

DFID – E-Forum New Directions for Agriculture in Reducing Poverty

GLOBAL TRADE:

Moderator Team: Duncan Green

Synthesis of key outputs

INDEX

[Objective and Key Questions](#)

[Key Questions Asked](#)

[Theme Outline](#)

Moderators' Messages and Summaries

[Summary, 26 April 2004](#)

[Summary, 2 May 2004](#)

[Summary, 12 May 2004](#)

[Summary, 20 May 2004](#)

[Final Summary, 30 May 2004](#)

[The Entire Theme Archive](#)

Objective and Key Questions

The consultation aims to seek views, opinions and examples of innovative and established practice in order to inform future DFID policy and investment. Your moderator will lead the debate with the short introductory paper below, provide regular summaries and guide the dialogue.

Key Questions Asked:

How can DFID help to increase the benefits from agricultural trade to poor people and poor countries?

Theme Outline – prepared by Duncan Green, 30 March 2004

A great deal of political capital and public interest is currently being expended on international trade issues. In agriculture, this includes the Doha Round/WTO; the development impact of CAP reform and northern protection; growing awareness of the impact of the commodity crisis; GM imports and labelling; food miles and self-sufficiency. How do we chart a pro-poor path through these debates? Here are some questions to prompt discussion during the e-consultation:

1. OECD agriculture and trade policies

- Are policy makers and trade negotiators exaggerating the impact of northern subsidies and trade barriers on poverty (compared to issues such as standards, value chain concentration, low productivity growth, water shortages and technology gaps)?
- Is the distinction between trade distorting and non-trade distorting subsidies within the WTO based on evidence, or expediency for US/European trade negotiators trying to defend their farm policies?
- Is agriculture in the North ever likely to become an exit industry, opening the way for increased developing country exports?

2. Developing country agriculture and trade policies

- In what circumstances is agricultural trade liberalization most effective in reducing poverty in developing countries, taking into account the balance of interest between consumers and producers, and short-term v long-term impact? What complementary policies and/or institutions need to be in place for liberalization to be effective?
- Can/should trade rules differentiate between crops (as in the case of Special Products, or cotton in recent WTO discussions) rather than countries? Is this a way of overcoming the resistance to greater levels of differentiation between developing countries in their eligibility for 'special and differential treatment' within the WTO?

3. The commodity crisis

- Is the role of public policy merely to 'manage the decline' in commodities by smoothing price volatility, providing cheap credit and enhanced debt relief for commodity-dependent countries and encouraging diversification into a wider range of crops and labour intensive industry?
- What kinds of diversification offer credible options to commodity dependence on the scale required?
- What, if anything, can be salvaged from past failures in international supply management exercises such as the International Commodity Boards?

4. The Private Sector

- To what extent has the private sector, through issues such as the globalisation of supply chains, the growth in informal standards and value chain concentration, become the main source of both potential benefits and obstacles to poverty reduction in agriculture?
- What role is there for public policy (e.g. competition policy, political pressure on northern buyers, technical assistance, work on international standards) to increase producer benefits from the value chain, both in terms of higher prices and reduced volatility and insecurity?

5. Smallholders and trade

- From a poverty reduction perspective, should smallholders persist in trying and break into higher-value agricultural trade, given the endlessly receding standards frontier, entry costs etc, or should they be concentrating on producing for the domestic market (where standards and supermarket dominance are also growing)?
- What are the poverty implications in a country such as India of Simon Maxwell's scenario of an increasing divide between commercialised larger-scale agriculture and homestead plots relying on off-farm income. How can growth sectors of the economy absorb hundreds of millions of surplus rural population?

6. Historical experiences

- What are the policy lessons of those successful agri-productivity or agroexport-led growth experiences that have had a sizeable impact on poverty? Do they endorse or conflict with the policy prescriptions of the 'Washington Consensus on Agriculture'?

Summary from Duncan Green – 26 April 2004

Moderating one of these e-discussions is like hosting a party. No-one shows up at the appointed time, your anxiety levels rise as you start to wonder whether the invitations went astray etc, then the first people show up, and soon (I trust) the place is buzzing.

Here are some initial thoughts based on the excellent initial salvoes from Peter Robbins, Kate Gooding, Vinay Chand and Andy Parnell. They don't cover all the issues raised, just some of the common concerns that have arisen.

