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# Kicking down the door

## How upcoming WTO talks threaten farmers in poor countries

Millions of poor farmers in developing countries cannot earn a living because of cheap, often dumped, food imports. The world's most important basic food, rice, shows the seriousness of the problem. Rich countries have long used the IMF and World Bank, and aggressive bilateral trade deals, to push open the door of poor countries' markets to a flood of cheap rice, including heavily subsidised rice from the US. Now rich countries plan to use the binding rules of the WTO to kick that door down altogether. But trade rules must promote development, not undermine it. Any new WTO deal must ensure that poor countries can regulate trade to promote food security and rural livelihoods.

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## Summary

*'The United States must consider its farm policy in an international setting, helping [our] farmers stay competitive while pressing for unfettered access to global markets.'* — United States Department of Agriculture

*'If I had my own way, I'd stop US rice coming into the country — and I tell you, if it didn't come in, we would have prospered and we'd be out of poverty.'* — Al-Hassan Abukari, a rice farmer in northern Ghana

2005 is a critical year in the effort to make poverty history. More than 80 per cent of the world's poor people live in rural areas, and so ensuring that agriculture works for poor people must be at the heart of the international agenda. December's WTO Ministerial meeting in Hong Kong will be a key moment in putting into action the promises of the Doha Round development agenda.

Despite committing themselves to putting development at the centre of global trade talks, rich countries are still rigging agricultural trade rules against the poor. The USA and EU, in particular, have repackaged their agricultural subsidies so that they appear to be legitimate under WTO rules, allowing them to continue dumping products such as rice, corn, milk, sugar, and cotton at prices far below their true costs of production. At the same time, they are aggressively pushing developing countries to open their markets further by cutting their import tariffs.

If this rich-country agenda succeeds, the result will be a bonanza for corporate agribusiness, but it will threaten the livelihoods of poor-country producers, who make up 96 per cent of the world's farmers. Rice provides a graphic illustration of the threats they face.

## Rice is life — and a livelihood

For three billion people — half of the world's population — rice is the staple food. Two billion also depend on growing and processing rice for their living, most of them smallholders in poor countries. In the United States, rice is produced on large farms employing few people; in Sri Lanka, for example — a country 140 times smaller — there are almost 50 times as many rice farmers.

In countries where rice is vital for combating hunger and reducing poverty, governments use agriculture and trade policies — such as import tariffs — to build up the sector's competitiveness, as in Viet Nam; to generate rural growth, as in Indonesia; or to provide a livelihood safety-net to smallholders.

If state support is reduced prematurely and tariffs are significantly cut, low-cost imports may flood in. Whether these come from competitive rice exporters such as Viet Nam and Thailand, or are dumped by heavily subsidised sources such as the United States, the impact threatens to

destroy the livelihoods of millions of farming families and the prospects for rural development.

Cheaper food is, of course, valuable to poor consumers. But increased imports do not always translate into lower retail prices. When a few large importers control the market — as in Honduras — the gains may well not be passed on, leaving both farmers and consumers worse off. Furthermore, since rural consumers typically earn their cash as farmers and farm labourers, or in off-farm enterprises that depend on a buoyant agricultural economy, they could end up worse off if imports cause the prices of local crops to fall.

If, when, and how to liberalise agricultural trade is a complex challenge in any developing country. Governments must consider the potential impacts on consumers, but also on national food security and tax revenue, on women and men, on the environment, and on South–South trade.

Developing country governments, rather than the WTO, World Bank, or IMF, are best placed to resolve these policy dilemmas, and must therefore have sufficient flexibility to adopt the right policies for their own domestic conditions. At the same time, there needs to be increased accountability of governments to the public, to guarantee that poor people genuinely benefit from such policies. Thirdly, more investment in agriculture is needed — at a time when international aid for agricultural development has fallen to one third of its 1984 value, as agriculture has fallen out of favour with donors.

Oxfam's concern is that the direction of WTO negotiations, coupled with other pressures for rapid and indiscriminate trade liberalisation, is increasingly constraining the power of developing countries to decide their own trade and agricultural policies, with potentially devastating consequences for poor communities.

## Pushing on the door: pressures from all sides

Developing countries have long been under pressure to open up their markets for rice and other basic foods, from the international financial institutions (IFIs) and from major agro-exporters. Since the early 1980s, the IMF and World Bank have used formal loan conditionality and informal arm-twisting to force developing countries to deregulate and liberalise their agricultural markets.

In 1995 the IMF forced Haiti to cut its rice tariff from 35 per cent to 3 per cent, with the result that imports increased by more than 150 per cent between 1994 and 2003. Today, three out of every four plates of rice eaten in Haiti come from the USA. This is good news for Riceland Foods of Arkansas, the biggest rice mill in the world. Riceland's profits jumped by \$123m from 2002 to 2003, thanks, in large part, to a 50 per cent increase in exports, primarily to Haiti and Cuba. But it has devastated farmers in Haiti, where rice-growing areas now have some of the highest levels of malnutrition and poverty.

In Ghana, deregulation under World Bank and IMF pressure likewise led to a surge in rice imports. This prompted the parliament, in 2003, to approve a tariff increase. But the IMF, driven by its *'interest in pursuing an open trade*

*policy for Ghana*, pressured the government into making a U-turn on that commitment.

Free trade agreements with major agro-exporters, such as Australia, Canada, and USA, lock poor countries into commitments to open their markets to low-cost imports. The 2004 DR-CAFTA treaty, for instance, between five Central America republics, the Dominican Republic, and the USA, will secure regional markets for dumped US exports. As tariffs fall, Nicaragua's 17,000 rice farmers will face a flood of heavily subsidised US rice coming into their market.

## Rich country dumping

Rich countries provide heavy subsidies to agriculture: in 2002 Japan, the USA, and the EU combined provided support worth \$16bn to their rice producers alone. Among them, the USA, particularly, is riding high on hypocrisy when it comes to the rice trade. It is the world's third largest rice exporter — even though US rice costs over twice as much to grow as it does in export-leading Thailand and Viet Nam. This is only possible because of lavish state funding: in 2003 the US government ploughed \$1.3bn into rice sector subsidies, supporting farmers to produce a crop that cost them \$1.8bn to grow — effectively footing the bill for 72 per cent of the cost of production.

Between 2000 and 2003, it cost on average \$415 to grow and mill one tonne of white rice in the US. But that rice was dumped on export markets for \$274 per tonne, 34 per cent below its true cost. The real winner from this combination of subsidy bonanza in the US and rapid trade liberalisation in developing countries is US agribusiness. No wonder the country's rice millers and exporters invest so much in lobbying alongside the US government, to open up new export markets for their dumped surpluses.

## Coming soon at the WTO: rich countries kicking the door down

Current negotiations at the WTO will determine the extent to which developing countries must lower their tariff ceilings. Oxfam has calculated, on the basis of one proposed tariff reduction formula known as the Harbinson formula, the implications for poor countries. Thirteen rice-growing countries — including India, China, Nicaragua and Egypt — would be forced to cut their current rice tariffs. These 13 countries produce over half of the world's rice and are home to a total of 1.5bn people who depend on agriculture for their livelihoods. In the face of rising imports, they would not be permitted to increase their rice tariffs in order to protect farmers and the rural economy. Many other countries would, likewise, have little room for manoeuvre on their tariff policies.

Similar concerns surround the prospects for other basic foods. Under this same formula:

- poultry: 18 countries would face automatic tariff cuts, including Côte d'Ivoire, Honduras and Morocco

- sugar: 14 countries, including Kenya, the Philippines and Congo
- milk powder: 13, including Ghana, Honduras and India
- soyabeans: 13, including Turkey, China and Côte d'Ivoire
- groundnuts: 13, including Costa Rica, Thailand and Turkey
- maize: 7, including India, Mexico and Congo
- wheat: 6, including India, Mexico and Tunisia.

If developing countries lose control of their tariffs in this way, they will risk facing surges of food imports. In response to the damage this can do to rural development, developing countries have put forward two proposals for special and differential treatment:

- A 'special products' category, which would allow developing countries to designate certain crops — those vital to livelihoods, food security, and rural development — as exempt from tariff cuts;
- A 'special safeguard mechanism', which would allow poor countries to increase tariffs temporarily in the face of fluctuating import prices or volumes.

In negotiations to date, rich countries, and some developing country agro-exporters, have aimed to limit the number of products and flexibility granted under these proposals. In contrast, a group of import-vulnerable countries, known as the G33, has argued for the right of governments to decide for themselves how many products need to be classified as 'special products' and when to invoke the special safeguard mechanism. Oxfam supports the G33 case.

## Recommendations

Developing countries must be allowed to regulate trade flows to support agriculture, in order to ensure food security, rural development, and long-term growth. This requires action at the following levels:

**WTO negotiations.** A new Agreement on Agriculture should include the following:

- A sentence in the preamble to clarify that: *'Nothing in this agreement shall prevent developing countries from promoting development goals, poverty reduction, food security, and livelihood concerns'*.
- A tariff-reduction formula that allows developing countries to cut tariffs in a way that does not undermine their development strategies.
- The full exemption from tariff reductions of food security crops — food that people depend on for their lives — and a special safeguard mechanism for developing countries.

Maintaining adequate flexibility is particularly important for developing countries, since export dumping is very likely to continue for some years to come, preventing fair competition in agricultural markets.

**Regional trade agreements.** Developed countries should stop negotiating regional trade agreements (RTAs) with developing countries. In their current form, RTAs threaten the capacity of poor countries to pursue pro-development agricultural policies, because they force them to open their borders indiscriminately to highly subsidised farm products.

**Policy coherence with international financial institutions.** The IMF and World Bank should adopt a new policy that they will no longer use trade conditions or prevent governments from increasing applied tariffs as part of their rural development and food security strategies.

**Domestic policies.** Governments of developing countries with large numbers of resource-poor farmers should ensure that domestic farm policies promote food security and rural livelihoods, and increase gender equity. The use of protective measures should be selective and should evolve over time, as countries reach higher levels of economic development.

# 1. What's at stake in Hong Kong?

At the WTO Ministerial meeting in Hong Kong this December, negotiations between 148 of the world's governments will set the rules of global agricultural trade for decades to come, shaping the prospects for millions of poor-country farmers who depend on agriculture for their livelihoods.

Rural development is urgently needed. Over 80 per cent of the world's poor people live in rural areas, and promoting agricultural growth is an essential part of any strategy to lift them out of poverty. The WTO ought to be at the heart of putting that strategy in place.

What is needed is clear:

- far greater investment in rural infrastructure and markets, to promote agricultural growth
- the ability of poor countries to regulate trade to promote food security and rural livelihoods
- an end to rich-country dumping of produce exported at prices far below its cost of production
- improved access for developing country produce into rich-country markets.

However, rich countries have side-stepped this development agenda to pursue an agenda of their own: maintaining heavy subsidies and tariffs for their own producers and disposing of the resulting surplus production by pushing developing countries to open up their markets, irrespective of the costs to development.

Rich countries have, through the IMF and World Bank and by negotiating free trade agreements, pushed developing countries to cut their agricultural import tariffs. As a result, between 1990 and 2000, developing countries cut their average applied tariffs on agricultural imports from 30 per cent to 18 per cent.<sup>1</sup> Now rich countries are aiming to lock in those more open markets with the binding rules of the WTO, while dumping into them their own surplus production.

Oxfam has worked for many years with communities across Asia, Africa, and Latin America that produce foods as diverse as maize, sugar, milk, and poultry. The impact on these communities of opening up trade in these products is potentially devastating – and outrageous in the light of continued rich-country hypocrisy.



The WTO's ministerial conference in Cancún collapsed as developing countries rejected the blueprint proposed by the European Union and the United States, which amounted to more subsidies and more market access for Northern producers, and nothing for the South. It is important to avoid a repeat performance in Hong Kong. That means that rich countries must respect the need of developing countries to regulate trade in order to support small farmers.

If the Hong Kong meeting collapses, the WTO risks becoming an irrelevance in global trade, as the Doha Development Round would probably fall apart. Developing countries would then face the demands of rich countries through bilateral and regional trade agreements. The chances of reducing export dumping would also fade away.

Developed countries have a lot to lose too. If Hong Kong failed, they would miss an important opportunity to negotiate market access, common rules, and disciplines with emerging economies, such as China, India, and Brazil, which have so far refused to negotiate bilateral or regional deals.

## 2. Rice as a way of life

In Tamale market, northern Ghana, on display amongst the colourful fruit and vegetable stalls, is a blatant example of the rigged rules in the global rice trade. Bowlfuls of local rice, grown in local villages, are keenly hawked by women traders. But they struggle to compete for customers who are drawn into shops stacked to the ceiling with large sacks of white rice from the USA, Thailand, and Viet Nam.

Fifteen kilometres away, in Zugu village, Al-Hassan Abukari has been growing rice on less than a hectare of land for the past 30 years. His annual harvest of 27 bags – of 100kg each – brings in 60 per cent of the family's income. *'Maize and millet are our survival foods,'* he explains, *'but rice is the most important crop that we grow because we sell it to pay for all the other things we need for the household.'* Nine bags of rice pay for his sons Yakubu, 18, and Adamu, 10, to go to school. And when Adamu had dysentery last year, it took another bag to pay for transport, hospital fees, and medicine.

Farmers like Al-Hassan desperately need higher yields and better returns for their rice. That calls for investment in irrigation, training of farmers, improved threshing and milling facilities – and a market place that pays a worthwhile price. Al-Hassan and other villagers have set up a co-operative to market their crops together, but the prospects are not good.

Al-Hassan earns \$215 each year from growing and selling rice, on less than a hectare of land. In the USA, government payments to rice farmers are equivalent to \$232 per hectare grown.<sup>2</sup> *'If I had my own way,'* he says, *'I'd stop the US rice coming into the country – and I tell you, if it didn't come in, we would have prospered and we'd be out of poverty.'* Rice from Asia is not backed by US-style subsidies but, when imported at low prices, it too undermines local farmers.

In response to rising imports, the Ghanaian government planned to raise the rice tariff from 20 per cent to 25 per cent in 2003. The IMF blocked the increase in behind-the-scenes consultations. Now Al-Hassan fears for the future. *'If imported rice gets any cheaper, the market for our rice will completely come to a standstill. Even with the import tariffs that we have now, look at the situation we face,'* he says. *'If we can't sell our rice, there is no way that we could afford to buy the fertiliser and other inputs we need – then we would have no crop to sell.'*<sup>3</sup>

For millions of farmers like Al-Hassan across Africa, Asia, and Latin America, growing rice is their only hope for getting out of poverty. However, cheap imports are undermining their prospects of a better life.

