully as it turned out, on trying to manipulate world market prices.
>
> The whole question deserves to be revisited and DFID can play a major role in helping develop marketing technology. There is scope for SM in some cases. Diversification to higher crops is also possible. Downstream links will be of critical importance in any strategy adopted. And where possible emphasis or at least consideration needs to be paid to market development and promotion. All these measures as well as rationalisation of international intervention are called for.'

Finally, one contributor was scathing about the usefulness of market-based risk management, such as hedging and options. He saw the World Bank's work in this field as little more than a business generation exercise by traders and financial providers. He also believed that they offer little solution to the medium term (2-3 year) price swings which play havoc with government finances.

Case Study: Vanilla
A number of contributors discussed the boom-bust in the price of vanilla as an example of the problems associated with commodity dependence, the danger of 'herd behaviour' by donors, and the options for addressing them. The initial contribution set out the problem:

> 'I do have concerns when many donor-based projects suddenly gravitate towards a market, particularly a relatively small global market. A good example at the moment is Vanilla. In the last 3 years everyman and his NGO that comes into my office asks me how to grow vanilla. They have seen the price rising from $300 – 500 per kg and want some of the action. Donors are pouring funds into the vanilla option. It takes two years to get a first crop of vanilla and quality is very important. As you will know, Vanilla was priced at $50 / kg in 2000 and it mainly came from Madagascar, a very poor country. After two cyclones, a coup and some difficult political reforms, Madagascar is going to come back.

> At that time everyone else will be having their first or second harvests and as the Madagascan supply comes back on stream prices will fall to $30 - $50 / kg. This will horrify the uninformed. The bad news however, is that many more poor farmers will contribute to another oversupplied market. The poor in Madagascar will become even poorer. So, I think this is a good example of how lack of analysis and lack of regional co-ordination can unwittingly destroy a market rather than build a sustainable, competitive system for a limited number of countries to exploit and build reasonable incomes

A response from another participant set out four possible approaches: Supply Management; downstream processing; maximising farmer revenues and market development and promotion.

> 'SM is the most difficult because there are so many producers and high prices for whatever the reason bring home the possibility of high value diversification very forcibly. That should not exclude promoting a dialogue amongst the vanilla producing countries to discuss supply, demand and marketing if SM is a step too far for them. Moreover, SM may not be the best strategy for vanilla since it would make it even easier for synthetic vanilla to establish its complete dominance in the market.
>
> Primary processing of vanilla is key to obtaining a good product and is nearly always undertaken in producing countries. It does involve care with technology and quality control, which is often lacking in new producing countries and it is in the interests of all to ensure that there is successful transfer of technology. Whether the process should be taken further with essence extraction is more problematical but worth considering for some of the major producers.
>
> Assuring an equitable share for farmers requires collective marketing on the part of the farmers if traders are going to be persuaded to be fair. A lot of small producers and a few processor/traders is a recipe for low farmer prices. The fact that the world market price may be $500 per kg just now instead of the usual $50 is less important because vanilla is a useful high value diversification at $50 and $500 is not good for natural vanilla in the long term because it strengthens the development and use of synthetic vanilla.
>
> Finally, we come to market development and promotion and this I consider to be a key area where action can be taken. The vanilla producing countries must be encouraged and assisted through market development and mainly promotion. Natural vanilla today only accounts for a minor part of the vanilla market with the bulk of the market using synthetic vanilla. Natural vanilla is always going to be more expensive but the difference in flavour and fragrance is also substantial. A promotion of natural vanilla is in my opinion a necessity and DFID could help fund that.'

Global Value Chains and Transnational Corporations

Another aspect of the evolving international market that attracted several contributions was the rise in market concentration among a small number of global companies. Contributors argued that this has greatly increased buyers' ability to drive down producer prices – one cited a World Bank finding that the growing divide between farm and retail prices is costing developing countries $100bn per year. The answer?

> 'The only serious way of tackling this problem is by global competition policy - not the sort that the EU is trying to push through the WTO, but the anti-trust variety pioneered in the USA in the late 19th century, applied globally to global markets. There should be regulations to prevent such concentrations developing in the first

> place, and to break up companies involved if they have done (as Standard Oil was broken up long ago).’

One participant argued that the growing constraints placed by intellectual property laws on plants and seeds poses a severe threat to small farmers.

> ‘Corporations and individuals are taking plants from the fields of developing countries – and in many cases these plants are staple foods of the world’s poor – and being granted exclusive rights to them in the form of patents. These patents also fail to recognise community rights and indigenous knowledge. These same corporations control 70% of the global pesticide market and 30% of the global seed market.’

She argued that the result will be a decrease in farmers’ access to seed and a loss of genetic diversity and resources. The answer lies in banning patents on life, protecting farmers’ rights to save and use seed, ensuring that TRIPs legislation is consistent with the Convention on Biodiversity provisions on prior informed consent and benefit-sharing, and investing in farmer-controlled seed development as a counterweight to the dominance of the seed companies.

She also discussed standards of corporate treatment of small farmers, expressed scepticism about the efficacy of voluntary codes and standards, and concluded that DFID and the UK Government work with the EU and others should establish international standards in these areas.

