

The Role of Agriculture in the World Trading System

By

**Rob McRae
Cargill, Incorporated**

At the

15th PECC General Meeting

**Brunei, Darussalam
September 1-3, 2003**

Commercial Agriculture in the World Trading System

Commercial agriculture plays an important role in the world trading system --- and not just as a significant source of trade disputes and negotiating logjams.

(Slide 1 – Net Interregional Food Flows)

One aspect of that role can be illustrated by the changes that have occurred in world's agricultural exports. For example, fifty years ago, the United States was the largest agricultural exporter, doing about \$3 billion in sales per year. Six of its top ten customers were in Western Europe; one in Asia and only two were in developing countries.

(Slide 2 – Interregional Food Flows)

Today, U.S. agricultural exports top \$50 billion a year. Six of its top ten customers are developing countries, and three-fourths of U.S. agricultural exports go to

Asia and the Americas. The same has happened in Brazil, Argentina, China, Australia and Canada. Large increases to highly populous developing countries whose per capita incomes have begun to rise with globalization, have emerged as the strongest growth markets for land-intensive agricultural products.

But there is another part of the story as well. Agricultural protection remains very high – ten times greater than for industrial product trade. Subsidies, unusually high tariffs and emerging “quality” standards all have favored local production over imports in most developed countries, and in some developing ones. This high level of trade distortion in agriculture is limiting development opportunities for many low-income countries, jeopardizing their food security and stressing the environment.

For all of these reasons, agriculture is the linchpin of the Doha Round. Doha can shape for a generation the progress we make in merging agriculture into the rest of the trading system. The progress Doha makes on agriculture is important for increasing food security, protecting fragile environmental resources and reforming local farm policies. Let me say a few words about each.

Increasing Food Security

(Slide 3 - Population dist vs. per capita income)

For many of the world’s people, agriculture remains a subsistence activity. Ninety percent of the food produced in the world is consumed within the country producing it, and most of that usage lies outside of the commercial system. A company like Cargill only begins to touch the food system as commercial production emerges and

agricultural products flow to urban centers and into international markets. But as commercial food trade emerges, new opportunities arise to eliminate hunger and enhance food security.

The first opportunity is to lower food costs. Access to low-cost imports helps keep food costs down, especially for the poor who often spend 70 percent or more of their personal income to eat.

(Slide 4 – Food consumption vs. per capita income)

Second, food trade creates choice. Trade offers variety; it also provides access to foods year round that often can be grown locally only on a seasonal basis. And, it provides efficient local farmers new marketing opportunities. The result is higher living standards for those able to participate.

Finally, food trade provides more reliable access to supplies at lower cost. Crop production often fluctuates 25 percent from one year to the next within a growing region. Global production, however, typically fluctuates less than three percent annually, as good crops in some places offset poor crops elsewhere. Moreover, storing food typically costs 20 percent or more of its value annually, while most foods can be shipped halfway around the world for 10 percent of their value, or half the cost of storage.

In other words, food trade lowers costs, widens choices and provides more reliable access to supplies. Each is important in achieving food security. But, with agricultural trade barriers on average 40 to 50 percent of a commodity's value, the trading system is prevented from making the contribution to food security it could.

Unless these barriers are brought down dramatically on all agricultural products in all countries, the global food system needed to enhance food security will not develop adequately.

(Slide 5 – Population dist vs. per capita income vs. food consumption)

Greater food security, however, is not just about cost, choice and access to supplies; it also is about the ability to pay. Reducing poverty is a major key to food security.

Today, about half the world's population – 3 billion people – live in abject poverty. Roughly three-fourths of these poor people live in rural areas dependent upon agriculture. No country that has raised the majority of its people out of poverty has done so without attacking the causes of rural poverty.

Agribusiness companies want to bring access to more complex food as per capita income improves as well as poverty-reducing tools to farmers in developing countries. We can offer more productive inputs; we can provide practical finance; we can create new market opportunities; we can show farmers ways to lower or manage risks. But we cannot do these things alone. They require public investments in physical infrastructure and well-functioning marketing systems. They also require an economic climate that welcomes investment, as capital flows to where it's needed and wanted. This does not mean "special incentives." Rather, it means creating a predictable, level playing field in which competition through price and service determines success.

Reducing poverty also requires that current high levels of agricultural protection come down. Subsidized competition and trade-distorting domestic supports in developed countries must be curbed. But market access barriers must be brought down everywhere. Forty percent of global agricultural trade already is among developing countries themselves. Most of the future growth in demand will be in developing countries, so they must join in as full partners in the creation of a more open global food system. It is the surest route to reducing poverty in all countries.

This is an area where developing countries themselves face an important choice in the Doha negotiation. Some developing countries want to extend “special and differential treatment” into a whole series of exceptions to and exemptions from reform. In their own best interests, developing countries should resist this temptation to be excluded from reform. They should insist on disciplining developed-country subsidy practices, and the least developed countries may deserve longer transition periods. But, developing countries refusing to lower their own market access barriers will prove a prescription for perpetuating poverty, not reducing it.

Protecting Fragile Environmental Resources

Agricultural trade liberalization can also help in protecting fragile environmental resources. The pressures of hunger and poverty often result in agricultural practices in low-income countries that harm the environment in two ways: by exhausting the soil’s productivity rather than replenishing it; and by forcing agriculture to expand to new lands rather than to use the most highly productive lands better.