## Living on rice

Rice is the crop of life for two billion people – one-third of the world's population – who depend on growing and processing it. Around 90 per cent of the world's rice is grown by smallholder farmers in developing countries, typically on plots of less than one hectare.<sup>4</sup> They depend on it for food and to pay for their families' health care, housing and schooling.

For almost three billion people – half the world's population – rice is the food of life, and their main source of calories. It has been the basic diet in many Asian countries for centuries and is still the principal food in China, India, and Indonesia, three of the world's four most populous nations. Over the past four decades its importance has grown elsewhere, especially in Latin America and sub-Saharan Africa, where it is the most rapidly growing source of food.<sup>5</sup>

By 2025, the number of people depending on rice as their main source of food is expected to rise to almost four billion, the vast majority of them in developing countries.<sup>6</sup> In the lives of poor people, rice is clearly central to future food security and rural development.

## The global rice trade

Over the past 40 years, changes in technology and policies have led to massive increases in the world's rice production. The introduction of high-yielding varieties – known as the Green Revolution – resulted in yields rising 85 per cent, total production doubling, and real prices falling more than 50 per cent between 1961 and 1990.<sup>7</sup>

In 2004, the world's farmers produced 608m tonnes of rough rice – also known as wet rice or paddy rice<sup>8</sup> – equivalent to almost 400m tonnes of milled white rice.<sup>9</sup> More than 100 countries grow rice, but the vast majority of it – 90 per cent – comes from Asia.

There are two major types of rice and consumers know the difference. Long-grain, *indica* rice – the focus of this report – is grown and eaten across South and East Asia, Africa, and the Americas, including the USA, and constitutes 85 per cent of the world's total rice production. In contrast, sticky, short-grain *japonica* rice is grown and eaten primarily in Japan and South Korea. Due to their different characteristics, there is little substitution between the two markets.

Long-grain rice may be crucial to the developing world's food supply, but most of it is not traded internationally. The global market has doubled in volume since the 1960s but still accounts for just 6.5 per cent of worldwide production,<sup>10</sup> compared with 12 per cent for

maize and 18 per cent for wheat in the late 1990s.<sup>11</sup> Why so little trade? Many farming families – especially in Asia – grow rice primarily for their own consumption, so little of it reaches local, let alone international, markets. Additionally, the importance of rice for food security and rural livelihoods leads many governments to regulate trade in rice and to support domestic production, aiming to achieve near self-sufficiency.

Just five countries – Thailand, Viet Nam, the USA, India, and China – account for 80 per cent of exports, all supplying the long-grain market (see Table 1).

**Table 1: Major rice exporters, 2003, milled rice equivalent**

<i>Country</i>	<i>Rice exports, million tonnes</i>	<i>% total exports</i>
Thailand	8.4	30.5
Viet Nam	3.8	13.8
USA	3.8	13.7
India	3.4	12.4
China	2.6	9.0
World	27.5	100

*Source: FAOSTAT*

In contrast to the concentration of exports among a few producers, over 90 developing countries import rice, with many of them also producing it domestically. As Section 3 below shows, in countries where the rice sector provides significant employment, getting the right balance between importing and producing rice can be crucial for rural development.

### 3. Getting rice policies right: a decision for developing countries

Traded rice may be a small part of the total produced, but for many countries across Asia, Africa, and Latin America that both grow rice at home and import it, changes in the international market are highly significant.

Imports help to keep rice affordable for low-income consumers who depend on it as a staple food, but imports can also undermine prices for domestic farmers. This can be due to dumping, premature cuts in import tariffs, and depressed or volatile world market prices. As a result, using trade policy and domestic interventions to get the right balance between production and imports is crucial for rural development.

For countries as diverse as Indonesia and Ghana, importing rice is important to meet consumption demand beyond domestic production. Table 2 shows that countries with significant domestic rice sectors can have widely differing ratios of imports.

**Table 2: Balancing production and imports, selected developing countries**

Milled rice equivalent, '000 tonnes in 2002

<i>Country</i>	<i>Production</i>	<i>Net imports</i>	<i>Imports as % of domestic supply*</i>
Dom. Rep.	487	1	<1
Peru	1,413	34	2
Sri Lanka	1,907	91	5
Indonesia	34,403	2,005	6
Philippines	8,852	1,233	12
Nicaragua	189	63	25
Nigeria	2,129	1,203	36
Ghana	187	330	64
Haiti	69	310	82
Senegal	119	785	87

Source: FAOSTAT

*For simplicity, domestic supply is given as production combined with net import. It excludes stock changes, which are significant in a few cases.*

Many developing country governments intervene in their rice sectors through trade policy – regulating imports and exports – and through support to domestic production to achieve a range of broader development goals.

### **Promoting growth through agriculture**

Agriculture's relative importance, both for economic growth and employment, declines as an economy develops and diversifies into industry and service sectors. But at early stages of economic development, smallholder agriculture often drives growth and poverty reduction in rural areas. State support is crucial in making that happen, as shown by experience from Indonesia and elsewhere.

From the early 1970s, the government of Indonesia adopted a strong rural development strategy by channelling some of its oil revenues into building the country's rice sector. The aim was to use trade and agricultural policies to reduce dependence on food imports and to promote rural growth – and it succeeded.

The state-run commodity agency, Bulog, provided floor and ceiling prices for rough rice, and carefully controlled imports. This kept supplies stable and affordable for consumers, while insulating producers from low and uncertain international prices. At the same time, the government invested heavily in irrigation infrastructure, and its extension services provided high-yielding and pest-resistant seeds, fertiliser, and affordable credit to small-scale farmers. By the late 1970s, production had taken off, reaching near self-sufficiency in the mid-1980s.

Bulog has notoriously faced problems of corruption, especially over the misuse of food aid in more recent years. Despite these problems, it played an important role in making the rice sector's growth central to national poverty reduction. The success of rice policies increased the country's food supply and boosted incomes in millions of rural households, preventing uncontrolled urbanisation. Between the early 1960s and the late 1980s, Indonesia's per capita calorie supply rose by 45 per cent. Real wages for rice farm labourers increased by more than 25 per cent between 1980 and 1986. Nationwide, the number of people living below the national poverty line halved between 1976 and 1993.<sup>12</sup>

Indonesia's experience shows that effective state investment, coupled with regulation of trade and agricultural policies, can drive national growth. This crucial role of state support in achieving agricultural take-off has been repeated throughout the history of development (see Box 1).

### **Box 1: Investing in agricultural growth: lessons from history**

History shows that when farming grows in developing countries, the economy grows even more. Evidence from Malaysia and India indicates that each dollar of extra agricultural income generates another 80 cents for local off-farm enterprises.<sup>13</sup> According to research in Burkina-Faso, Niger, Senegal, and Zambia, that same extra dollar of farm income generates between one and two additional dollars for the rest of the economy.<sup>14</sup> Analysis of rural households in China has likewise found that *'agriculture is the key externality-generating sector of the Chinese rural economy'*.<sup>15</sup>

In now-developed economies such as Korea and Taiwan, investment in agriculture was the first rung on the development ladder out of poverty. In the 1950s — when Korea was as poor as Sudan — both Asian countries built their meteoric growth paths on the back of radical agricultural land reform, coupled with strong rural investment. The reforms allocated land to peasants, and created a pro-poor distribution of income resulting from agricultural growth.

More recently, agricultural success stories from India and Malawi show how the state can play a crucial role in agricultural growth. This happens typically in three broad phases: setting up, kick-starting, and handing over.

In the set-up phase, the basic conditions for a transformation out of low-intensity, semi-subsistence agriculture are put in place, as the government installs roads and irrigation systems, and carries out the kind of land reform that worked so well in East Asia.

In the second phase, the transformation of agriculture must be 'kick-started', with interventions to reduce risks for producers seeking to invest in improved technologies, and by providing access to affordable seasonal credit and sources of seeds, fertilisers, and markets. In Malawi, for example, the most effective pro-poor growth policies involved government distribution and subsidies for inputs such as fertilisers and seeds.<sup>16</sup> Without such interventions, farmers, suppliers, and processors will under-invest.

In the third phase, once productive agriculture is up and running, and farmers have the incentives and opportunity to invest, the private sector will find it profitable to get involved, and state intervention can be scaled back. At this stage, government revenues may well be better spent elsewhere, such as in supporting farmers to upgrade into higher value-added activities.<sup>17</sup>

Despite the evidence of history, the chance for poor countries to develop through strong support of this kind for agriculture is being closed off. Rich-country governments and the international financial institutions (IFIs) have prescribed a minimal role for the state in developing countries, pushing for open borders precisely when state support and trade regulation have been needed to produce take-off.

### **Creating a competitive export sector**

Rice is central to the life of the Vietnamese: it is grown by two in every three households and accounts for 90 per cent of the country's staple food production. Over the past 15 years, rice has played a

starring role in what the World Bank describes as ‘one of the greatest success stories in economic development’, as Viet Nam has transformed itself into a global exporter, second only to Thailand.

The Vietnamese government achieved this remarkable feat through a careful sequencing of agricultural and trade policy reforms: building up domestic production by combining state support with internal market incentives, and only later – when producers were ready to compete – opening up to foreign trade and competition.

The government started internal reforms in 1986, ending the household production quotas for rice that had to be sold to state-owned companies. Instead, land use rights were redistributed to households so that farmers could decide what to grow and who to sell it to. At the same time, the government invested in essential infrastructure, especially irrigation for paddy fields, and introduced improved seeds. As a result, national production has risen by around 4.8 per cent a year since 1986. Internal marketing changes in 1987 abolished rice rationing via coupons and permitted private traders to buy and sell rice on the domestic market.

Only later did the government remove domestic subsidies and most border protections against imports. The private sector was allowed to start exporting rice in 1998 alongside the state trading enterprise, Vinafoods, which is still the major exporter. Quotas on exports were kept in place until 2001, to ensure that sufficient rice would be available on the domestic market at an affordable price for poor people, and fertiliser imports were liberalised in the same year.

According to a senior trade official in the Vietnamese government, interviewed by Oxfam, the gradual sequencing of reforms was the key to the policy’s success, especially with respect to poverty reduction. *‘If the government had liberalised trade at the beginning, I think the impact would have been more negative with respect to food security,’* she said. *‘Rice production in 1986 was still small-scale and unskilled and not that competitive, so rapid liberalisation would have hit poverty, food security, and the government’s ability to maintain rice reserve stocks for emergencies. Poverty would not have been reduced so fast, especially among poor farmers facing the sudden price shock of liberalisation.’*<sup>18</sup>

### **Protecting rural livelihoods**

Given that millions of smallholders depend on rice for their livelihoods, many governments – from India and China to Peru and Egypt – ensure minimum prices for producers through state procurement and by regulating flows of imports and exports.

Even in countries whose strategy is to diversify producers out of rice production, such price support can be essential as a safety net during



that transition. In Malaysia, for example, the government's current agricultural strategy aims to phase out rice production in unproductive regions, shifting producers there into alternative crops. At the same time, the state continues to provide minimum prices to producers and maintains a monopoly over imports.<sup>19</sup>

Viet Nam, likewise, may be a leading rice exporter but, faced with record low world market prices in 2001, its government started to encourage rice farmers to shift into aquaculture and more remunerative crops. At the same time, the government introduced a procurement scheme for rough rice in order to provide a safety net for farmers' incomes during the transition.<sup>20</sup>

## Trading food: facing policy dilemmas

Policy-making on agriculture and trade brings unavoidable dilemmas for governments trying to allocate scarce resources and balance competing interests. Seven dilemmas that recur in the setting of policies within the rice sector touch on wider issues in the debate over agricultural trade policy:

- the role of trade in achieving food security
- the balance between consumer and producer interests
- impacts of trade on women and men
- environmental and social impacts of intensive agriculture
- implications for government revenue and trade balance
- consequences for South–South trade
- the ability of the state to deliver.

### **Trade and food security**

According to the UN Food and Agriculture Organisation (FAO), '*food security exists when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.*'<sup>21</sup> Today, over 800m people in the world are undernourished. This level of deprivation has barely changed since 1990, despite the millennium development goal of reducing the number to around 400m by 2015. Therefore the need to increase food security is urgent.<sup>22</sup>

At a national level, trade can help to secure a supply of food: when Bangladesh experienced massive floods in 1998, for example, private traders imported 2.4m tonnes of rice, which stabilised domestic prices and averted a food crisis.<sup>23</sup> However, simply relying on imports is

often not a safe or reliable strategy for long-term food security in poor countries.

Gross imports of food by developing countries grew by 115 per cent between 1970 and 2001, transforming their combined food trade surplus of \$1bn into a deficit of more than \$11bn.<sup>24</sup> This increase in food imports stemmed in many cases from a combination of trade liberalisation and structural adjustment measures, including a reduction in state support to farmers.<sup>25</sup>

Over the past three decades, gross food import bills as a share of gross domestic product (GDP) more than doubled for an average developing country. Among the least developed countries (LDCs), the share has almost tripled, now exceeding 4 per cent of GDP. The rising cost of food imports has outstripped overall economic growth in developing countries, straining their economic resources.<sup>26</sup>

As many as 43 developing countries – most of them in sub-Saharan Africa, Latin America, and the Caribbean – rely on a single agricultural commodity for more than 20 per cent of their total export revenues.<sup>27</sup> Many of them – especially the least developed – struggle to generate the hard currency from exports that they need to pay for food imports. In the early 1970s, the LDCs spent around 43 per cent of their export earnings on commercial food imports. Since 1990, they have spent 54 per cent on average, rising to 80 per cent for some countries.<sup>28</sup>

Given both the volatility and the decline of many commodity prices, these countries' export earnings fluctuate significantly, and a strategy of relying on imports to meet national food needs would leave them deeply vulnerable to crisis. According to the FAO, *'The combination of high and unpredictable food import bills undoubtedly strains the ability of some LDCs to ensure food security at a national level.'*<sup>29</sup>

Other developing countries are likewise facing foreign currency pressures. For example, the 1991 and 1999 cuts in rice tariffs in Honduras led to a 30-fold increase in US rice imports between 1989 and 2002, while the domestic crop fell from 50,000 tonnes in 1997 to just 7,000 tonnes by 2000. The hard currency cost to Honduras of importing this basic food rose from \$1m in 1989 to \$32m by 2004, worsening the trade balance for a highly indebted country with an already large balance-of-payments deficit.<sup>30</sup> Similarly, Nigeria, a country with the potential to be self-sufficient in rice, instead pays \$800m in hard currency each year to import it, mainly from Thailand, India, and Viet Nam.<sup>31</sup>

One concern during the WTO's Uruguay Round negotiations was the possible negative impact of agricultural trade liberalisation on least developed and net food-importing developing countries. Poor

countries feared that their increasing dependence on food imports could harm them if, for example, world prices rose due to a cut in Northern subsidies. These concerns were recognised at the political level with the WTO's adoption of the Marrakesh Decision in 2001, which promised financial support to such countries facing rising food prices.<sup>32</sup> However, a lack of political will at the IMF and World Bank – whose mandate it is to respond to such financial problems – means that this decision has never been implemented in practice.