Agricultural Trade, Growth and Poverty

This attracted contrasting views: one contributor argued that ‘the basic issue is to increasingly integrate smallholder farmers into markets’ at both domestic and international levels.’ He saw two overarching questions for policy makers:

> ‘1) how can innovative public and private roles to create infrastructure and institutions be enhanced to reduce internal transaction costs and risks and to diversify sources of livelihood to benefit smallholders, and 2) how can multilateral disciplines be strengthened to create international market opportunities. The conceptual framework of the analysis focuses on these issues as they affect three "rural worlds" being discussed recently in the OECD POVNET group on agriculture.’

Another, basing his argument on a historical survey of the successful 19th century development strategies of USA, Australia and Argentina, among others, made a case for something akin to an infant industry argument for agriculture – the state must play a central role in ‘manufacturing comparative advantage’, by creating an efficient agricultural system, financing infrastructure and R&D and dealing with inevitable periodic crises. To succeed, they also need good luck and timing, in terms of going for this kind of agricultural take off when world markets are propitious. He concluded with two big questions:

> ‘Are the conditions today favourable to a development strategy based on agricultural exports? And do developing countries, in particular Africa, have the pre-requisites necessary to be able to take advantage of these conditions?’

On the first, he saw the current Asian boom as the only thing likely to boost prices (as it is already doing for soya, for example). On the second, he was pessimistic, seeing little hope that Africa can compete with more efficient low cost producers – every rung on the development ladder appears to be already occupied.

Trade v Domestic Markets
The previous contributor's scepticism on the real potential of trade as a vehicle for poverty reduction was shared by a number of other contributors, who stressed the negative impacts of developing country trade liberalisation on food producers, and the exclusion of smallholders from the benefits of liberalisation, due to inadequate access to credit and know-how, poor knowledge of the market and the difficulties posed by quality and other standards. One concluded that some countries are neither able to achieve competitive advantage, nor to diversify on the scale required by liberalisation. For them, poverty reduction requires

> 'pragmatic policies of domestic price support and market management, with sufficient flexibility to allow adjustment to long run shifts in domestic resource cost relativities. If this requires tariffs on agricultural imports, not set so high as to be technically inefficient (by encouraging smuggling) or to have perverse welfare transfer consequences (corrupt rent-seeking), then so be it.'

He redefined the much vilified notion of 'protection' as a

> 'socio-economic compact between the producers and consumers of the products concerned, mediated by government: the country's consumers are being asked to pay more for the products than they would if more of total demand was met by (cheaper) imports, and the producers are being offered better prices than they would obtain if the domestic market were fully open to international trade. In return for this privilege, government requires producers to become more efficient, with government help, so that tariffs can be lowered over time.'

He urged DFID to avoid the standard economic modelling-based claims that 'if all trade is liberalised, developing countries stand to gain by $XXX billion'. In reality, all liberalisation is partial, and the poverty impacts are not obvious. He cites the current EU sugar reform proposals as evidence. If Europe liberalizes, and all ACP production is transferred to a few efficient producers like Brazil, will the net poverty impact be positive or negative? Answer – needs more research!

Another contributor was more sanguine. The smallholders best placed to benefit from trade are often, he argued, those involved in 'interlocking' contracting arrangements, whereby a multinational company or local processor provides farmers with inputs, credit and technical assistance. Such arrangements cover the spectrum from beneficial to highly exploitative and need careful analysis. Even he, however, concluded that:

> 'There are precious few policy lessons on export led poverty alleviation that are major success stories. There are examples, and Vietnam is one, of export led development to earn foreign exchange but often at very low prices and very little value added.'

In regard to policy prescriptions, several contributors argued that trade reform, while important, has been over-emphasized in comparison to supply side issues such as infrastructure, credit and access to information. One correspondent stated baldly 'Global trade is over-rated as a development solution'.

Another participant said:

> 'There can be several strategies for the insertion of small-scale farmer associations in production chains or value chains, and agribusiness. These strategies refer to "how the association inserts itself in the production chain" and also, on who leads the process or makes business decisions.

> Vertical integration (participation in more than one chain link) is one option, but given their weak business orientation and skills, is not easy and implies high risk. In this case, a development agency with the necessary business skills or a professional business manager can assume leadership. Another more realistic option would be for associations to seek alliances with the private sector (including some middlemen) in other chain links. This option can also consider internal or external business leadership if necessary.'

Standards

Several contributors pointed out that, as tariffs and other barriers fall, formal and informal standards are becoming increasingly important. These can act as a significant barrier to poor producers wishing to enter the market. In East Africa, one contributor described how the unthinking application of northern veterinary standards is squeezing out more appropriate, community-based veterinary services in East Africa. He argued that the blanket import bans under animal health rules are inflicting excessive damage on African farmers and advocated a more differentiated, development-sensitive approach to standard setting, consisting of a private-public partnership combining private clinics working with networks of community animal health workers.