(Slide 6 – Composition of caloric intake vs. income)

These pressures will only intensify over time. Food demand will continue to rise as will the demand for more complex foods as global population increases. Most of that population growth will be concentrated in developing countries. Higher per capita incomes and accelerating urbanization in the developing world will increase the demand for more complex diets and only intensify agriculture's use of scarce land and water resources. New technologies, like GPS for precise applications of inputs or biotechnology-modified seeds to reduce chemical pesticides, can preserve needed efficiency gains while easing environmental stresses.

This is an area where agribusiness can help, if conditions permit the growth of the commercial sector of agriculture. But, many poor countries currently pursue policies that discourage farmers from increasing their productivity. Examples include: overvalued exchange rates, which limit exports; under investment in rural infrastructure, which raises marketing costs; uncertain land title and commercial dispute settlement systems, which deter risk taking; or under-investment in research and regulatory capacities to adapt new technologies to local conditions

Feeding a growing and more prosperous global population in a more environmentally sustainable way can only be achieved by adopting productivity- and efficiency-enhancing technologies. And adopting better technologies is directly linked to the opening of trading opportunities that can generate cash for reinvestment and market opportunities for expanded output.

Reforming Local Farm Policies

Beyond food security and environment protection, the Doha negotiation must face into the distorting effects local farm policies have on agricultural trade. Almost every country believes that its local conditions require special treatment for its farmers. It is the cumulative effect of these special preferences that has made agricultural trade so distorted.

In fact, however, there are a number of global principles that apply across agriculture in every country. If they were more carefully observed, the task of reforming domestic policies would be easier and the ability of countries to cooperate in joint reform under the Doha agenda would be greatly increased. What are some of those principles?

One is that raising commodity prices artificially – either through domestic farm programs or trade barriers – does not result in sustainable income gains for the majority of farmers. Why? For three simple but universal reasons. First, farmers respond to higher prices by bidding up land values, so the benefit of higher commodity prices is transferred from producers to landowners.

Second, farmers ask their governments to emulate the price-propping actions of their competitors. Those countries that can afford it quickly copy these price-distorting practices. As national and per capita incomes rise, more countries are able to play this game. The unintended consequences are: for protected farmers, to cancel out the anticipated gains; and for unprotected farmers, to increase the pain of price-depressing surpluses.

Finally, this chain reaction eventually reaches the demand side of the equation. As domestic self-sufficiency grows, trading markets get thinner and more volatile. The

eventual result is a global market of generally depressed commodity prices, punctuated by occasional sharp upward price spikes triggered by a temporary supply disruption. This chain reaction of domestic protection prevents world agricultural markets from stimulating economic development through trade expansion and from responding promptly and smoothly to supply shifts.

All of these consequences of domestic supports – capitalization in land prices, copycat competition in protecting one’s own farmers and a chain reaction in global markets—are both undesirable and unintended. But they won’t be negotiated out of the agricultural marketplace until everyone acknowledges these unwanted effects.

Another general principle is that agriculture’s role in starting economic development is critical, but its role in sustaining it is declining. Rising agricultural productivity builds savings, but it also creates the need for fewer farmers. It is an inescapable fact of development that agriculture’s role in the economy shrinks as the economy grows. No country has developed successfully through agriculture alone; all have had to develop strong, growing non-farm sectors.

This means that the resources not spent on propping up or protecting prices should be spent on sharpening individual skills, enhancing rural lifestyles and building a diversified but competitive economy. In other words, the best farm policy is not one that manages markets; rather, it is one focused on improving individual well being and self-reliance.

Agriculture's Role in the World Trading System: A Time to Choose

So, from a commercial perspective, the world's hopes for greater food security, protecting fragile environments and reforming local farm policies ride in important ways on the success of the Doha Agenda. Is the world ready to create an open food system obeying the same kinds of rules that govern a more open industrial economy?

Progress will require commitments of several kinds. First, developed countries must be prepared to grant greater access to their own markets to all countries, not just a select few. Developed countries also must find less trade-distorting ways to support rural incomes, and they must end the practice of subsidizing their exports. But developing countries need to embrace a similar vision of openness; nearly half of current global food trade, and virtually all of its growth potential, is among developing countries themselves.

Second, the developed world needs to help developing countries build up their capacity to participate in a global economy and to ensure that the poor gain from globalization. Rich countries have pledged to reduce global hunger dramatically. Donor countries and institutions seem prepared to reverse the decline in aid going to rural development. And companies are prepared to invest in creating and expanding commercial opportunities for developing country entrepreneurs. If appropriately supported by agricultural trade liberalization, such investment flows can sustain and broaden the gains made by the poor in parts of East Asia over the last 20 years.

Finally, attitudes toward new technologies, especially agricultural biotechnology, need to be reexamined. New technologies can raise agricultural productivity and human nutrition at an affordable cost. It would be unfortunate if developing countries were

denied these tools by trade barriers disguised as safety or marketing regulations unsupported by sound science. A more responsible path is needed.

(Slide 5 ~ repeat again – Population dist vs. per capita income vs. food consumption)

Freer trade, more openness to technology and appropriate foreign assistance are tools that can enlarge agriculture's role in bringing greater food security, economic development and environmental sustainability to the world's poor. Let us hope we are up to this challenge.