### **Considering consumers**

Rice plays a dual role in poor people's lives in many developing countries. It is the major food for poor consumers – and so needs to be available at low cost – but it is also the livelihood mainstay of hundreds of millions of farming families, who depend on getting a decent price for their crops. The interests of landless labourers fall between the two: they benefit both from lower prices for food that they must buy, but also from a thriving rural economy that employs them.

Much of the debate on agricultural trade liberalisation focuses on potential harm to producer groups, neglecting to recognise that consumers can expect to be better off since increased imports should provide them with cheaper food. This is certainly the assumption made in trade theory and, in many contexts, it will hold, as higher imports lead to lower prices, placing consumers among the winners from trade liberalisation. But in developing countries, the relationship between import prices and consumer prices can be ambiguous, and the distinction between consumers and producers can be largely artificial.

When a few large importers control the market, as a result of weak domestic competition, consumers may not see the benefits of lower-cost imports. In Honduras, for example, the top five importers currently control 60 per cent of the trade. When rice tariffs were lowered, the import price fell by 40 per cent between 1994 and 2000. The real consumer price, however, actually rose by 12 per cent between 1994 and 2004. The benefits of cheaper imported rice were captured by importers and millers, leaving both consumers and farmers worse off.<sup>33</sup>

In sectors other than rice, research by Consumers International has found similar instances of anti-competitive practice. In Ecuador, a cartel of sugar refiners failed to pass on lower sugar prices to consumers following import liberalisation in the early 1990s. Likewise, in Poland food prices increased dramatically in the 1990s in spite of a huge influx of cheap EU surpluses following market

opening, and at the same time as a spectacular fall in farm gate prices across the agricultural sector.<sup>34</sup>

These concerns present complex policy choices for governments: how to balance the potential benefits of cheap imported food for urban consumers against the loss of income and livelihoods to poor rural producers, while considering the interaction between the two groups. That balance will clearly vary from country to country, depending on the balance of urban and rural poverty in each, and so needs to be found on a case-by-case basis.

### **Gender impacts of agricultural trade**

*'Processing rice is the most important work I have,'* says Salamatu Fuseini, in northern Ghana. *'The money is for feeding myself and my children. If the price of rice fell, it would be disastrous for us and I do not know what I would do. I could only go home and sit, and my children would be starving.'* Salamatu, aged 48, supports her seven children on the cash she earns from parboiling local farmers' rice – steaming it before it is milled so fewer grains will break. She earns \$1.50 for a day's work.<sup>35</sup>

Like many staple foods, rice is a crop that is cultivated and processed mainly by women. Indeed, women are the backbone of traditional farming: two-thirds of the female labour force in developing countries is engaged in agricultural activities.<sup>36</sup> In sub-Saharan Africa and the Caribbean, as much as 80 per cent of basic foods are produced by women; in South and South-East Asia, 60 per cent of cultivation work and other food production is done by women.<sup>37</sup>

Though women put the longest hours of work into agricultural production, they are rarely recognised as farmers. Many have limited access to land ownership or credit and fewer opportunities for training from extension workers, and they are often restricted by cultural norms in travelling and trading. These barriers are reinforced when government policies fail to recognise women as landowners, offer credit only to those with land tenure, or train all-male extension teams to focus on the needs of cash crop farmers.

As a result, women tend to be confined to growing staple foods using low-technology methods: they are, for instance, more likely to grow rain-fed rice for the family than irrigated rice for export. They also commonly provide back-breaking, unpaid labour on family farms, especially in sowing, weeding, harvesting, and processing crops, with little control over the income that their work generates. And when it comes to marketing the crop, women are typically caught up in petty trading, buying and selling small volumes directly for retail in local markets, while men tend to predominate in wholesaling into regional and international markets.

Women's earnings from agriculture are fundamental to reducing rural poverty: the income from sales pays for basic needs in the home.<sup>38</sup> Consequently, trade liberalisation in such contexts can have very damaging impacts. In Ghana and Peru, for example, rapid agricultural trade liberalisation – due, in both countries, to World Bank structural adjustment programmes in the 1980s and 1990s – have led to rising imports of cheap rice from Thailand and the USA. These imports have not only undermined the market for producers, processors, and traders of local rice, but have also encouraged consumers to buy imported rice instead of traditional foods – yam, maize, and sorghum in Ghana, quinoa and potatoes in Peru – staple crops that are widely cultivated by women farmers.<sup>39</sup> In contrast, when trade liberalisation creates export opportunities, they are typically taken up by well-resourced and large-scale farmers, while most female farmers lack the resources to respond.

### **Environmental and social impacts of intensive agriculture**

Intensive rice production damages the environment. In Asia, where the high yield increases of the Green Revolution have now stabilised, the consequences of depending on chemical inputs are particularly clear. Excessive use of fertilisers by farmers reduces biodiversity in paddy fields and pollutes waterways. Pesticides are commonly overused and misused, poisoning local wildlife. The intensive use of water in growing rice can cause salinisation of the soil, reducing its fertility. In addition, paddy fields are the source of one-fifth of the world's methane gas emissions, which contribute significantly to global warming.<sup>40</sup>

The pressures of commercial production also encourage farmers to select seeds primarily on the basis of yields, which ultimately shrinks the gene base and leads to the loss of pest-resistant traditional varieties. At the start of the twentieth century, India, for example, was home to over 30,000 varieties of rice; today, just 10 varieties are grown in 75 per cent of the country's rice fields. In 2001, of the 250 patents granting intellectual property rights on rice, 61 per cent were owned by six multinational companies that, between them, controlled 70 per cent of the global pesticides market.<sup>41</sup>

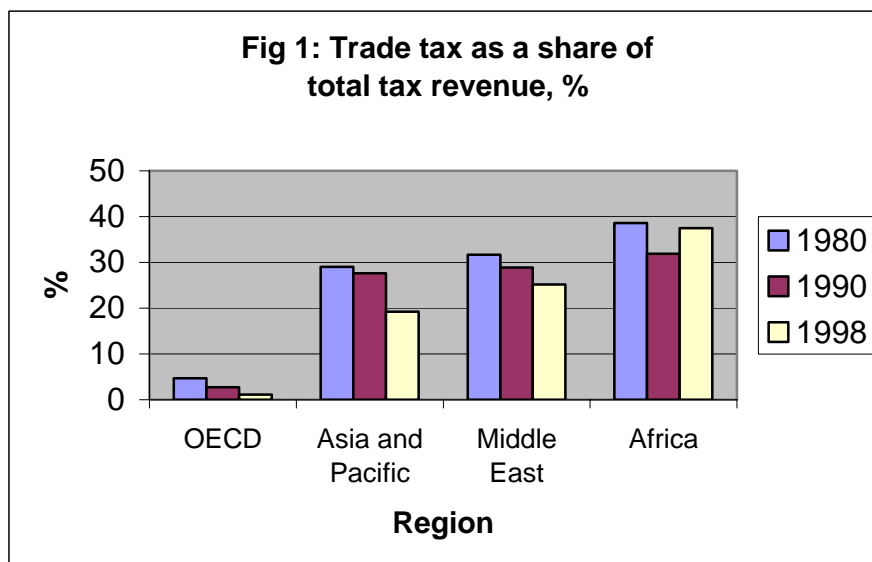
When farmers become dependent on purchased seeds, and there is high pesticide and fertiliser use, the social impact can be devastating. Research with smallholders and hired labourers growing diverse crops in Ghana, Ethiopia, Senegal, and Benin, for example, found widespread reports of migraines, coughing, and skin and eye irritations as a result of increased pesticide use.<sup>42</sup> Faced with rising costs for inputs, but falling crop prices – due to import competition or the power of buyers – farmers become deeply trapped in debt. In

Asia, Africa, and Latin America, the increasing use of crop varieties requiring costly chemical inputs has coincided with growing reports of suicides among smallholders.<sup>43</sup>

Governments' trade and agricultural policies shape these social and environmental impacts. Heavy subsidies for fertilisers can simply encourage farmers to use excessive quantities. Promoting high-yielding but chemical-dependent and patented seed varieties can trap farmers into a cycle of debt if they are faced with low prices for their crops. Promoting rice over other crops for export can mean trading away the nation's water supply. These social and environmental implications of intensive production have clear impacts on poverty reduction and, hence, present challenges to any government promoting increased output, whether for export or for the domestic market.

### Implications for government revenue

Cutting import tariffs can significantly decrease government revenue. Trade taxes, as a source of revenue, have become less important over the past 20 years in all regions except Africa (see Fig. 1). In sub-Saharan countries, such taxes have generated over 30 per cent of total revenues in the past decade.<sup>44</sup> Import tariffs remain a major source of revenue in many poor countries, which have few alternative tax options. For these countries, tariff cuts not only increase imports but can also lead to significant losses of revenue for governments.



Source: *Changing Customs: Challenges and Strategies for the Reform of Customs Administration*. IMF, 2003

In some cases, lowering tariffs on agricultural or other imports does not mean losing revenue. Senegal and Ghana, among others, have

succeeded in replacing lost tariff revenue by introducing value added tax, expanding the income tax base, and increasing the efficiency of tax collection. But these offsetting measures rely on strong institutions that are missing in many countries.<sup>45</sup> According to the IMF, low-income countries have managed to replace only one-third of the revenue they lost due to tariffs cuts between 1975 and 2000, with serious implications for their ability to provide health, education, water, and sanitation services for poor people.<sup>46</sup>

### **The consequences for South–South trade**

When advocating developing country liberalisation, rich country negotiators frequently stress the benefits of increased South–South trade. This may look like opportunism, but deserves scrutiny.

One outcome of many developing countries protecting their domestic rice sectors is the lost potential of exports for low-cost exporters such as Thailand and Viet Nam. In 2001, these two countries exported 83 and 61 per cent respectively of their traded rice to other developing countries.<sup>47</sup> For them, more open markets among importing developing countries would further boost their rice sectors and raise incomes for their rice farmers.

Trade between developing countries is booming, currently growing 11 per cent each year, twice as fast as total world trade. Around 40 per cent of developing countries' trade is now with other developing countries, up from 34 per cent in 1990, but much of this is still between just a few of the biggest countries.<sup>48</sup>

Further cutting tariffs could accelerate this rapid trade growth, though other factors – such as improved intra-regional infrastructure and growing consumer demand – could have a greater impact. In any case, the benefits that trade growth would bring must be weighed against the need for individual countries to use agricultural trade policies to shape their longer-term development prospects and create a dynamic comparative advantage, just as Viet Nam did.

Furthermore, although South–South trade is carried on between developing countries, its redistribution of opportunity between producers within those countries could increase regional poverty. Farmers and processors who can take advantage of export opportunities tend to be larger-scale and more capital-intensive, whereas those displaced by increased imports are more likely to be smallholders and women, who lack the resources to upgrade and compete. Likewise, developing countries differ greatly in their trade capacities: if trade is liberalised between large-scale producers in

more advanced developing countries and smallholders in poorly resourced countries, the overall incidence of poverty could increase.

South–South trade clearly has an important and growing role to play, and there may be collective benefits from further tariff reductions between developing countries, particularly if initiatives to create trade preferences among developing countries take off, such as the Global System of Trade Preferences re-launched at UNCTAD XI last year. But emphasis on South–South opportunities should not divert attention from the need to tackle Northern dumping and protectionism in agriculture, since wealthy industrialised country markets continue to be of crucial importance for developing country exports.

### **State intervention: part of the problem or part of the solution?**

State intervention in trade and agriculture can be both beneficial and damaging.

Imposing high import tariffs, for example, does not automatically create a strong domestic sector, if investment in infrastructure and support to producers is missing. Nigeria, for example, has the potential to be self-sufficient in rice and to become a regional exporter. Currently, the Nigerian government applies a tariff of 100 per cent on imported rice in order to protect domestic producers. However, inadequate support to the sector by the government in the 1980s and 1990s has led to inefficient production and low-quality processing and milling, leading consumers to prefer imports. In addition, significant volumes of rice are smuggled into the country through neighbouring Benin, undermining the tariff's effectiveness in protecting the market.

Some state marketing boards have likewise gained reputations for inefficiency or corruption. The objective of the Food Corporation of India (FCI), for example, is to support poor producers and consumers by providing minimum procurement prices and distributing rations to low-income households. But its procurement system has been accused of setting a price ceiling rather than a floor and, additionally, of having been captured by large-scale farmers and processors, instead of the intended beneficiaries.<sup>49</sup>

A typical reaction by international financial institutions to such mismanagement of state marketing is to dismantle it. However, this assumes that a well-structured market will emerge in its place and will ensure a better deal for poor producers. Producer-led marketing boards for diverse crops in Australia and Canada have, for example, been very successful at empowering producers in the marketplace. However, when African state marketing boards – such as in



Tanzania, Côte d'Ivoire, and Senegal— were dismantled in the 1980s, the institutional environment was too weak to induce producer groups or private sector actors to step in and take their place. As a result, rice production and infrastructure in these countries have deteriorated significantly.

The case of Indonesia's Bulog suggests that even where corruption exists, state marketing boards may still play a valuable role in promoting smallholder agriculture. Clearly, however, a non-corrupt and effective board is more likely to deliver results for small farmers. Hence, where state boards fulfil a poverty reduction role, reforms promoting transparency and accountability may be a far better option than dissolution. Creating that transparency and accountability means involving industry groups, from farmers to processors, and civil society organisations in policy-making debates.

## Retaining the power to decide

In confronting these policy dilemmas, there is no single set of agricultural and trade policies that will produce a successful development strategy. Countries differ, and governments need to have sufficient flexibility to use the kind of interventions that best suit national conditions. That policy space must be backed by increased accountability to the public to guarantee that poor people genuinely benefit from state intervention.

Multilateral trade rules and the international financial institutions must not, therefore, pre-empt governments' development strategies by shutting down options for national policy-making. In the words of Harvard economist Dani Rodrik, *'Policy-making at the international level has to create space for national development efforts that are divergent in their philosophy and content. Forcing all countries into a single, neo-liberal development model would be unwise... even if there were serious grounds to believe that the model is economically advantageous.'*<sup>50</sup>

As the following sections set out, Oxfam's concern is that the direction of WTO negotiations, backed by wider pressures to liberalise trade, is increasingly constraining the ability of developing countries to regulate trade flows in agriculture, with potentially devastating consequences for poor communities.

