



“Food Security and International Trade: A Latin American Perspective about Implications for Multilateral and Regional Institutions”

Laura Uzquiza¹

In discussions about the procurement of Food Security inside the Global Food Crisis (GFC), the implications for multilateral and regional institutions from a Latin American (LA) perspective, have received little scholarly attention. This represents a significant omission given the major role that the World Trade Organization (WTO) plays in structuring the patterns of world food production and distribution, as well as the lessons learned by national and regional institutions during the crisis. For example, it is well established that following the implementation of WTO agricultural rules, food import dependency in developing countries increased considerably. It is beyond the scope of this paper to address causal links between food security and international trade. Instead, this paper examines the impacts of the GFC and policy responses in LA in food security levels. I argue that policy measures in LA have displayed several lessons learned by regional institutions which should be taken into account on the multilateral ground. In this respect, a new role of the WTO should emerge, as a negotiating forum for what trade remedies can be employed in times of crisis, procuring food security and sustainable development.

PAPER TO BE PRESENTED AT THE

4th Annual Meeting of the GARNET network

Food Security and Sustainable Development:

Challenges for the Governance of International Relations

Rome, 11-13 November 2009

Abstract # 21 of the Call for Papers – Session 1a:

Agricultural productivity is of obvious importance to human welfare. In an international context marked by food-energy & financial crisis, not only food insecurity is likely to become even greater -as the economic crisis drives up unemployment-, but also it is not surprising that agriculture has been identified as an area of concern in the current public debate on the causes and effects of climatic change, affecting sustainable development.

In addition, Pascal Lamy mentioned that trade policies could play a key role in fighting global warming, with shifts on agricultural subsidies and tariffs. The Latin America and the Caribbean region in general is a net food exporter, although Caribbean countries are net food importers. For such developing countries that depend on food imports, the current economic downturn has meant fewer available resources to finance food imports. Nowadays, it is important to ensure food availability, stimulate domestic production, reduce tariffs and import quotas, conduct public-private negotiations in agrifood chains and take action such as transferring income and distribute food to meet the needs of the poorest and most vulnerable segments of the population. But the LA region has an interesting diversity of interests about market access and so as the visions about important changes to the existing WTO rules in areas such as agriculture, or changes in the thrust of the Doha talks.

The main challenge to the WTO arising from the current crisis is the widespread perception that free trade is fine only for times of economic upswing. As the effect of the crisis deepens and protectionism grows, the will to maintain negotiations to further liberalize trade is diminishing. The main antidote to these trends is for the WTO to become a negotiating forum for what trade remedies can be employed in times of crisis, preserving as much as possible the trade liberalization achieved while providing the necessary space to those calls for exceptions. Despite the differences, the WTO can learn some important lessons from these regional initiatives such as Mercosur, particularly on how to become an institution able to negotiate not just trade liberalization, but also instances of trade protection, their terms and timing, and to manage the bargaining implicit in this crisis-driven environment.

¹ Research Associate (Latin American School of Social Sciences, FLACSO / Argentina), Knowledge Manager (Latin American Trade Network, LATN), Advisor (Secretary of Industry, Argentina). E-mail: luzquiza@flacso.org.ar

Introduction

The debate on food security took a curious turn after the Uruguay Round Agreement on Agriculture (AoA) came into force in 1995. Some proponents argued that liberalization of trade in agriculture would ensure global food security by balancing the demand for and the supply of food items across the globe. Opponents to this view were skeptical about agricultural trade liberalization, as they considered it would negatively affect food autonomy at both local and national levels. Apart from this, many scholars analyzed the possibility of applying the Ricardian theory of comparative advantage on trade in food, but failed in a rational explanation in times on free flow of capital across borders.