Overall, I would like to take up Vinay's challenge that we concentrate on identifying success stories and discussing the lessons they provide. NGOs (I should know, I was working for one up until the end of last year) tend to be weaker on this than on identifying problems and obstacles, while governments tend to stick to generalities through their rhetoric of 'not picking winners'.

Commodities:

This obviously struck a chord, and Peter's absolutely right that there has been a flurry of interest from UNCTAD, developing countries, NGOs etc over the last year or two. It rather reminds me of the wider development debate over the role of the state - the pendulum is swinging back from 'free market fundamentalism', resulting in new thinking which combines both the 'best of the old' in terms of e.g. industrial policy, and new ideas on governance, institutions, technology transfer etc. It appears that we are about to witness something similar on commodities.

On supply management (SM), Peter urged us to revisit past experiences, and Kate quite rightly criticised my initial paper for talking only of the 'failure' of past efforts (apologies for that). Vinay was sceptical of SM efforts at national level, based on his experiences in Sri Lanka and the Philippines. Can others provide successful national level SM case studies which provided farmers with better (rather than worse as Vinay suggests) prices?

Peter, you say there are 'many ways of improving the effectiveness of past International Commodity Agreements'. Such as? What has been tried to address some of the main issues - e.g. free rider countries, the costs of escalating buffer stocks, producer members cheating by producing over quota, the difficulties for new entrants to be accepted into the club. Above all, how do you address the problem that you yourself identify - if it works, then prices will rise and people will produce more and we're back to boom and bust? Over to you, but I'd like you to focus on what has worked in practice, either internationally or nationally. What should be salvaged and built into any new approach to SM? Finally, you say that SM would provide a temporary income boost which developing countries can use to diversify out of commodities - what were the success stories you would identify from the last effort at SM - i.e. which countries were able to diversify based on the income boost provided by commodity agreements?

Role of Private Sector:

Kate and Andy focussed on the issue of competition (or lack of it) in global value chains and the need for some form of international competition policy. I would be interested if she could spell out how this could work e.g. in horticulture, where buyer standards and demands seem to turn producers into contract farmers who are effectively employees of the supermarket buyers, or coffee, where an

oligopsony of companies operates and seems able to keep up consumer prices whatever happens to producer incomes. What are the issues that arise from the extension of Global Value Chains?

I absolutely agree with Vinay that governments (UK included) often seem much happier to talk in general terms about the virtues of 'markets' than to work with the messy realities of real life 'companies'. He argues for more attention to building marketing skills in Developing Countries. I would be interested to hear from him why he thinks technical assistance to these kind of activities has fallen off since the 70s and 80s.

Standards

Given the rise, which Vinay identifies, of consumer-driven standards in developing country markets as well as export markets, problems of standards and marketing are only likely to increase for smaller producers. Do people have any success stories (other than the legendary Guatemalan mangetout/snow pea producers) of small producers successfully navigating rising quality and standards demands and benefiting from the export market? Vinay can find 'precious few' success stories on this. Can we help him here?

Kate calls for an extension of social and environmental standards, but recognises the implicit dangers they bring of smallholder exclusion. She calls for a participatory approach to setting standards - any examples from developing countries?

If I've left out anything crucial, by all means say it again (as Fidel Castro once said, 'repetition is a revolutionary virtue'...). Otherwise, refill your glasses and get chatting

Best Wishes

Summary from Duncan Green, 2 May 2004

Thanks to David Orden, Peter Robbins, Andy Catley and Andrew Parnell for this week's contributions. A summary and a few thoughts follows:

Peter and Andrew return to the commodities issue, and in particular Supply Management (SM). Peter is adamant that SM is the key to resolving the Commodity crisis. 'Supply must be curtailed' he says, and advocates various ways of doing this, including export taxes and quotas, re-establishing marketing boards and international OPEC-style agreements. He also advocates vertical diversification, and a more participatory approach to SM, things with which it is hard to disagree, but could we have some successful examples please? I'd be interested in people's views on what is holding back vertical diversification * how much of a real barrier is tariff escalation? If tariff escalation ended tomorrow, how much of a difference would it make? Are the real problems access to technology, standards, poor infrastructure, proximity to markets etc?

Peter gives a tantalising insight into the world of commodities traders (he used to be one) and said any credible SM system would lead to immediate price boosts through traders shifting from short to long positions. Could he explain this for the uninitiated?