## 4. Pressures to cut tariffs and support

Many developing countries need far greater investment in agriculture to promote food security and rural livelihoods. But the international financial institutions (IFIs) and rich country governments have used loan conditionality, bilateral trade deals, and aid budgets to prescribe a minimal role for the state in developing country agriculture. They have simultaneously pushed poor countries to open their borders to food imports, precisely when stronger state support and trade regulation have been needed to generate rural growth.

Between 1990 and 2000, developing countries cut their average applied tariffs on agricultural imports from 30 per cent to 18 per cent.<sup>51</sup> Across all tariffs, unilateral cuts – many of them under IMF and World Bank programmes – account for 66 per cent of the total. Tariff cuts due to WTO commitments accounted for 25 per cent, while the proliferation of regional trade agreements generated a further 10 per cent.<sup>52</sup>

### Unilateral negotiations: pressure from the IMF and World Bank

Since the early 1980s, the IMF and World Bank have used formal loan conditionality, their dominance of global research on development and economic policy, and informal arm-twisting to persuade developing country governments to deregulate and liberalise their agricultural markets rapidly. This ‘shock therapy’ has been used whether or not the country’s need for a loan was trade-related, and whether or not (usually, not) rich countries were reciprocating the opening of trade.

The adjustment ideology of the international financial institutions throughout the 1980s and 1990s advocated allowing prevailing market prices to determine countries’ comparative advantage in different sectors, and hence to set their trading patterns. Protection of vulnerable producers or infant agricultural industries was seen as detrimental to an efficient allocation of resources or to long-term competitiveness. In addition, this approach asserted that unilateral liberalisation was in the interests of developing countries, even if they would subsequently face imports from heavily subsidised sources. As a result, both trade liberalisation and agricultural deregulation featured high on the list of conditions accompanying loan agreements.

Between 1980 and 1988, measures to liberalise trade made up 16 per cent of all conditions in World Bank loan agreements, and reform of agriculture – the productive sector attracting the most conditions – made up 18 per cent of conditions.<sup>53</sup> In sub-Saharan Africa, 80 per cent of loans included agricultural pricing reform as a major component of their conditionality.<sup>54</sup> Similarly, an internal IMF review in 1997 found that half of its programmes required measurable reductions in trade restrictiveness as part of the loan conditions.

The inclusion of diverse conditions in structural adjustment loan agreements was intense during the 1980s and 1990s. In the trade and agricultural sectors, significant deregulation and liberalisation had taken place by the end of the 1990s, both due to pressure from loan conditionality and to the fact that policy-makers in some developing countries had themselves become firm believers in rapid liberalisation.

As early as 1984, 20 out of 28 sub-Saharan African countries undergoing structural adjustment had lifted restrictions on market participation, and the share of production marketed by state agencies had fallen to insignificant levels in most cases.<sup>55</sup> The pattern was similar for IMF conditions: almost three-quarters of the countries covered in the 1997 review had restrictive trade regimes at the outset, but four years later the number had fallen to just one-fifth.<sup>56</sup>

The evidence from countries that bowed to the pressure to liberalise does not bode well. Forced to compete with sudden increases in imports in the face of their own under-developed agricultural sectors, rice producers have seen their livelihoods destroyed, with no safety nets or job creation schemes to replace them.

### **Haiti: open and devastated**

Haiti is the poorest country in the Western hemisphere, ranked 153 out of 177 in UNDP's Human Development Index.<sup>57</sup> However, it has experienced one of the IMF's most radical trade-liberalising agendas. As early as 1986, it was ranked by the IMF as a country with an extremely open trade regime.<sup>58</sup>

In 1995 the IMF persuaded Haiti to cut its rice import tariffs from 35 per cent to 3 per cent. Imports increased by more than 150 per cent from 1992 to 2003, with 95 per cent of them coming from the USA. In real terms, prices for rough rice in Haiti fell by 25 per cent in the second half of the 1990s, translating into lower and more stable food prices for urban consumers. But, unable to compete with imports, Haiti's 50,000 rice farmers – who had produced 135,000 tonnes of rice in 1986 – grew 25 per cent less by 1998. Today, three out of every four plates of rice eaten in Haiti come from the USA.

In a country where more than half of all children are malnourished, and more than 80 per cent of the rural population live below the poverty line, rice-growing areas now have some of the highest concentrations of malnutrition and poverty. Rice farmers have responded to the lower prices by cutting down on their household costs, such as health and education, and the women among them have taken on additional work as rural labourers. The country has been left dangerously dependent on scarce foreign exchange to buy what it could have grown at home. Rural poverty has spread from those farming families most directly affected to hit landless labourers and small-scale enterprises.<sup>59</sup>

### **Indonesia: from financial crisis to farming crisis**

When Indonesia was hit hard by the 1997 international financial crisis the country turned, for the first time, to the IMF, agreeing \$49bn of emergency support. The crisis was rooted in the banking sector and exchange rate policy, but the IMF demanded trade liberalisation as part of its package of solutions. Both agricultural and manufacturing goods were targeted, including rice, the most important crop grown by the country's 40 million farmers. The IMF's conditions included ending the monopoly of the state food agency, Bulog, on food imports and marketing, and cutting the rice import tariff to zero.

Affordable food for millions of urban consumers facing job losses and rocketing inflation was of course a priority, but – in a year of strong harvests – it came at the cost of impoverishing rural communities. Rice imports more than doubled from 1996 to 1999, reaching 4.7m tonnes. Bulog was unable to defend the floor price promised to producers and, as it fell, they were left to sell their crops at low prices. In response, in late 1999 the government stepped in to restrict the flood of imports and, in 2000, re-introduced a levy, equivalent to a 30 per cent import tariff.

In 2003, Bulog was turned into a state-owned and profit-oriented company, in part due to continuing pressure for institutional reform from the IMF. Oxfam's research in 2004 in West Java – home to many smallholder rice-farming families – found that, as a result, Bulog is no longer buying their rice. Farmers now have to sell to middlemen at prices 25–40 per cent below the promised floor price. Udin, aged 42, farms rice in Karawang District with his wife and four children. *'Bulog should have bought our rice at the floor price set by the government, but they do not do anything,'* he said. *'As a result, prices always fall because the middleman dictates them... Farmers are helpless because they need the instant cash for daily subsistence.'*<sup>60</sup>

### **Ghana: the pressure is still on**

In the mid-1970s, Ghana's rice industry was thriving, supplying all the rice needed to meet national consumer demand. At the time, rice was mainly an urban food for better-off consumers. Since then, demand for rice has grown rapidly, due to a combination of growing urban populations and women seeking food that can be prepared more quickly.

Much of that growth in demand could have been met by domestic rice producers and millers, if they had been backed by strong investment to meet the quality standards expected by consumers. Instead, thanks to conditionality from the IMF and World Bank, it has been met by a flood of imports from Thailand, Viet Nam, and the USA.

In 1983 the IMF and World Bank gave loans to Ghana on condition of deep reforms in agriculture, including the rice sector, by cutting tariffs on imports and cutting back input subsidies to farmers. The inevitable increase in imports diverted consumers away from local rice, establishing their preferences for milled white rice over the more nutritious local brown grains, and reduced any financial incentive for investors to upgrade the country's mills and improve the quality that could be achieved at home.

Pressures from the IMF continue today, not written into loan documents but behind the scenes and off the record. Since 1999, rice imports into the country have risen sharply. In response, in the 2003 national budget, Ghana's parliament approved to raise the import tariff from 20 per cent to 25 per cent.

IMF staff in Ghana, however, convinced the government to reverse its decision, on the grounds that the measures, '*amounted to protectionism... and were not justified on the grounds of harmful practices by [Ghana's] trading partners*'. Regarding the prospects for rice producers, '*the IMF does not undertake such sectoral analysis. The main concern is the overall macroeconomic outlook, which, however, does inform policies on consumption and production – hence the IMF's interest in pursuing an open trade policy for Ghana.*'<sup>61</sup> Farmers' groups, labour unions, and NGOs in the country are deeply concerned that the IMF's advice has overruled an act of parliament, and have called on the government to raise the tariffs as agreed.<sup>62</sup>

Today the IMF and World Bank assert that they no longer use trade conditionalities. However, as Ghana's experience shows, they do use their influence to stop countries raising their applied tariffs. They have never acknowledged the failure of their trade policy recipes, and currently undermine the negotiating position of developing

countries at the WTO by arguing for steep reductions in their tariff ceilings.<sup>63</sup>

## Free trade agreements bind tariffs down

A bewildering array of some 300 regional trade agreements (RTAs) binds the world's countries in what some authors have disparagingly termed a 'regulatory spaghetti', and the number is still rising fast.

Bilateral and regional trade agreements – especially between very unequal trading partners – can undermine the commitments made in multilateral negotiations at the WTO. The USA, Australia, Canada, and the EU in particular set up bilateral and regional agreements with developing country trading partners to lock in conditions that they cannot achieve at the WTO: these are known as 'WTO plus' conditions. Among them is agricultural trade liberalisation, pushing developing countries to fix their tariffs – for those countries that are party to the agreement – at levels far below those they apply in the WTO.

### **DR-CAFTA: a threat to Nicaragua and the Dominican Republic**

In May 2004 the United States and the five countries of Central America – Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua – signed the Central America Free Trade Agreement, CAFTA. When the Dominican Republic joined later, it became DR-CAFTA.

The Central American countries and the Dominican Republic aimed, through the agreement, to extend the trade benefits provided to them by the USA since 1983 under the Caribbean Basin Initiative. However, the USA sought to gain unrestricted access to Central American markets, securing terms beyond those achieved at the WTO, and so building towards an eventual Free Trade Area of the Americas.

The US vision of the agreement prevailed: beyond granting a longer phase-in period, there is no special and differential treatment for the developing country partners. Instead, the agreement forces open their markets to all US agricultural exports over a period of 18–20 years, with exceptions only for potatoes and onions in Costa Rica and corn in all countries, in return for exemption for the US sugar sector.

*'This agreement is a win for the US rice industry,'* says the US Rice Federation, the country's major lobby group. *'We now have guaranteed market access for rough and milled rice, which is something we did not have before.'*<sup>64</sup> The agreement makes no mention of reforming the subsidies and export credits that underpin US rice production and exports –

but it is crystal clear on opening up the partner countries' markets for exports. Their rice import tariffs must start to fall within 10 years, reaching zero within 18 or 20. Meanwhile, quotas for imports with zero tariffs must be opened up immediately, allowing in over 350,000 tonnes of US rough rice in the first year and growing by 2-3 per cent each year, along with almost 55,000 tonnes of US milled rice, which will increase at 5 per cent each year.

For Central America, this will be a deluge: initial duty-free quotas are already equal to 40 per cent of the region's total production. The only form of protection is a safeguard mechanism, a temporary tariff that can be raised when imports increase too fast. This, however, can only be used in response to high import volumes, not low import prices, so it only kicks in when the damage is already done. Furthermore, in 20 years' time, when tariffs are eliminated, the safeguard mechanism will be eliminated too.

*'In CAFTA we determine whether we commit suicide or whether we die of natural causes,'* said Sinfiorano Cáceres, the head of Nicaragua's federation of agricultural co-operatives. For 17,000 rice growers in Nicaragua – who support a further 19,000 jobs – the agreement indeed looks suicidal. Tariffs of 45 and 62 per cent for rough and milled rice will be cut to zero in 18 years' time. But the threat is present today: the US Department of Agriculture (USDA) predicts low export prices from the USA from 2005 to 2007, at prices below Nicaragua's own market price, even with the 45 per cent tariff in place. Add to that the immediate influx of duty-free imports, and the Nicaraguan market will face very strong US imports from the outset.

To stand any chance, domestic producers urgently need to improve their competitiveness. But Nicaragua – with twice as many rice farmers as the USA – has nothing like the same resources to pour into supporting producers. Total government spending on agriculture was \$24.5m in 2002, equal to just 2 per cent of US subsidies to the rice sector alone.<sup>65</sup>

### **The EU: creating 'partnerships'**

Europe has, since 1975, granted non-reciprocal preferential access to its markets for 79 African, Caribbean, and Pacific (ACP) countries. When the WTO ruled in 1995 that such preferences broke multilateral trade rules, however, new forms of agreement began to be discussed. The result is Economic Partnership Agreements (EPAs), which the EU aims to get in place by 2008, with an objective *'to reduce poverty by supporting the sustainable development and the gradual integration of the ACP countries into the world economy'*. A worthy aim, but one that is hardly likely to be the outcome of the EU's current proposals.

EPAs, as proposed, are reciprocal free trade agreements between the EU, the world's largest single market, and ACP countries, among them many of the poorest in the world. The prospects for damage to the agricultural sectors and fledgling industries of ACP countries and the livelihoods of farmers is cause for great concern.

In Kenya, for example, 70 per cent of the population depend on agriculture for their livelihoods, with three million smallholders producing 75 per cent of all crops. Since the World Bank's structural adjustment programmes of the 1980s and 1990s cut back state support to farmers, agricultural productivity has been in decline, with an increasing dependence on imports. The present Kenyan government aims to undo some of the damage inflicted by the badly sequenced liberalisation of the past, in part by reviving certain sectors important to food security and rural livelihoods. Yet, if the country is now forced to open its markets to EU exports, that prospect could be undermined.

In the name of 'sustainable development', EPAs threaten to increase dumped exports of EU dairy products, maize, and sugar into countries such as Kenya. To that threat, add rice.

Kenyan farmers – including 60,000 smallholders – currently grow one-third of the rice consumed nationally. In Mwea, in central Kenya, they earn an average annual income of \$3,500, a decent living by national standards. The government's ongoing rehabilitation of rice irrigation schemes in Western Kenya could create further jobs and reduce dependence on food imports.

Imports of rice into Kenya come from Asia but also from the EU: Asian and US rice is imported in rough form into the UK, where it is milled and re-exported around the world. Those re-exports to Kenya have been on the rise since 1995, peaking at 22,000 tonnes in 2000, and adding to total rice import pressures in the country. As a result, by 2002 Kenyan rice producers were receiving close to half the price that they had received in 2000.<sup>66</sup>

In recent years, the applied rice tariff has been 35 per cent. But if, under an EPA, that tariff were reduced, Kenya's market would most likely face increased rice imports via the UK's milling industry. These could also displace regional trade in rice, such as Kenya's current imports from Tanzania.