The food security in developing and least developing countries has been affected not only by the AoA (due to the minimum market access commitments with obligatory import requirements, and food dumping) but also by the Uruguay Round Agreements on Trade Related Aspects of Intellectual Property Rights (TRIPs), and the Agreement on Trade Related Investment Measures (TRIMs). Large transnational agri-business gained upper hand in production and distribution of food which undermined the consumers' right to food; in terms of availability, ability and access with reinforcement due to change in cropping pattern.

The 2008-09 global food prices crisis shown the incredible vulnerability of our food system, but it has also been described as an opportunity. Several actors used the crisis to highlight structural problems and demand sustainable solutions while others promoted quick fixes and new green revolutions. There were talks of new deal and new system, of multiple crises as the food crisis was joined by its ecological, climate, financial and economic crises that highlighted the need for a reinforced global governance of our food system.

The international response to the crisis took two forms which were elaborated almost in parallel: first, the attempted unified response by the UN agencies, funds and programs, Bretton Woods institutions and the WTO, which was embodied by the High Level Task Force (HLTF) set up by UN Secretary General Ban Ki-Moon on 28 April 2008; second, the proposal by the G8 to establish a Global Partnership on Agriculture and Food Security (GPAFS), which is still under

discussion. In these presentations there is a division in three camps - food security², right to food and food sovereignty discourses- which most of the time is inaccurate (Claeys, 2009). Considerable discrepancies between the words are used, but these three discourses interact and influence each other.

International institutions employ a food security discourse and seek to mainstream less inequitable and less environmentally damaging alternatives into existing market structures, (Holt, 2009). Some advocate incentive-based certification and corporate self-regulation. These approaches aim to modify industrial behavior through the power of persuasion and consumer choice. Many humanitarian, environmental and social service organizations like Bread for the World, Oxfam-USA, CARE, and World Vision are wholly or partially rooted in the reformist trend because their main sources of funding come from government, major corporations, or neo-liberal philanthropic institutions. Because of their economic dependence on government agricultural surplus, many food banks are rooted in this trend as well. Rather than call for structural change, most work to increase and improve already social safety nets (food stamps, food banks, food aid, food-for-work, etc.).

Considering the interface between trade liberalization and food security mentioned above, this document attempts to contribute to the Conference debate about trade liberalization in the agricultural sector, analyzing the impacts of the global food crisis on sustainable development in the region. In this way, in Section I the study concentrates on understanding the orders of magnitude of the crisis in the LA countries which affected food security levels, describing in Section II the impacts of the global food crisis in the region providing a first approach to the distributive aspects of the crisis. Section III presents and compares the policy options selected in the region, analyzing their potential effectiveness in section IV, in a “coping and curing” sort of way. Section V presents the implications for regional and multilateral institutions. The final section presents the conclusions and final remarks, underscoring various messages common to the LA countries irrespective of the relationship between food security and international trade.

² In this paper, it will be used the recent definition of food security adopted by the 1996 World Food Summit: “Food security, at the individual, household, national, regional and global levels [is achieved] 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”. Source: Rome Declaration on World Food Security and World Food Summit Plan of Action, 13-17 November 1996.

I.- The Global Food Crisis and the Food Insecurity

Global financial instability and speculative financial trading were in large part responsible for driving up food prices in the first place. Between March 2006 and March 2008 the international food price index, according to the World Bank (2009), nearly doubled in nominal terms, rising 82 percent. As the dollar value fell in 2007 and 2008, hedge funds and institutional investors began to invest heavily in commodity index funds, which include agricultural commodities futures. The massive movement into these types of investments naturally drove up prices of the commodities on which they were based so it was, a food price bubble. Following historical standards, food prices remain relatively low—in real terms the price of wheat in 2007 was 10 percent lower than its average during the 1960s and 1970s. Clearly, there was a fundamental shift in global supply and demand behind the food price inflation. The shift had been shaped also by factors ranging from increased demand for biofuels and higher energy prices to poor harvests in key producers and climate change. Since the payoff to sustainable policies is high, policy options should consider that high food prices, in a way, are here to stay.