So far, though, (and I'm only a third of the way through Peter's book) I am sceptical of SM as some kind of 'magic bullet'. On the problems I raised in my last summary, Peter is dismissive of free riders on any agreement, but merely urges the diplomats to try harder; he gets over the problem of escalating buffer stocks by focussing on cutting production; he doesn't discuss what to do about new entrants * do you simply say 'sorry guys, the quota's full, you can't grow coffee'?

The discussion on standards progresses with a fascinating example from Andy Catley showing how the unthinking application of northern veterinary standards is squeezing out more appropriate, community-based veterinary services in East Africa. He shows how blanket import bans under animal health rules are inflicting excessive damage on African farmers and advocates a more differentiated, development-sensitive approach to standard setting. Interestingly, a private-public partnership combining private clinics working with networks of community animal health workers. Any other examples out there?

Andrew Parnell discusses a range of government interventions in the market, from procurement to taxes on commodity trading to mainstreaming fair-trade. Much of it is about increasing social standards * my only question to him would be, how do you ensure that this benefits, rather than excludes, the poorest farmers?

David Orden broadens the discussion out to the big agenda * building new private-public approaches to institutions and infrastructure, and strengthening multilateral disciplines to increase the benefits of trade to poor farmers. In his view, 'the basic issue is to increasingly integrate smallholder farmers into markets' at both domestic and international levels. Later on, however, he stresses the need to assess the costs to producers of meeting the demands of rising national and international standards, raising the obvious question, what if the costs exceed the benefits * would smallholders be better advised to focus on their domestic markets (although even there, standards are rising).

David sticks to broad themes, and left me once again thirsting for concrete examples of success stories in the themes he addresses. I asked for these last week, but feel the need is still there. Going back to Alex Duncan's three initial questions, we seem to have made some progress on identifying issues, opportunities and threats, but less on identifying what works, and what DFID should do. As we move forward, I would like more input on the last two. We need many more examples of successful poverty-reducing reforms, institutions and initiatives, whether with or against the grain of market liberalisation. On DFID's role, it would be helpful if we could move beyond 'spend more' and 'completely overhaul the global trading system' to a discussion of what DFID's comparative advantage might be * i.e. what can a relatively resource-constrained development ministry most usefully do/what should we get out of. Do people agree with Peter Robbins that the first thing we should do is cease funding any programmes which lead to increased production of commodities?!

Over to you.
Best Wishes

Summary from Duncan Green, 12 May 2004

Thanks to Muhammed Lameen Abdul-Malik, Vinay Chand, Shaun Ferris, Markku Lahtinen, John Madeley, Andrew Parnell and Peter Robbins, for this week's contributions. It is encouraging that the number of contributions is rising steadily. As we enter the last two weeks of the consultation, I would encourage all those participants who have yet to write to do so now, so that we have time to think about and discuss their ideas. In terms of content, I think it's also time to start focussing down on what DFID should do more/less of. There are already some good ideas coming in, and I have included some further thoughts on this. Commodities and Supply Management:

This has been the most thoroughly explored of our themes to date. Peter helpfully explained the impact of futures traders on market prices, and went on to make some general points in favour of supply management, as well as rebutting some of the counterarguments. His conclusion was that the opponents' criticisms boil down to 'SM failed in the past' and 'they would be difficult to establish'. He finds these unconvincing and thus declares victory for the pro-SM camp!

I am sitting assiduously on the fence on this (always an uncomfortable position), but I don't find the counter-arguments that feeble. The onus on the pro-SM camp must be to explain why the previous collapse of the ICAs would not be repeated in short order * i.e. either identify changes in the way Commodities are produced and traded which alter the potential costs and benefits of SM, or come up with new solutions to the old problems. I think Peter only goes part way towards that, and then falls back on 'every other solution eventually leads to a glut'.

I don't find his dismissal of some of the counter-arguments, such as what to do about new entrants and free riders, very convincing, either. It seems to me that systemic solutions to these kinds of problems fall into two categories * those that require universal participation by all players for them to be viable, and those that can be pursued by a subset of market actors and still work. My fear is that SM falls into the former category * all it takes is for one large consumer country (naming no names) to object, and it can break almost any attempt at SM simply by encouraging cash-strapped producers to cheat. Similar arguments apply if a single large producer country decides to break ranks.