EPAs may permit ACP countries to maintain protection for an as yet undefined proportion of key products. But countries like Kenya will have to make tough choices about which products to exempt.<sup>67</sup> The government has already identified rice, along with sugar, dairy products, cereals, and beef, as products sensitive to EU imports, in addition to taking account of important agro-processing industries.<sup>68</sup>

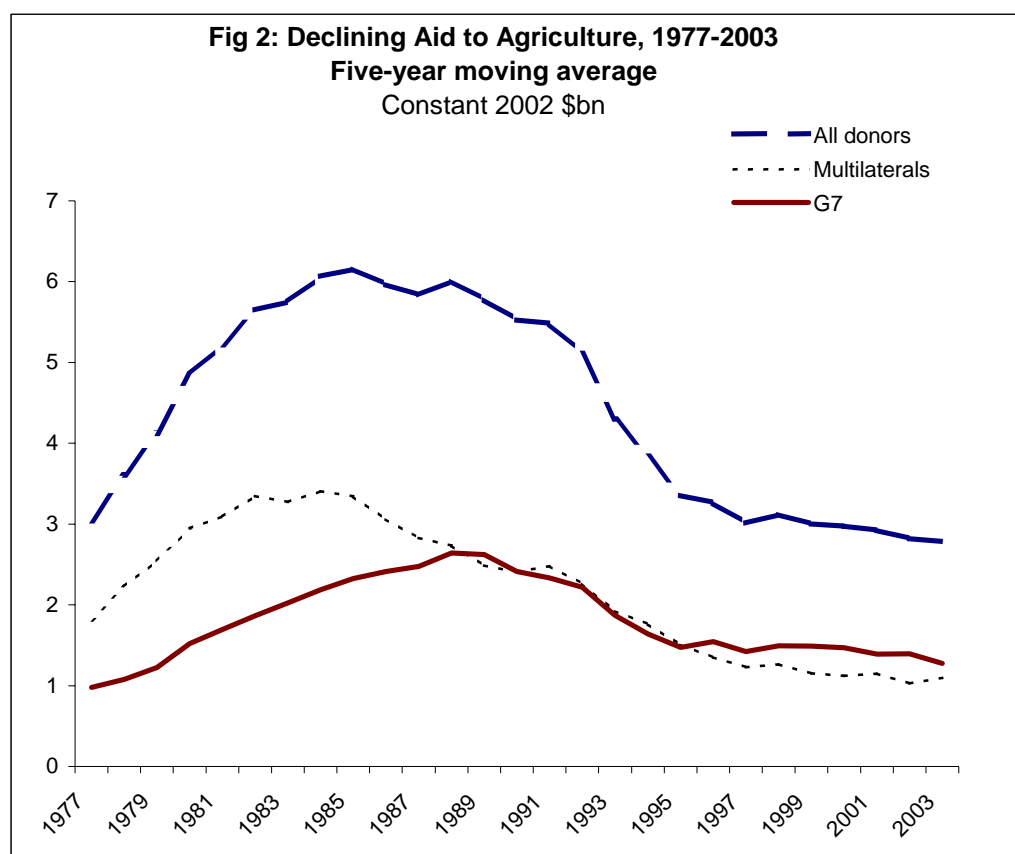


Some of these sectors would have to face the market unprotected: rice producers could well be among them.

## Falling donor assistance to agriculture

Support for rural development is out of fashion. At precisely the time when developing countries have needed to strengthen their rural markets, donors have pulled back.

Total aid budgets for agriculture fell by more than two-thirds between 1984 and 2002 (see Fig. 2). As a proportion of all aid, agriculture fell from a share of 17 per cent in the early 1980s to just 8 per cent by the end of the 1990s. According to the OECD, *'The decline is partly explained by cuts in ODA [overseas development assistance] in general but donors' sectoral policies have also changed. It is plausible that the exclusion of agriculture from the poverty reduction agenda of the 1990s explains some of the decline.'*<sup>69</sup>



Source: OECD-DAC Statistics.

More aid to agriculture is urgently needed, and it needs to be better spent. The rice sector has seen significant investment in seed research, but this has been conducted with little involvement from farmers, resulting in seeds that achieve far better results in research station trials than they do in farmers' fields. In addition, poor dissemination and training typically leave smallholders and women farmers without access to those seeds.

There is also a need for greater coherence between aid and trade policies. No single country should be asked to undergo liberalisation without financial and technical assistance to address supply-side constraints and create safety nets.

The combined impacts of IMF and World Bank market opening pressures, free trade agreements with far richer partners, and a dramatic decline in aid are clear. They have turned agriculture in many poor countries into a sector that is low on investment but high in vulnerability to imports. This is undermining the prospects for rural development.

## 5. High on hypocrisy: US rice dumping and agribusiness beneficiaries

Trade theory has long been held up as the rationale for pushing developing countries into rapid market liberalisation. But the real source of pressure behind that agenda is both less abstract and more self-serving. Big players in the US rice industry, and in the global rice trade, lobby hard to open up developing country markets, in order to secure larger and more lucrative export markets.

### US rice dumping

US rough rice production has quadrupled over the past four decades, and is projected to hit a record high of 10.5m tonnes for crop year 2004-05.<sup>70</sup> Production far outstrips US consumption – around 6m tonnes in 2002 – and so the rice industry depends on creating an ever-expanding export market.<sup>71</sup> The USDA states the strategy clearly: *'Domestic demand alone is no longer sufficient to absorb what American farmers can produce. Demand by well-fed Americans grows slowly, with population growth. The promise of new, much faster-growing markets lies overseas... As a result, the United States must consider its farm policy in an international setting, helping farmers stay competitive while pressing for unfettered access to global markets.'*<sup>72</sup>

Around 75 per cent of rice grown in the US is long-grain rice, the same type that is grown and consumed in countries throughout South and East Asia, Africa, and Latin America. Backed by heavy subsidies, it is dumped into many of these countries, which are seeking to promote their own viable domestic sectors.

Rice is grown on around 8,000 farms in the US, with the state of Arkansas producing almost half of the nation's crop. The biggest 332 farms in Arkansas – each over 400 hectares in size – produce more rice than all the farmers of Ghana, Guinea, Guinea-Bissau, Niger, and Senegal combined.<sup>73</sup>

US rice exports have grown by 60 per cent over the past 20 years, reaching 3.8m tonnes in 2003. The USA is currently the third biggest rice exporter in the world, just behind Viet Nam. It has 14 per cent of the international market, but it exports almost half of its total production, a far higher proportion than other major exporters.<sup>74</sup>

Being one of the world's major rice exporters is an ironic achievement for the USA. In 1999-2000 – the most recent years for which comparable data are available – the average costs of growing one

tonne of rough rice in Thailand and Viet Nam were \$70 and \$79 respectively. In the US it cost \$188, two-and-a-half times as much.<sup>75</sup>

In 2003, the nation's crop of 9m tonnes of rough rice cost farmers \$1.8bn to produce, but they received only \$1.5bn from rice millers in payment for it – in other words, a farm gate price of \$140 per tonne for a crop costing \$191 per tonne to produce. It is only possible to sustain this absurd situation thanks to government subsidies to the rice sector, which totalled \$1.3bn in 2003.<sup>76</sup> Not surprisingly, the most recent USDA survey, in 2000, found that 57 per cent of US rice farms would not even be able to cover their costs, were it not for the massive government subsidies they receive.<sup>77</sup>

US rice farmers are eligible for an array of subsidies aimed to ensure that they receive a target payment of \$231.50 per tonne, within annual payment limits. Payments under two of the subsidy programmes – counter-cyclical payments and marketing loans – are designed to offset changes in world market prices, and so encourage US farmers to keep production high even when world prices hit rock bottom. *'Without the marketing loan, US farmers would not be competitive in world trade,'* said Richard Bell, former CEO of Riceland Foods, the biggest rice mill in the country.<sup>78</sup> Annual payment limits per farmer are \$180,000 but, thanks to the 'three entity rule', farmers can claim for one farm and a 50 per cent stake in two other farms, raising the limit to \$360,000.

However, the subsidy bonanza is even more generous thanks to unrestricted trading in commodity certificates – the source of millions of extra dollars for large farmers and co-operatives. Producers can pledge their crops to the government in return for a loan of \$6.50 per hundredweight when the world price is low, but can then purchase commodity certificates in order to effectively buy back that rice at an 'average world price' calculated by USDA, which is typically far below the original loan rate. They can then pocket the difference, without it being counted against their payment limits. The resulting payouts can be huge. Between 2001 and 2003, the USDA sold \$1.4bn worth of rice commodity certificates to large-scale producers, who repaid them just \$701m, pocketing the difference of \$711m, without it counting towards their payment limits.

In addition to providing support directly to rice growers, the USA uses export credit guarantees and food aid to boost exports.

**Export credits:** These guarantees underwrite credit offered by US banks to overseas importers of US crops. Export credits are essentially a (not very well) hidden export subsidy because they cover the cost of defaulted loans, one of the major risks facing

agricultural exporters. Total export credits for rice for 2003 and 2004 exceeded \$184m.<sup>79</sup>

**Food aid:** The US government spent \$52m on exporting rice as food aid in 2003, which constituted 11 per cent of the country's rice exports.<sup>80</sup> The main food aid programme is Public Law 480, known as 'Food for Peace'. Among the biggest recipients are food-insecure countries such as North Korea, Mozambique, and Congo, to which such shipments can be of high value. However, other major recipients are important export markets for commercial US rice, including Indonesia, the Philippines, Uzbekistan, Ukraine, and Nicaragua. Pre-empting any citizen who might question this use of taxpayers' money, the USDA explains, '*Of the 50 largest customers for US agricultural goods, 43 – including Egypt, Indonesia, Korea, Taiwan, and Thailand – formerly received food assistance. In short, aid leads to trade, from which Americans stand to benefit directly.*'<sup>81</sup>

### Impacts of US exports on developing countries

Between 2000 and 2003 it cost, on average, \$415 to grow and mill one tonne of white rice in the US.<sup>82</sup> However, that rice was exported around the world for just \$274 per tonne, dumped on developing country markets at a price 34 per cent below its true cost (see Table 3 and Annex 1). Such dumping reduces prices both for developing country exporters and for smallholders in importing countries, in addition to deepening and prolonging depressions in world market prices. Taking food aid and export credits into account would raise the margin of dumping higher still.

**Table 3: US rice exports dumped into developing countries, 2003**

<i>Country</i>	<i>Imports from US, '000 tonnes</i>
Cuba	88
El Salvador	97
Ghana	111
Guatemala	59
Haiti	340
Honduras	123
Indonesia	73
Côte d'Ivoire	60
Jamaica	65
Nicaragua	136

*Source: United States Department of Agriculture*

**Indonesia: farm prices undermined by food aid.** Indonesia is a major destination for US food-aid rice, receiving 30 per cent of the total in 2002. Wagino, aged 42, who farms rice in Central Java, has felt the impact. *'Last year I sold my rice at Rp 2,600 (\$0.25) per kg. But this year the price fell due to a flood of rice from the social safety net programme onto the market. People said that the rice came from the US,'* he said. The food-aid rice is sold to dealers appointed by the local authority; they then sell it on to traders who mix it with preferred local varieties and retail it for Rp 1,500 (\$0.15) per kg. *'It harms the local rice price here,'* added Wagino. *'Before, our farm could support the family's food needs and the next farming cycle. Now it cannot.'*<sup>83</sup>

**Guyana: exports lose out to US food aid.** Guyana's rice sector once created jobs for 150,000 people, many of them in poor communities in rice-growing areas on the northern coastal plain. The sector depends on export markets, exporting up to 75 per cent of its production. Guyanese rice producers were recently hit hard by heavy flooding, causing extensive damage to this year's harvest. But the country has also been doubly hit in its trading prospects, first losing markets in Europe as the EU reforms its ACP preference scheme and, second, as US food aid to Jamaica undermines its regional market.

Over the past 20 years, US rice exports to the Caribbean region have trebled, reaching 263,000 tonnes in 2001.<sup>84</sup> In order to increase market share, the US government started to offer rice – but no other foodstuff – to the Jamaican government as food aid, on concessional terms under the Food for Peace programme. In return, the Jamaican government unilaterally waived CARICOM's external tariff of 25 per cent, allowing the rice in duty-free and severely undercutting the regional market for Guyana.

*'We are poverty-stricken – there's no employment, more marriage break-ups, we are taking children out of school because we can't afford books,'* says rice producer Ishmael Alladin. Low prices in the late 1990s pushed him into debt, and by 2001 he had to pull one of his children out of university because he could not afford the cost. *'We are now living on hope and expectations – watching, waiting, holding the land in case anything may change for our children,'* he says.<sup>85</sup>

**Ghana: US promotions weaken domestic market.** When US rice arrives at the port in Accra, it arrives with a fanfare. USA Rice – the industry's biggest lobby group – sees Ghana as an important market for its exports: 111,000 tonnes of US rice went there in 2003.

According to USA Rice, Ghanaian consumers *'are familiar with the high-quality features of US rice, and have developed a strong preference for US origin. However there is fierce competition in the market from other [Asian] origins. In order to keep consumer demand high, an integrated marketing campaign has been developed by USA Rice.'*

From May to July 2004, the campaign literally sang the praises of US rice through five local radio stations, three major TV channels, and two national newspapers, topped off with give-away car stickers and cooking aprons. Millers and traders of local Ghanaian rice have nothing like these resources to build pride in local products. But if more of Ghana's shoppers are enticed to switch to US rice, the local price could well fall further.

Asakture Abene, aged 42, has been growing rice for 10 years on a half-hectare plot in northern Ghana. Like other rice farmers in her village, she wants to improve the quality of her crop, and the quantity that she can harvest from her plot. But she is forced to sell to the few traders who come to the village and offer a low, take-it-or-leave-it price. *'If the US is subsidising its rice farmers,' she says, 'then that means I am suffering for nothing because my rice is not being bought. I have to grow rice because I am here. I have no choice but to be in this farming – it's my food and drink, my livelihood.'*<sup>86</sup>

**Domino impacts from Asia.** From 1997 to 1999, the world market price for rice fell to a 20-year low as bumper harvests coincided with weak demand in Asia after the financial crisis.

If the world's rice farmers were exposed equally to the international market, US farmers – far less competitive than other major exporters – would probably have absorbed the adjustment by cutting back their production and exports. However, the US subsidy system, designed to kick in when world market prices are low, enabled them to keep production high, regardless of prices. As a result, the USA deflected the shock of low prices back to the world market, and forced the adjustment onto other exporting countries.

The pressure fell on Thailand, Viet Nam, and India. Faced with low export demand and low world prices, they accumulated massive stocks as they tried to maintain floor prices for their farmers. By 2002, the Thai government had 4.2m tonnes of rice stocks; the Food Corporation of India had 25m tonnes. In response, all three countries started to subsidise rice exports, either selling public stocks at very low prices or offering subsidised credit to exporters.<sup>87</sup> Much of this rice has ended up in West Africa, further depressing prices for local producers there, who are forced to bear a double whammy: dumped rice direct from the US, plus dumped rice from Asia as a result of it.