Possible models for improving small producer participation in more 'mainstream' standard-setting came from the field of social and environmental issues, where one contributor cited the example of producer participation in setting up the Rainforest Alliance banana certification programme. She also drew our attention to a range of initiatives to establish the equivalence of rival national standards, to reduce the burden on producers currently forced to satisfy numerous slightly different standards, or else lose potential markets.

This emphasis on participation was widely endorsed, with contributors agreeing that small producer and grassroots NGO involvement is central to the design of effective interventions.

Several contributors pointed out that standards are no longer just a trade issue. The rapid spread of supermarkets in developing countries means that, even if small producers turn their back on trade, they will still face similar issues in selling to the higher end of the domestic market.

Fair Trade

There was considerable interest and enthusiasm for fair trade as a means of improving the livelihoods of small commodity producers. One contributor felt that 'the likely growth in sales of fairly traded products could be a more important part of the solution to the commodity crisis than supply management.' He argued that, if coffee changes hands up to 150 times between farmer and consumer, it is far from certain that higher prices will 'trickle down' to the farmer, even if SM achieves them. Other contributors urged DFID to promote fair trade goods in government procurement and to set targets for Fair Trade as a proportion of overall trade in some commodities.

Environmental Constraints

Several contributors were concerned at the lack of attention to issues of sustainability and environmental impact, for example, in arguing for intensification, or promoting input-intensive agro-exports. One argued that public policy has an essential role in supporting environmentally sustainable production - both of commodities that are currently grown and of new crops chosen as part of diversification strategies.

One correspondent felt that issues such as sustainable development and food miles increase the burden of proof on those who argue that increased international trade, especially air freight, is the way forward. He stressed coherence with Britain's international commitments in this area, asking 'what level of international trade in goods is compatible with the UK government’s commitment to the Kyoto protocol, and to sustainable development in general?’ Another, however, responded by arguing that developing countries that start supplying regional markets (he gave the example of India supplying apples to Singapore and the Middle East) can actually reduce environmental impact by replacing even longer distance freight from e.g. US or New Zealand.

Reform of the Multilateral Trading System and EU Agriculture Policies
There was little disagreement in this area, and relatively little attention to it, given its prominence in UK government approaches to agriculture. Participants called for an end to export subsidies, challenged the concept of ‘non-trade distorting domestic subsidies’ and called for reductions in all domestic subsidies. They also pointed to the need to recompense net food importing developing countries if reforms to northern agriculture result in higher world prices. Participants also called for increased flexibility for developing countries to be able to maintain protection of crops crucial to rural development and food security.

Implications for DFID
A number of contributors drew conclusions and provided lists of recommendations for DFID’s agriculture policy. These fall into three broad categories:

DFID Policy positions

- Clarify the apparent contradiction between its Public Service Agreement and its Service Delivery Agreement (Whitehall jargon for different levels of departmental mission statements). ‘In the PSA, DFID supports developing country efforts [to achieve pro-poor trade reform], but in the SDA, it implies that it will only do so where there are mutually beneficial opportunities.’
- Support for both global anti-trust policy.
- Investigate Supply Management possibilities by commissioning a study that takes a long list, comes to a short one of commodities most amenable for action and then promote a dialogue possibly within the framework of Intergovernmental Groups at FAO.
- Abolish all agricultural export subsidies;
- Reduce developed country domestic subsidies, even those that are claimed to be ‘non-trade distorting’ such as decoupled payments;
- Give developing countries more latitude to protect small farmers as part of a broader food security policy
- Consider applying special and differential treatment to health rules in the WTO.
- Look at a more rational system of preferences based on economic need (poverty, low human development or remoteness from markets), rather than historical accident.

DFID programme priorities

- Measures to stimulate domestic agricultural markets at arm's length from international trade
- Environmental audit of all DFID activities and programmes
- Support and fund the public sector in reaching the objectives of the previous point, including formal and informal training for public staff, and the re-engineering of public extension services.
- Finance appropriate technology development and diffusion for small rural producers
- Finance Rural Business Developent Services, with an emphasis on appropriate services for identifying market opportunities, stimulating formation of small-scale farmer business associations, and coaching SRP business organizations.
- Finance exit strategies for small farmers when required.
- Support Fair Trade to increase its market share in world trade.
- Fund incentives that can promote alliances between the private sector and small farmers.

- Consider setting up an investment fund, possibly together with others for agriculture and agro-processing.
- Strengthen technical capacity within DFID including marketing.
- Increase funding for FAO Commodities Divisions and for ITC market studies on commodities.

DFID Research priorities

- Fund and distribute serious studies revealing the negative impact of the North´s agricultural subsidies and trade policy on small farmer livelihoods in the South.
- Finance learning processes (methods, instruments, information) among development agencies to improve pro-rural poor interventions; these processes can be facilitated by international research organizations.

And finally, one participant had some excellent, if challenging advice on long-termism, pointing out that development agency time horizons are typically a few years (at best) when real changes to agriculture systems require decades to take root, and typically will show few results for at least 5 years. How can DFID move to a 20-30 year time horizon in agriculture, he asked?

Duncan Green
Theme Moderator
30.5.04