Moving the Discussion Forward: To what extent have participants found the arguments on supply management convincing, and if they have, which aspects? Peter Robbins argues that DFID needs a greater understanding of the workings of commodity markets and DFID is currently considering joining the World Bank-led international task force on commodities, which is working with traders and financial services companies to expand the use of market-based ways of managing price volatility (e.g. by helping cooperatives and processors hedge their risk). Is that the right way forward? It is also funding work to increase the attention given to commodity issues within the WTO. What other areas of research or policy work should DFID be considering?

The Great Vanilla Debate

Interesting one, this. For Shaun, Vanilla provides a typical example of donor 'herding': vanilla prices rise because of cyclone problems in Madagascar, a donor feeding frenzy (or should I say, funding frenzy) ensues. Everyone plants vanilla. Glut. Price collapse. Back to square one. Markku, however, is a vanilla optimist. Farmers grow vanilla as one among many cash and subsistence crops, and he sees it as a pretty much cost-free investment which is worth having wherever

prices go. One thing, I'm not clear on though, which is that he says vanilla requires '5-6 months work every year' to pollinate and process the pods. That sounds like a very large investment of time, and hence a large opportunity cost if prices fall. Can someone explain?

Smallholders and Trade

John Madeley is pessimistic on the poverty impact of trade, both in traditional and non-traditional agriculture, and thinks fair trade is likely to have more direct benefits for smallholders than supply management. He argues 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.

Vinay Chand points out that the differences between domestic and export markets are becoming somewhat blurred by the spread of supermarkets and northern-style quality standards in the more affluent sectors of developing country economies (e.g. middle class urban sectors and tourism). He argues that although such 'modern' sectors are still very small in the poorest countries, their growth potential is great.

The smallholders best placed to benefit are often, Vinay believes, those involved in 'interlocking' contracting arrangements, whereby an MNC or local processor provides farmers with inputs, credit and technical assistance. Such arrangements cover the spectrum from beneficial to highly exploitative, and Vinay thinks DFID needs to take a system-wide (or value chain) approach before it can fully grasp where small farmer benefits, and therefore suitable interventions, lie.

Moving the discussion forward: The vanilla debate shows the value of real-life examples in clarifying our understanding of trade-smallholder-poverty links. Let's have some more, please! Then, what kind of interventions in policy or research could DFID consider to strengthen the benefits or decrease potential costs for smallholders?

Fair Trade

Andrew Parnell takes up the challenge on how government procurement can be used to promote fair trade. He suggests government become in essence a fair trade buyer, stipulating what percentage of the final retail price should go to farmers. Alas, this would entail some pretty radical overhauls of European procurement directives as well as government procurement policy, both of which currently say that specifications cannot be framed in terms of fair-trade requirements.

More generally, Andrew sees a case for the government setting targets for the market share of fair trade products (as a means to meet its MDG obligations) as it currently does on renewable energy sources (to meet the Kyoto requirements).

Environmental Impact

John Madeley points out that this has been missing from our discussion so far, and argues that issues such as sustainable development and food miles increases the burden of proof on those who argue that increased international trade, especially air freight, is the way forward.

Vinay Chand responds to John by arguing that developing countries that start supplying regional markets (he gives the example of India supplying apples to Singapore and Middle East) can actually reduce environmental impact by replacing even longer distance freight from e.g. US or New Zealand.

Advice for DFID

Shaun lays the blame for encouraging over production squarely at the door of the development agencies and the Washington Consensus. He also has 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. Any views on the implications of this for the way DFID approaches agriculture?

More generally, I am struck by the lack of traffic on the agriculture and trade policy issues where DFID actually works, namely WTO, regional trade agreements, including the Cotonou negotiations, CAP reform and the impact of northern agricultural policies on developing countries. (Thankfully, there is slightly more overlap with our work on standards, both formal and informal, and our work on commodities.) Is this disparity because everyone is entirely happy with the focus of our work on WTO, CAP etc, or do you think we have got our priorities seriously wrong? With two weeks to go, we need to get moving on this part of the discussion.

Over to you.