## Agribusiness: liberalisation's dedicated lobbyists

The international rice industry brings together a powerful constellation of lobbyists whose common interest lies in opening up developing country markets. Little wonder, for they are the players most set to gain from a bigger international rice trade. Using their close links with governments and academia, they plough millions of dollars into persuading policy-makers and the public that rice trade liberalisation – and agricultural trade liberalisation more broadly – is clearly in the best interest of developing countries.

### US producers and millers

In the US, rice subsidies – such as direct payments, marketing loans, and counter-cyclical payments – are paid only to producers. That is why three major rice co-operatives – Riceland Foods, Farmers Rice Cooperative and Producers' Rice Mill – are the single biggest recipients of all federal farm subsidies, on behalf of their member farmers. However, the rice milling operations attached to these co-operatives, and other rice mills like them, are the real winners from the government's largesse. Thanks to subsidies to farmers, the mills can buy rough rice at prices far below its true cost of production. With the added support of export credit programmes and food aid contracts, they can then sell cheaply into export markets (see Box 2).

#### **Box 2: Reaping the harvest: Riceland Foods**

Riceland Foods in Stuttgart, Arkansas started out in 1921 as a co-operative to support local farmers facing depressed prices after World War I. It is still registered as a co-operative today and has 9,000 members across five states, producing mainly rice, plus wheat and soybeans.<sup>88</sup>

However, Riceland now has the hallmarks of a major agribusiness corporation. Last year, it sold over 1m tonnes of white rice – almost three times the entire production of all five countries in Central America.<sup>89</sup> The co-operative was ranked as a Fortune 500 company during the 1990s; it owns the biggest rice mill in the world; and it exports one in every eight sacks of US rice, selling into 75 countries worldwide.<sup>90</sup>

Riceland's CEO for 23 years, Richard Bell, retired last year, but he has left a legacy. Having served as Assistant Secretary for Agriculture under President Ford, and as President of the Commodity Credit Corporation, Bell knew how to use the subsidy system to maximise government payments to the co-operative and its members. Year after year, Riceland has been the single biggest recipient of all US farm subsidies, receiving a total of \$490m for rice alone between 1995 and 2003, with \$437m of that coming from unlimited payments for commodity certificates.<sup>91</sup>

Those subsidies keep Riceland's member farmers in business. *'Most farmers, if they told you they're making a profit [without government aid],*



*they'd be lying,*' said David Feilke in 2000, a member farmer and formerly on Riceland's board of directors. *'Rice is among the most expensive commodities.'*<sup>92</sup> Since 2000, total annual payments to the rice sector have, on average, been 50 per cent higher than during 1995–1999.<sup>93</sup>

The export market is essential to Riceland's marketing strategy: exports account for over 25 per cent of sales and they reach Africa, Asia, Europe, the Middle East, and the Americas. Mexico is the company's top export destination — accounting for over 700,000 tonnes annually — thanks to the 1992 free trade agreement. *'NAFTA has been very kind to us,'* said Bell in 2000. Now the opportunity to further expand exports lies in Central America. *'With 30 million people, there is great potential there,'* Bell added.<sup>94</sup> In 2002, Riceland became a significant shareholder in Agricornp, the biggest rice importer and miller in Nicaragua.<sup>95</sup> And it is no surprise that the co-operative was also involved in the recent negotiations on the Central American free trade agreement, DR-CAFTA.

Riceland works hard to open up new markets. Bell used his Capitol Hill contacts for many years to push for an end to sanctions against Iraq and Cuba. His efforts ultimately paid off: Riceland began exporting to Cuba in 2000 and, thanks in part to rapidly growing exports there, by 2003 its total sales had risen by \$123m.<sup>96</sup> And when tenders for US rice shipments to Iraq began to be discussed in late 2004, Riceland was at the forefront of negotiations.<sup>97</sup>

The two major US rice industry associations pushing for greater export markets are the USA Rice Federation and the US Rice Producers' Association.

The USA Rice Federation — known as USA Rice — focuses on *'conducting activities to influence government programs, developing and initiating programs to increase worldwide demand for US rice... and to increase industry profitability for all industry segments'*.<sup>98</sup> Members include producers, almost all the millers in the country, and other rice industry associates. The Rice Council is USA Rice's lobby organisation and its priorities are loud and clear: heavy cuts now and eventual elimination of developing countries' rice import tariffs; equal tariffs in those countries for rough and milled rice; tighter disciplines on state trading enterprises; and — to cap it all — no cuts in US rice subsidies without *'meaningful and substantial'* access to overseas markets.<sup>99</sup>

The US Rice Producers' Association was set up in 1997 to represent solely the interests of rice producers, and today its members include Cargill, the world's biggest agribusiness. Its mission is to develop markets, particularly for exports. According to Penn Owen, Mississippi rice producer and chairman of its international programme, the aim of the association is *'to help exports in any way we can — milled, brown, rough, or whatever the customer wants.'*<sup>100</sup>

Between 2003 and 2004, these two rice industry organisations received \$6.8m in funds from the US government to promote their rice in emerging export markets.<sup>101</sup> But their lobby power has secured far more through influencing US trade negotiations, as the next section explains.

### **Global rice traders**

The global rice trade is dominated by around ten trading companies. Since margins per tonne of rice traded are low, these companies depend on shifting high volumes quickly, hence their goal of increasingly open international markets. By using satellite imaging to forecast global supply, they have a strong information advantage over individual countries, let alone farmers, seeking the best price for their crops. Among these trading companies are major players in global grain markets which have influential positions in shaping US policy.

- **Archer Daniels Midland (ADM)**, based in the USA, is the world's second largest grain trader, after Cargill, and is worth \$16bn. ADM Rice both mills and exports rice from the USA, and is among those traders winning food aid contracts to countries such as Guatemala, Afghanistan, Kyrgyzstan, Ethiopia, and Cameroon.<sup>102</sup> Vice President John Reed, Jr. sits on the US Agricultural Technical Advisory Committee (ATAC) for Grains, Feed and Oilseeds, which advises the US government on trade policies and negotiations.
- **Louis Dreyfus**, based in France, is one of the largest traders of grains and oilseeds in the world, and one of the top ten rice traders. The company sources rice in the US and Asia and exports it to the Middle East, Africa, and Eastern Europe. The company's Vice President, David Lyons, likewise sits on the US government's grains, feed and oilseeds advisory committee.

### **Agribusiness at work behind the scenes**

Together, these agribusiness interests have a plethora of ways to influence the US government and others to act in their interests.

**A hand in negotiations:** Agribusiness is at the heart of creating US trade policy, thanks to the Agricultural Technical Advisory Committees for Trade (ATACs). Members appointed in 2003 were selected, according to former US Trade Representative Robert Zoellick, to *'coincide with the continuation of the Bush Administration's aggressive push to open foreign markets to US agricultural products.... Coordinating with our agricultural community will continue to be important as the tempo of negotiations for global, regional, and bilateral trade agreements intensifies.'*<sup>103</sup>

The ATAC for trade in grains, feed and oilseeds has strong rice interests involved: ADM, Louis Dreyfus, USA Rice, and the US Rice Producers' Association are all represented. In advisory opinions on DR-CAFTA, this ATAC clearly expressed its preference for far shorter phase-in periods for free trade in rice, arguing that, '*the 18-year phase-in... is excessive and sets a poor precedent for future free trade agreements.*'<sup>104</sup>

**The revolving door:** In the US, as in many countries, there is a fast-revolving door between top posts in agro-industry and government, as the career path of Riceland's Richard Bell shows (see Box 2). Similarly, former Cargill executive Daniel Amstutz was selected by the US government to lead on agricultural 'reconstruction' in Iraq. Within a year, thanks in part to meetings between Iraqi trade officials and representatives of USA Rice and the US Rice Producers' Association, a contract was finalised to resume rice exports to Iraq, the industry's top destination prior to the 1989 trade embargo.

**Political contributions:** Agribusiness sits in the top ten of industry donors to candidates and political parties in US elections, contributing over \$340m to campaign funds since 1990. Its collective contributions have risen from \$21m in 1989-90 to \$43m in the run-up to the 2004 US elections. And among the biggest donors today are the major players in the rice industry. In the 2004 elections, Farmers' Rice Cooperative and Riceland Foods – two of the three biggest recipients of US farm subsidies – were among the top 20 agribusiness donors.<sup>105</sup> ADM was, likewise, among the top 30 of all soft money contributors in the 2002 US election cycle, with \$1.8m.<sup>106</sup>

**Pressure from within: the millers' lobby:** The rice milling industries in many developing countries put pressure on their governments to cut import tariffs on rough rice. In Honduras in 1999, for example, the dominant importing and milling companies used their power – as sole purchasers of local rough rice – to force the government to cut the tariff on US rough rice to 1 per cent. '*Prices sank with the rice imports, which arrived just at harvest time,*' says Eduardo Belítez, one of the country's few remaining rice farmers. '*The millers said that for them it wasn't profitable to buy domestic rice, but to import.*' By reducing their input costs, but maintaining selling prices, the millers simply increased their margins. If the US rice industry continues to establish interests in Central American milling, it will be US-owned agribusiness benefiting from this trade at both ends of the deal.<sup>107</sup>

## 6. Upcoming at the WTO

For 20 years, rich countries have been pushing open the door to developing countries' agricultural markets, creating new export destinations for the dumped surpluses of their agro-industries. Now rich countries are aiming to use the binding rules of the WTO to kick that door down altogether, so it can never be shut again. If they succeed, they could block many developing countries from using the trade policy options they need to lift their farmers out of poverty.

### Negotiating agriculture

Agriculture is one of the central topics up for re-negotiation in the current Doha Round of multilateral trade talks. The WTO's 1995 Agreement on Agriculture (AoA), concluded as part of the Uruguay Round, laid down liberalisation commitments under three 'pillars'. These pillars will also provide the basis of any new agreement:

- **market access**, covering quotas and tariff ceilings for imports
- **domestic support**, including subsidies and other programmes, including those that raise or guarantee farm-gate prices and farmers' incomes
- **export competition**, covering export subsidies; export credits, guarantees and insurance; food aid; exporting state trading enterprises; and export restrictions and taxes.

Each of the three pillars includes provisions for the 'special and differential treatment' (SDT) of developing countries, such as exemptions from some commitments, lower reduction targets, and more time to implement them. Least developed countries, for example, are exempted from tariff reductions.

Despite the promise of SDT, power dynamics at the WTO have resulted in seriously imbalanced rules that strongly favour rich countries and the policy tools they rely on. Developed countries have been allowed to maintain large subsidies and use other instruments – such as special safeguards – to protect their producers, but these instruments are neither adapted for, nor available to, most developing countries. Worse, rich countries have failed to meet their commitments to reduce subsidies, as shown by the recent WTO disputes regarding EU sugar and US cotton subsidies.

Meanwhile, SDT has become an empty gesture, since developing countries have reduced their tariffs more than developed countries in any case, through structural adjustment and unequal trade

agreements. No wonder, under these circumstances, that the developing country share of agricultural exports has remained stagnant at around 36 per cent during the past two decades.<sup>108</sup>

### **The rise of developing country negotiating blocs**

One positive development in the current round of negotiations has been the rise of a more powerful negotiating voice among developing countries.

At the ministerial meeting in Cancún in September 2003, the fears of developing countries over continued US and EU dominance of the talks led to the formation of the G20, a group of developing countries led by Brazil, which was set up to co-ordinate pressure on the EU and USA to curb their export and domestic subsidies and thereby end dumping.<sup>109</sup> A further group set up at Cancún, the G33, brought together those countries particularly concerned about the prospects of premature liberalisation at home.<sup>110</sup>

Although the Cancún ministerial collapsed in acrimony, the G20 and G33 held together, kept up the pressure, and substantially altered the political map of the WTO in favour of developing country interests. Both groups saw their concerns partially reflected in the 'July Framework' of 2004 that took the Doha Round forward and set the scene for further talks in the run-up to the Hong Kong ministerial in December 2005.

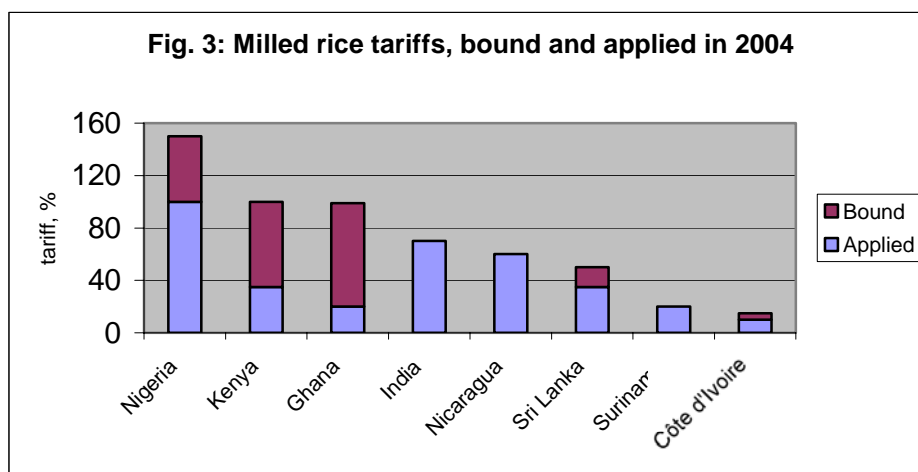
The agreement recognised that: *'Agriculture is of critical importance to the economic development of developing country Members and they must be able to pursue agriculture policies that are supportive of their development goals, poverty reduction strategies, food security, and livelihood concerns.'*<sup>111</sup> The issue at stake is how this will be translated into real policy options for developing countries.

### **Market access: cutting tariffs**

The WTO's market access negotiations focus on lowering 'bound' tariffs. These are the ceiling level to which countries can raise their applied tariffs, those actually enforced at the border by customs.

Under the AoA, non-tariff barriers, such as quotas and bans, were to be converted into tariffs. Bound tariff levels then had to be reduced — on an average across all crops — by 36 per cent for developed countries by 2000, and 24 per cent for developing countries by 2004. Some countries were additionally required to open quotas for importing a minimum of produce at very low tariff rates. Any imports outside of these so-called 'tariff-rate quotas' face the usual applied tariff.

In many developing countries, current applied tariffs for rice are far below the ceiling of the WTO-permitted bound tariffs. But for other countries, the applied tariff is already at or near the limit, as shown for selected countries below (see Fig. 3).



Source: MACMAP

Developing countries need to be able to set their applied tariffs high enough to deal with dumping and protect the incomes of small farmers. But they also need additional space – known at the WTO as ‘water’ – between their applied tariffs and the bound ceiling level in order to:

- **offset price volatility.** World market prices for rice and other commodities are volatile. Between 1985 and 2002, the average world market price of rice was \$260, but it fluctuated between \$310 and \$185.<sup>112</sup> Such a drop in the cost of imports can trigger sudden import surges and depress the local market price. Developing countries need to be able to raise their applied tariffs in response. According to an FAO analysis of 18 basic foods, bound tariffs would need to be set at around 40–60 per cent in order to cope with world market fluctuations in their prices, with an additional 10–15 per cent to ensure protection for basic foods.<sup>113</sup>
- **preserve future policy options.** Crops that appear unthreatened by imports today could well need tariff protection in the future, but the cost of raising bound tariffs is high. Prior to the Uruguay Round, India had bound its tariffs for rice and several other crops at zero. Increasing import pressures on domestic producers led the government, in 1996, to renegotiate these bindings to levels between 50 and 80 per cent. The negotiations – held separately with the US, the EU, and Australia – took three years and

required substantial compensation for each.<sup>114</sup> Similarly, it took five years, from 1995 to 2000, for the Dominican Republic to renegotiate upwards its bound tariffs for rice and several other basic foods. In return, the USA demanded very low bound tariffs on a range of other foods, with no right to protect against sudden increases in imports of them.<sup>115</sup>

- **negotiate future rounds.** Rich countries have still not made meaningful cuts in their heavy subsidies to agriculture and, judging by limited progress in the current negotiations, are unlikely to do so in the Doha Round. Dumping goes on. In return for eliminating them in future rounds, rich countries are likely to demand further tariff cuts from developing countries in return. Hence the need for developing countries to retain tariff negotiating space in the current round.

### **Bringing down the ceiling: putting farmers at risk**

The 2004 'July Framework' was vague on the exact amount by which developing countries would have to cut their tariffs, or whether they would have to expand their tariff-rate quotas. Major agro-exporters pushed for heavy cuts in tariffs, with the USA making it clear that it expected '*substantial improvement of market access from developed countries as well as developing countries*'.<sup>116</sup> Developing countries, in contrast, argued for far lower cuts, given their need to promote agriculture in the face of continued rich country dumping. The Framework aims to bridge the differences between members by committing them to negotiate a '*tiered formula that takes into account their different tariff structures*'.

To shed light on what such reductions might mean in practice, and to see what dangers, if any, are posed to rice farmers by the WTO negotiations, Oxfam has carried out an analysis using the tiered formula proposed by Stuart Harbinson, the former chair of the Agriculture Committee, in March 2003.<sup>117</sup> A formula more stringent than this – pushed in particular by the USA and Australia – is, however, still a very real possibility.

Oxfam calculated the minimum cuts to bound tariffs for rice that would be required by (non-LDC) developing country members of the WTO under the Harbinson formula, and compared these with the tariffs they have recently applied. The findings indicate that, if developing countries are *not* permitted to exempt key crops from tariff reductions at the WTO, governments in 13 rice-growing developing countries – including India, China, Nicaragua and Egypt – would automatically be forced to cut their applied rice tariffs, putting their rice farmers at risk (see Table 4). These 13 countries

produce over half of the world's rice and are home to a total of 1.5bn people who depend on agriculture for their livelihoods.

**Table 4: Rice sectors at risk after Harbinson formula tariff cut**

<b>Country</b>	<b>Recent applied tariff</b>	<b>Current bound tariff</b>	<b>Bound tariff after minimum Harbinson cut</b>	<b>Gap between recent applied tariff and new bound tariff</b>
Panama	90	90	68	- 22
India	70	70	53	-17
China	65	65	49	- 16
Nicaragua	60	60	48	- 12
Turkey	45	45	36	- 9
Honduras	45	45	36	- 9
Fiji	40	40	32	- 8
El Salvador	40	40	32	-8
Costa Rica	35	35	28	- 7
Suriname	20	20	17	- 3
Egypt	20	20	17	-3
Morocco	140	195	137	-3
Mexico	9	9	8	-1

Source: MACMAP

All tariffs are given for milled rice except Mexico, which is rough rice.

Among those countries at risk:

- India is home to around 80m rice farmers and farm-labourers. Two out of three of the country's farms are less than one hectare in size, making rice a smallholders' crop. Current rice imports are small but the applied tariff is already at its ceiling level. Cutting the tariff could increase imports and potentially undermine prices for these farmers.
- China is home to over 100m rice farmers, most of whom depend on the crop for their livelihoods. Rice is also the main staple food and so is central to national food security. If the rice tariff were cut and if the tariff rate quota – currently 5m tonnes with a tariff of 1 per cent – were expanded, the potential increase in low-cost



imports could jeopardise the livelihoods of the country's rice farmers.

- Sri Lanka has around 1.8m families producing rice, 70 per cent of them on plots smaller than one hectare, and deriving 50 per cent of their household income from it.<sup>118</sup> Current bound and applied tariffs are 50 per cent and 35 per cent respectively. Harbinson's cut would bring the bound tariff down to 40 per cent, leaving room for manoeuvre of just 5 per cent on the applied tariff: not enough to cope with world price volatility alone.

Other countries mentioned in this report – such as Ghana – do not appear in this table because their applied tariffs have already been set at low levels, often under pressure from the IMF or the domestic agribusiness lobby. But cuts to their bound rice tariffs would still limit these countries' future policy options and, likewise, their room for negotiation in future WTO rounds.

Apart from rice, tariff cuts under this formula would threaten many developing countries with increased imports of other basic agricultural products. According to Oxfam's calculations for seven such products, between 6 and 18 developing country members of the WTO would automatically be forced to cut their applied tariffs on each of them as a result of bound tariff reductions, as shown in Table 5.

**Table 5: Developing countries that would be forced to cut recent applied tariffs under the Harbinson formula**

<i>Product</i>	<i>No. of countries</i>	<i>Countries included</i>
Poultry	18	Côte d'Ivoire, Honduras, Morocco
Sugar	14	Kenya, the Philippines, Congo
Milk powder	13	Ghana, Honduras, India
Soya products	13	Cote d'Ivoire, China and Turkey
Groundnut products	13	Costa Rica, Thailand, Turkey
Maize	7	India, Mexico, Congo
Wheat	6	India, Mexico, Tunisia

Source: MACMAP

## Concerns over surging imports

Countries that agreed to turn all their quotas into tariffs in 1995 were given a safety net arrangement, known as the Special Safeguard (SSG), which allowed them to raise temporary import duties in response to damage caused to producers by a sudden surge in imports or a fall in world prices. However, of all the countries that switched to tariffs that year, only 21 were developing countries – and between 1995 and 2004, only six of them made use of the SSG; Costa Rica, for example, used the mechanism to raise rice import prices for three months in 1999.<sup>119</sup> Overall, developing countries made use of the SSG in just 5 per cent of the cases for which they could have used it, in large part because the criteria needed to trigger its use are too strict and cumbersome.<sup>120</sup>

At first glance, some developing countries appear not to need such a mechanism: the gap between their bound and applied tariff levels looks big enough to allow them to raise tariffs when needed. However, for those countries dependent on IMF/World Bank financing, such flexibility often exists more in theory than in practice, as Ghana's rice producers found out in 2003 when the IMF blocked the government's plans to raise the rice tariff (see Section 4). Moreover, the UN Food and Agriculture Organisation (FAO) found that the gap between bound and applied levels was often less for basic foods, leading to reduced room for manoeuvre on precisely those crops grown by the poorest farmers.<sup>121</sup>

This lack of flexibility matters, because experience has shown that liberalisation often leads to a surge in food imports that can be devastating for poor farmers. As the FAO confirmed in its study of 16 countries following implementation of the Agreement on Agriculture: *'Food imports were reported to be rising rapidly in most case studies.... While trade liberalisation had led to an almost instantaneous surge in food imports, these countries were not able to raise their exports. Significant supply-side constraints prevented them from taking advantage of increased global market access.'*<sup>122</sup>

Follow-up work by the FAO in 2000-02 – covering 23 countries – confirmed this rising trend of import surges:<sup>123</sup> In Guyana, imports of food and live animals almost doubled between 1994 and 1998 and concerns have been raised regarding the replacement of domestic production by imports. The two sectors in the country that appear most vulnerable to import surges are poultry and dairy products. Trade liberalisation and cheap imports – for example, of chicken parts from the USA – have been partly responsible for the decline in local production. However, the FAO found that other sectors there have also been affected: *'Fruit juices from as far [away] as France and*

*Thailand have displaced domestic production. Producers and traders of beans feel that increasing imports have led to a decline in the production of the minca peas, developed and spread throughout Guyana in the 1980s. The same applies to local cabbage and carrot.'*

Liberalisation measures undertaken in Senegal – together with a 50 per cent devaluation of the CFA franc in 1994 – have, likewise, not improved the competitiveness of the agricultural sector. Tomato paste imports increased 15-fold during the 1990s, taking markets away from local tomato growers. According to the FAO, *'The post-1994 liberalisation of tomato paste imports is blamed for the dramatic rise in imports and the negative impact on production.'*

In Senegal's poultry sector, too, Oxfam's research found that frozen, pre-cut poultry imports have boomed, in this case coming mostly from the EU. In just two years, from 2001 to 2003, imports trebled and local production fell by 24 per cent. Maïmouna Sow, a poultry farmer in Mbao, Senegal, has seen the impact. *'My problems really started in 1999 with bird diseases that decimated my production. But then the problems continued with the arrival of frozen chicken leg imports. You saw them everywhere, in all the markets,'* she says. *'Here, poultry farming is still the main activity. However, a good number of producers have shut down their businesses and sold their buildings.'*<sup>124</sup>

### **Proposals for special and differential treatment**

In response to these threats of forced tariff cuts and damaging surges in imports, developing countries – led by the G33 – have put forward two proposals for special and differential treatment. These were initially dismissed by rich countries but ultimately included, albeit with vague language, in the 'July Framework'.

**Special Products:** SPs are those crops that are particularly important to food security, livelihoods, and rural development. Their introduction marks an important recognition by the WTO that not all crops are equal: some matter more to the poor than others. The proposal is that governments would have added flexibility on products they designate as SPs, such as much lower, or no, bound tariff cuts. Although the 'July Framework' recognises SPs, it is unclear on how they will be selected and how many of them a country can have. Given developmental concerns, special products should be exempt from cutting tariffs and from expanding tariff rate quotas. Their scope should be wide enough to cover all crops that are important under the criteria of *'food security, livelihood security, and rural development needs'*.

**Special Safeguard Mechanism:** The Framework Agreement states baldly that *'a Special Safeguard Mechanism (SSM) will be established for*

*use by developing country members', but does not specify whether it will apply to all or only to some products. The G33's proposal is that the SSM should be available for all crops and to all developing countries, including LDCs, not just the 21 that qualify for the existing safeguard. It also needs to be easier and quicker to use.*

SPs and SSMs are intended to deal with different problems. SPs are geared to managing long-term strategies for developing country agriculture, enshrining the right of developing country governments to protect small farmers and pursue the kind of infant industry policies in agriculture that have worked elsewhere. SSMs are, in contrast, intended to smooth out temporary fluctuations in imports that can disrupt local production.

### **Rich-country resistance to poor-country priorities**

Special and differential treatment (SDT) for developing countries on the basis of concerns about food security, livelihoods and rural development are written into the 'July Framework'. However negotiations to date have largely revolved around attempts by the rich countries – particularly the USA and Australia – and some developing country agro-exporters to limit their importance. These countries are pushing to get steeper cuts in poor country tariffs and to limit the number of products and the flexibility granted under SPs and SSMs.

The US agribusiness lobby, at the forefront, has been clear in its opposition to SDT for developing countries. A letter to US trade negotiators from 15 agro-industry lobby groups – including rice – complained that in the Harbinson formula, *'the levels of [tariff] reductions are completely inadequate – particularly for developing countries. Moreover, since tariff reductions from "bound" levels will often not result in meaningful market access improvements, we urge you to ensure that the formula be applied to "applied" tariffs wherever they exist.'*

These lobbyists likewise object to taking into account poor countries' concerns of food security, livelihoods and rural development. On the planned provisions of SPs and SSMs, they protest that, *'Since developing countries offer the most potential for demand and import growth in the future, these provisions would severely undermine potential market access gains from tariff reductions.'*<sup>125</sup>

The US government, reflecting the demands of the agribusiness lobby, has informed all trade ministers at the WTO that the US will only accept, *'a very limited number of special products for certain developing countries that are concerned about harming rural development and subsistence farmers'.*

The G33, in contrast, argues for the right of developing country governments to decide how many products need to be classified as SPs, for zero tariff reductions on SPs, and for the maximum possible flexibility in using SSMs. Oxfam's view is that the G33 has a strong case, since agriculture has a central role in poverty reduction so many poor countries. Developed countries in the WTO should agree to SPs and SSMs and ensure that they are useable and effective in promoting food security and rural development.

Concerns are sometimes raised by economists and rich country negotiators that, in practice, such policy tools risk being captured by vested interests and agribusiness lobbies in developing countries. Just as in the North, with examples such as the US steel sector, businesses may lean on governments to protect their profits by keeping tariffs high, at the expense of poor consumers and while bringing few benefits to poor farmers. These are genuine risks, and how governments manage them will depend on their accountability and competence in dealing with the kinds of lobby that any government faces. However, Oxfam's view is that the WTO is not fit to intervene in this kind of internal political process, and that WTO rules should not attempt to substitute for good government by reducing policy flexibility.

## Defending 'policy space' in export competition and domestic support

Given the neglect of agriculture in developing countries and the need for state intervention to achieve agricultural take-off, described in Section 3, there is a clear case that the rural economies of developing countries need more, not less, financial support from governments.

**Domestic support:** Due to budgetary constraints, developing countries primarily use tariffs rather than subsidies to promote agricultural production and support poor farmers. Brazil's agricultural subsidies, for example, are just 5 per cent of those in the USA, even though Brazil has an agricultural population almost five times the size of that in the USA. Despite this, developed countries are already insisting on tighter disciplines on the use of subsidies by developing countries.

This is profoundly unfair given the enormous disparity in subsidisation between developed and developing countries. The current round of negotiations should cut subsidies in developed countries while guaranteeing flexibility for developing countries to use subsidies to promote sustainable agriculture and support poor farmers.

While proposed disciplines might not squeeze existing levels of subsidies in many developing countries, it is important to ensure that developing countries retain the right not only to continue, but to increase their funding for agriculture in the future. Some developing country governments are already close to their WTO ceiling for subsidies. India at 7.2 per cent and Peru at 6.2 per cent, for example, are both already approaching the limit of 10 per cent for funding overall agricultural support.<sup>127</sup>

**State Trading Enterprises:** Many developing countries use STEs to overcome some of the difficulties faced by their small farmers. STEs can allow producers to band together, achieving the levels of production required to negotiate with powerful transnational buyers. They can also provide vital sources of credit, quality control, market information and technical advice. Unfortunately, as with domestic support, the STE debate in the WTO is dominated by the internal wrangling of the rich countries, and the crossfire between those rich agro-exporters that retain STEs – such as Canada and New Zealand – and those that see this as a source of unfair competition – such as the USA. The danger of this situation is that valuable policy options for developing countries may be ruled out, perhaps inadvertently.