Summary from Duncan Green, 20 May 2004

As we approach the last week of the forum, the discussion has really taken off, with contributions from Lameen Abdul-Malik, Andy Bullock, Martin Evans, Kate Gooding, Matt Griffith, Tom Lines, Rodrigo Matabaran, Robin P Matthew and the indefatigable Peter Robbins. For those of you on the list who have yet to make a contribution, I would ask you to send in something, however short, especially on the implications of these debates for DFID (see end of this summary). Agricultural Trade, Growth and Poverty

Matt Griffith's scholarly disquisition asked us to stand back and re-examine whether agricultural trade can really unlock the door to poverty reduction, especially in Africa. To do this, he looked at the behaviour of global markets and the pre-requisites for success, drawn from the history of 'now developed countries'. Global markets he finds to be locked into a boom-bust cycle, overlaid on a long-term price decline for agricultural products. The lessons he draws from the 19th century development strategies of USA, Australia and Argentina, among others, is 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.

In more recent times, the Asian tigers got out of agriculture much earlier, while those that stayed (such as Argentina), were unable to cope with declining prices and market volatility.

This leads him to 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 sees 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 is 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.

His conclusion for DFID's agriculture strategy is that much more caution is warranted on the potential developmental impact of agroexports. Look instead at supply side problems, supply management for commodities, generating increased investment and reexamine the role of the state.

Matt's scepticism is shared by Rodrigo Matabaran and Martin Evans. Rodrigo accepts that liberalisation can benefit poor consumers in his native Philippines, but sees that outweighed by the negative impact of import surges on local producers. Martin sees smallholders as particularly likely to be excluded from the benefits of liberalisation. He urges DFID to avoid the standard argument of '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!

Martin concludes that some countries are neither able to achieve competitive advantage, or 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.'

Interestingly, he redefines 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.' Like Matt, Martin concludes that DFID should support (or at least not attempt to prevent) infant industry policies in agriculture.

Tom Lines argues in similar vein that trade is not the central issue in ensuring agriculture promotes poverty reduction. Far from being a 'motor for development', agroexports face ever-dwindling prices, and displace food production. 'Every one of the 30 countries at the bottom of the UNDP Human Development Indicator list is a food-deficit country, according to the FAO, and if they try to make up for declining prices on their agricultural exports by producing more of them, that probably means less land for food production.' His conclusion? 'rural poverty reduction should be seen as primarily a domestic concern.'

Moving the Discussion Forward: Although I would dearly like to encourage everyone to respond to these views, I am conscious that we are going into the last week of the forum, and in the end, what we need is clear advice as to what DFID should do the same/differently in terms of policy and support. I would therefore urge any respondents to be brief, and focus on what these arguments mean for DFID.

Commodities and Supply Management

Hats off to Peter. He doesn't take 'no' or even 'maybe' for an answer! This week he had Tom Lines backing him up on the case for supply management (SM). Between them, they responded to last week's challenge to explain how attempts at SM could avoid the failures of the past, by sketching out what a new generation of International Commodity Agreements might look like. Peter believes they would have to be based on production cuts, not export limits (which beg to be circumvented), with a greater proportion of any price rise being ploughed back into vertical diversification. They would also have to involve farmers associations to a far higher degree. 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). Tom Lines also sees SM as the only feasible answer to long-term price decline and makes three basic points: 'One is that it can take many forms, and the right form for any market can only be discovered with reference to that market. Secondly, 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. Thirdly, while there are serious technical challenges, the problems are just as often political and they should be addressed squarely as such.'

Tom makes an interesting observation on successful SM cartels such as OPEC or the Asian tin producers * they have tended to involve countries with some degree of shared interests or history.

Finally, he points out that any SM agreement will at some point face severe strain, and has to be designed from the outset with that in mind. One thought that occurred to me on this * is this somewhere where hedging or other forms of risk management might indeed play a useful role? International agreements could provide the scale and security required to make them effective customers for market-based risk management instruments such as hedging.

Tom goes on to discuss some other commodity issues. On short-term price volatility, he has little time for the World Bank's work on market based risk management, seeing it as little more than a business generation exercise by traders and financial providers, of little relevance to small farmers. He also believes that they offer little solution to the medium term (2-3 year) price swings which play havoc with governments.

Tom also raises the issue of increasing supply chain concentration and vertical integration, and argues that this has greatly increased buyers' ability to drive down producer prices. His 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).'