Oxfam will be producing further work in the coming months, setting out a more detailed analysis of the development aspects of STEs, and their treatment in the WTO negotiations.

## 7. Recommendations

Developing countries must be allowed to regulate trade flows to support agriculture to ensure food security, rural development, and long-term growth. That requires reduction in the pressures currently being exerted on developing countries to liberalise their agricultural imports.

**In the WTO agriculture negotiations**, a new agreement should include the following:

- **A sentence in the preamble of the new Agreement on Agriculture** should clarify that, *'Nothing in this agreement shall prevent developing countries from promoting development goals, poverty reduction, food security, and livelihood concerns.'* This would build on the text of the WTO 'July framework', which states that, *'Developing country members should be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security, and livelihood concerns.'*
- **A pro-development tariff reduction formula that does not exert excessive pressure on developing country tariffs.** This includes the use of a flexible formula – similar to that used during the previous round of WTO negotiations – with lower percentage reductions for developing countries, as well as longer implementation periods. Of course, Least Developed Countries should remain exempted from any tariff reductions.
- **The full exemption of food security crops from tariff reductions for developing countries.** These 'special products' should be self-selected by developing countries on the basis of the criteria set in the 'July framework' (i.e. food security, livelihood security, and rural development needs). When appropriate, developing countries should be allowed to continue using quantitative restrictions or renegotiate bound tariffs.
- **A Special Safeguard Mechanism for all developing countries, without product limitation,** to smooth out excessive fluctuations in domestic price and volumes of imports.
- **A self-defence mechanism to respond to potential dumping practices.** As long as agricultural dumping is not strictly prohibited by the WTO, developing countries are particularly vulnerable to sudden and unforeseen increases in levels of subsidies in major producing countries. To enhance transparency about such practices, the WTO secretariat should each year compute costs of production and export prices for agricultural

products receiving subsidies. On the basis of that information, developing countries should be allowed to add a percentage tariff equivalent to the dumping margin to their bound tariff levels. This would be a useful recourse for countries that would otherwise be competitive and would not seek permanent protection under the formula of 'special products'.

#### **In relation to subsidies:**

- Any agreement should curb export dumping by eliminating all forms of export subsidies and introducing strong disciplines on other subsidies that have an effect on production and trade.
- Developing countries should be allowed to maintain or increase levels of subsidies, and use state trading enterprises or export taxes to promote sustainable agriculture and support poor farmers.

#### **Beyond the WTO**

Piecemeal liberalisation under the auspices of regional trade agreements and trade policy conditionalities attached to multilateral lending are stripping away policy flexibility for developing countries. As the cornerstone of the multilateral trading system, the WTO – rather than regional trade agreements or the IFIs – should be the main institution setting principles and obligations regarding trade in relation to food security and rural livelihoods.

As with the Agreement on Agriculture, the principle that, '*nothing in this agreement shall prevent developing countries from promoting development goals, poverty reduction, food security, and livelihood concerns*' should be upheld in RTAs as well as in IFI policies.

#### **Regional trade agreements**

Developed countries should stop negotiating RTAs with developing countries and concentrate instead on delivering a fair multilateral trading system at the WTO. In their current form, RTAs undermine the position of developing countries in the Doha negotiations. By insisting on making commitments reciprocal, current RTAs ignore the fundamental difference between agriculture in developed and developing countries and threaten the food security and livelihoods of low-income, resource-poor farmers.

#### **Policy coherence with international financial institutions**

The IMF and World Bank should adopt as a new official policy that they will no longer use trade conditionalities nor prevent governments from increasing applied tariffs, applying safeguards, or using state trading enterprises as part of their rural development and



food security strategies. They should also provide additional financing to help countries promote agriculture as well as establish safety nets and other appropriate adjustment policies.

### **Domestic policies**

Governments of developing countries with large numbers of resource-poor farmers should put a higher priority on agriculture. They should ensure that domestic farm policies promote food security and rural livelihoods, and increase gender equity. The use of protective measures should be selective and should evolve over time as countries reach higher levels of economic development.

Stakeholders who are often excluded from farm and trade policy-making, such as small farmers, rural workers, and consumer groups, should be fully consulted. Before undertaking commitments to liberalise, the impact on food security, rural livelihoods, and urban consumers should be carefully analysed and, when necessary, remedies put into place so that the poorest and most vulnerable do not suffer from the effects of import surges.

# Annex 1

## Calculation of US rice dumping margins

The approach used to calculate the dumping margin is based on the methodology developed by the Institute for Agriculture and Trade Policy.<sup>128</sup> The full cost of producing one hundredweight (46kg) of milled rice, with reasonable profit, is calculated and compared with the export price of the same. Taking milling conversion rates into account, 1.43cwt of rough rice is needed to produce 1cwt of white rice. Official data are available on farm-level costs of production. Added to these are costs of production paid for by the government; only those payments based on input use are included.

An estimate for the cost, and reasonable profit, of milling and transport is therefore derived as the average difference between the farm gate price of 1.43cwt of rough rice and the domestic price of 1cwt of milled rice. The dumping margin is the difference between the cost of production and the export price, given as a percentage of the cost of production.

<i>Cost or price, \$</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>Average 2000–03</i>
Arkansas farm gate price for 1.43cwt of rough rice (1)	8.0	5.62	5.95	9.87*	7.36
Domestic price for 1cwt of milled rice, FOB Houston (2)	14.83	14.55	11.80	13.68	13.72
Derived transport and milling cost for 1cwt of milled rice	6.83	8.93	5.85	3.81	6.36
Average cost of milling, transport and profit for 1cwt of milled rice	6.36	6.36	6.36	6.36	—
Farm cost of production for 1.43cwt of rough rice (3)	12.17	12.31	11.81	12.40	12.17
Government cost of production for 1.43cwt of rough rice (4)	0.29	0.22	0.24	0.40	0.29
Full cost of production for 1cwt of milled rice (farm cost + government cost + milling average)	18.53	18.67	18.17	18.76	18.54
Export price for 1cwt of milled rice (5)	12.79	12.56	10.43	13.93	12.43
Dumping margin, %	32.0	33.5	43.3	27.3	34.0

\* Provisional data for 2003

1 metric tonne = 22.046 cwt

### Sources:

(1) [www.usda.gov/nass/pubs/agstats.htm](http://www.usda.gov/nass/pubs/agstats.htm);

(2) FOB Houston, \$/tonne, [www.ers.usda.gov/publications/agoutlook/aotables](http://www.ers.usda.gov/publications/agoutlook/aotables)

(3) [www.ers.usda.gov/data/costsandreturns/testpick.htm](http://www.ers.usda.gov/data/costsandreturns/testpick.htm)

(4) Producer Support Estimate, payments based on input use, [www.oecd.org/dataoecd/33/45/323611.XLS](http://www.oecd.org/dataoecd/33/45/323611.XLS)

(5) ARAG export price plus \$15/tonne transport cost. [www.ers.usda.gov/publications/so/view.asp?f=field/rcs-bb](http://www.ers.usda.gov/publications/so/view.asp?f=field/rcs-bb)

## Glossary

**Applied tariff:** This is the tariff rate effectively applied to an imported product when it enters a country. Countries are free to decide the level of their applied tariffs, provided these are lower than the bound tariffs they have committed to respect at the WTO. Unilateral liberalisation as part of IMF and World Bank programmes has often led to low applied tariffs.

**Bound tariff:** Under WTO rules, tariffs are bound or fixed at a certain level. This level provides the tariff ceiling that WTO members must respect as part of their commitments. Countries may apply lower tariffs in practice if that suits their economic needs.

**Export dumping:** A product is considered as dumped if it is exported at a price below its normal price in the domestic market. If pricing in the domestic market does not provide a proper comparison, the margin of dumping can be estimated by comparing the export price with the cost of production and sales plus a reasonable amount for profits.

**Food security:** Food security exists when everyone has at all times access to and control over sufficient quantities of good-quality food for an active and healthy life.

**Harbinson Formula:** Stuart Harbinson, former chair of the WTO's Agriculture Committee, proposed a tiered formula for tariff reductions, differentiating between developed and developing countries. For developing countries, the formula proposes the following minimum cuts to bound tariffs: tariffs above 120 per cent to be cut by 30 per cent; tariffs between 60 and 120 per cent to be cut by 25 per cent; tariffs between 20 and 60 per cent to be cut by 20 per cent, and tariffs below 20 per cent to be cut by 15 per cent.

**Marrakesh Decision:** During the Uruguay Round negotiations, WTO members laid down a 'Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Countries.' The so-called Marrakesh Decision was meant to protect net food-importing countries from the rise in world prices that was expected to result from liberalisation. To date, it has not been put into operation.

**Non-tariff barriers:** Non-tariff barriers are all obstacles to trade apart from tariffs that are either quantitative (quotas, and import or export bans) or technical (such as sanitary barriers).

**Special and Differential Treatment (SDT):** In its preamble, the Agreement Establishing the World Trade Organisation cites

sustainable economic development as one of the WTO's objectives. It also specifies that international trade should benefit the economic development of developing and least developed countries. This is the basis for a number of special and differential treatment provisions, which are meant to adapt WTO rules to take into account the specific needs and constraints of developing countries.

**Special Safeguards:** Safeguards are contingency restrictions imposed on imports temporarily to deal with special circumstances, such as a sudden surge in imports. The existing special safeguard provision for agriculture (SSG) allows some member countries to raise tariffs when import volumes rise above a certain level, or if prices fall below a certain level. They can only be used on 'tariffed' products, and when governments have reserved the right to do so. As a consequence, very few developing countries have access to them. In current WTO negotiations, developing countries are calling for a Special Safeguard Mechanism (SSM) that is available to all developing countries and far easier to use.

**Tariffication:** An objective of the WTO's Uruguay Round was to convert all non-tariff barriers, such as quotas, into equivalent tariffs. So far, 20 per cent of agricultural products have been tariffed in this way.

**Tariff rate quotas:** Under the WTO's Agreement on Agriculture, some countries were required to open a minimum quota for importing produce at a very low tariff rate, known as a tariff rate quota. China, for example, has a tariff rate quota to import up to 5m tonnes of rice with a tariff of 1 per cent; any imports beyond those 5m tonnes would face China's usual applied tariff of 65 per cent.

## Notes

<sup>1</sup> World Bank (2005), 'Global Agricultural Trade and Developing Countries', Washington DC: World Bank

<sup>2</sup> Total rice sector payments to farmers in 2003 were \$1.734bn and rice was planted on 3m acres, or 1.2m hectares, of land.

<sup>3</sup> Oxfam interviews, Tamale, Ghana, November 2004

<sup>4</sup> FAO (2004), 'State of Food Insecurity in the World', and M. Houssain (2004) 'Long-Term Prospects for the Global Rice Economy', FAO Rice Conference, Rome, 12-13 February 2004

<sup>5</sup> FAO (2004), 'State of Food Insecurity in the World', Rome

<sup>6</sup> *ibid.*

<sup>7</sup> *ibid.*

<sup>8</sup> Rough or paddy rice is rice as harvested from the field, still in its husk. Once dehusked, it is brown rice. If the bran is removed by milling, it becomes white rice.

<sup>9</sup> Based on a conversion rate of 65 per cent: 1 tonne of rough rice produces approximately 650kg of milled rice.

<sup>10</sup> Dawe, D. (2004), 'Changing Structure, Conduct and Performance of the World Rice Market', paper presented at the FAO Rice Conference, Rome, 12-13 February 2004

<sup>11</sup> FAOSTAT (2001) cited in Nielsen, C. (2002), 'Viet Nam in the international rice market', Food and Resource Economics Institute, No. 132, Copenhagen

<sup>12</sup> Hill, H. (1996), *The Indonesian Economy Since 1966*, Cambridge University Press: Cambridge.

<sup>13</sup> Cited in DFID Plant Sciences Research Programme Annual Report 1997 ([www.dfid-psp.org/publications/AnnualRpt/poverty.html](http://www.dfid-psp.org/publications/AnnualRpt/poverty.html))

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- <sup>20</sup> *ibid.*
- <sup>21</sup> FAO Special Plan for Food Security ([www.fao.org/spfs](http://www.fao.org/spfs))
- <sup>22</sup> FAO (2004), 'State of Food Insecurity in the World', Rome
- <sup>23</sup> Del Ninno, C. and P.A. Dorosh (2001), 'Averting a food crisis: private imports and public targeted distribution in Bangladesh after the 1998 flood', *Agricultural Economics* 25: 337-346
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- <sup>65</sup> In 2002, Nicaragua's government budget was \$908m, of which agriculture got 2.7 per cent, or \$24.5m. In the same year, the US government spent \$1.15bn on rice sector subsidies.
- <sup>66</sup> From Ksh 28.32 per kg in 2000 to 16 Ksh in 2002.
- <sup>67</sup> The extent and timing of liberalisation commitments are being negotiated. In Article 24 of GATT on Regional Trade Agreements, the stated requirement is for elimination of barriers on 'substantially all trade' within the 'shortest possible timeframes'. This has traditionally been interpreted to mean 90 per cent of all trade and within a-10 year period. Recently the EU has been talking of greater levels of flexibility, possibly requiring liberalisation commitments of approximately 75–80 per cent on the part of ACP countries and with longer timeframes. The EU claims that liberalisation will be carefully paced and sequenced and there will be flexibility to protect sensitive sectors. However, legal advice sought by Oxfam suggests that whatever the percentage of trade that ACPs agree to liberalise (usually understood as 90 per cent in RTAs) they would have to eliminate—not just reduce—barriers on the majority of their products.
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- <sup>75</sup> USDA, [www.ers.usda.gov/data/costsandreturns/testpick.htm](http://www.ers.usda.gov/data/costsandreturns/testpick.htm), and IRRI World Rice Statistics database, cited in Hossain, M. (2004), 'Long-Term prospects for the Global Rice Economy', FAO Rice Conference, 12-13 February 2004, FAO: Rome
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- <sup>83</sup> Oxfam interview, Boyolali Regency, Central Java Province, June 2001
- <sup>84</sup> FAOSTAT, available at <http://apps.fao.org/>
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<sup>117</sup> The Harbinson formula proposes different cuts for different bands of bound tariffs. In line with the principle of proportionality, cuts for developed countries must be deeper than for developing ones. Harbinson's formula proposes the following minimum bound tariff cuts for developing countries: tariffs above 120 per cent to be cut by 30 per cent; tariffs of 60-120 per cent to be cut by 25 per cent; tariffs of 20-60 per cent to be cut by 20 per cent and tariffs below 20 per cent to be cut by 15 per cent.

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