Moving the Discussion Forward: I think we're making progress here, and Peter, I may even be coming down on your side of the fence! I would be interested in further contributions along the lines of 'what would a new generation of ICAs look like and how would they differ from past attempts'. If there are any Global Value Chain aficionados out there, could you shed some light on the specific policy prescriptions which arise from a GVC analysis of market concentration, beyond Tom Lines' point on anti-trust legislation?

Standards

Kate Gooding sets out some useful examples of producer participation in standard setting for social and environmental standards e.g. the Rainforest Alliance banana certification programme, and sees these as possible models for improving developing country participation in more 'mainstream' standard-setting. She also draws 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. She sees this as a further possible area for DFID support.

Environment

Kate Gooding also picks up on John Madeley's previous concern over the lack of an environmental focus in this theme. She raises concerns that attempts to improve productivity through intensification can carry high environmental costs, and suggests DFID carry out an immediate environmental audit of its operations and funding to ensure their sustainability.

Vanilla and other boom-busts

The great vanilla debate has one last (or not?) outing, as Robin Mathew adds to the previous discussion on Madagascar by describing India's entry into the vanilla market in the aftermath of a price boom. He sees India as becoming a major player in the world vanilla market by 2005-6, but is concerned that a cartel of

traders is forcing down prices to farmers. He thinks more support needs to be given to organising farmers organisations to bargain collectively over prices, as is now happening in Kerala.

Rodrigo Matabaran adds another boom bust * citronella grass oil in the Philippines, where farmers in Dinagat Island piled in in 1997, when prices were high, but then faced heavy competition from Indonesian and Chinese producers who have now driven the price down to roughly half the 1997 level.

What Should DFID Do?

Many thanks for the increased attention this week to the implications of these various debates for DFID's work programme. Andy Bullock first asked DFID to step back and clarify an 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.'

Tom Lines set out four priority areas for DFID. Three are discussed above: measures to stimulate domestic agricultural markets at arm's length from international trade; and support for both global anti-trust policy and a serious reconsideration of supply management on commodity markets. For the fourth, he responds to my question last week to comment on DFID's current priorities * WTO, CAP, the Cotonou negotiations and the impact of northern agricultural policies on developing countries. Tom plausibly suggests no-one has so far raised these much in the eforum because there is a broad consensus on what needs to be done, and in any case we're all bored of talking about them! But he nobly goes on to do just that. Tom argues for four main steps: 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 and finally consider applying special and differential treatment to health rules in the WTO.

He accepts that the last suggestion 'could prove controversial'. Chris Stevens at IDS regards it as a non-starter, since we would effectively be arguing that Europeans should lower their health and quality standards in order to help developing country farmers, not something any politician is likely to support. Tom also urges DFID to look at a more rational system of preferences based on economic need (poverty, low human development or remoteness from markets), rather than historical accident. He points out that the beneficiaries of many preference agreements are often small, non low income countries, who benefit at the expense of their poorer neighbours.

Finally, Lameen Abdul Malik is sceptical of the relevance of traditional ideas of comparative advantage, and feels DFID should focus its efforts on helping developing countries build their exports and cope with northern standards requirements.

Moving the Discussion Forward

Tempting though it is to follow Matt Griffith into the long grass of history, this is the start of the last week of the forum. I would therefore like to ask contributors to make the most of their last chance to nudge DFID into new directions on agriculture and trade. I have already set out where its current priorities lie. This week, we have seen people urge greater priority to be given to a range of other issues: supply management and competition policy to deal with the commodity crisis; support for infant industry policies in agriculture (with significant

implications for UK policy in the IMF, World Bank and WTO); promoting special and differential treatment, producer involvement and equivalence in standards; reforming preference systems to make them more pro-poor; introducing environmental audits of DFID funding. In previous weeks, contributors have suggested DFID should work to a 20-30 year time horizon for all its work in agriculture. Finally, some contributors think DFID should stop worrying so much about trade, and devote more resources to helping small producers access domestic markets.

DFID can't do everything, so why don't you say what its priorities should be, from the above list, or add some more. Maximum of 3-4 for any contributor. Now's your chance. The forum ends on 28 May, so you have a week to cast your vote and make your case.

Sorry this summary is so long. It's your fault for being so interesting*.
Best Wishes.

Overall Summary prepared by Duncan Green, 30 May 2004

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 Development 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?