Rising food prices (RFP) became a growing policy challenge for both middle-income and low-income countries in the region. As from 2004, and even more noticeably as from 2006, nominal prices of some basic foods such as vegetable oils, rice, wheat, maize, and dairy products rose significantly, affecting the world economy and, particularly, countries that are net food importers. In 2007 food prices rose substantially faster than the overall rate of inflation for most countries in the region, specially in Bolivia, Brazil, Chile, Costa Rica, Jamaica, Nicaragua, Trinidad and Tobago, and Uruguay. Only in Argentina, Dominican Republic and Haiti, food and overall inflation were roughly equal. In that context, international food prices stimulated the local price of Latin American food, even in countries where local food were consumed more than imported food.

While the region as a whole is a net food exporter, food price inflation still had a detrimental impact on the income, nutrition, and health of poor consumers. Even if a country is a net seller of food, most people are net buyers and negatively affected by RFP and poor people are disproportionately affected because they spend a larger share of their income on food. Besides, RFP and differences in trade patterns can interact to create negative consequences even for food exporting countries. Additionally, even if some countries are net food exporters, their food trade balance has declined, as a result of the composition of their import and export baskets

since the international price the price of some food staples had risen more than others. For example, in the 2006-2008 period, wheat increased 152 percent and the price of maize 122 percent, while the price of beef increased 20 percent and the price of bananas 24 percent.

Understanding the impact of food price inflation on the poor requires an analysis on the households response to RFP. Households response is generally driven by both consumption and production substitution effects where the last ones are more likely to be jagged because of constraints that impede smooth adjustment in supply responses. Even poor households may have risk mitigation strategies—for example, relying on multiple sources of income that permit labor supply to be rapidly increased. Substitution effects and risk mitigation strategies not only determined the pass-through from international to local prices but also shaped public policy intervention impacts. For example, explicit subsidies affected factor allocations and therefore real wages and supply responses.

Clearly, the phenomenon responds both to structural and long-run causes, and to some facts and behaviours in the short run that include financial elements that are independent from the food sector. The reduction in prices seen during the months would confirm the hypothesis that the cooling down of the world economy will lead to a reduction in foods' prices with respect to the peaks reached in mid-2008 and to considerable volatility as a result of financial funds' movements. In the long run, as the world economy stabilizes, structural tendencies will probably push prices up again as a response to an expansion in the world demand that grows at a greater pace than supply. The new international context—with high price volatility and substantial changes in the geographical location of an international demand that has a growing tendency in the long run—offers challenges and opportunities for Latin American countries, both from the productive point of view and from the point of view of the strategies and policies affecting the agricultural sector, preserving the most important objective: food availability.

II.- Impacts of the Rising Food Prices in LA

This section presents a first approach to the macroeconomic and distributive impacts of the food price crisis in the LA region. Following the sets of simulations made by Cuesta & Jaramillo (2009) and Bianchi, Piñeiro & Uzquiza (2009), this document estimates the impact on the balance of trade and poverty levels in LA countries. The simulations captures a first effect, or first round effect, before any reaction, strategy or change in the trend of the agents takes

place where it is reasonable to assume that in the short term neither agricultural production nor substitution of food for non-food production is substantial. These impacts can be considered as the maximum and immediate effects of the crisis, rather than the long-term effects, which will be determined, among other things, by implementation or non-implementation of longer-term policies.

The effect of the food price increase on the external accounts will depend on various factors. In particular, the countries that are net food importers will be negatively affected while net exporters will benefit. However, the magnitude of the impact will depend on whether food has a favorable effect on their terms of trade. In this respect, the LA countries have experienced a growing trend in their terms of trade. Another factor to take into account is the capacity of agricultural supply to respond rapidly to price changes, or by the Food Import Capacity, as shown in the Table 1 below:

Table 1 – Food Import Capacity, 2001-2005

<i>Food Import Capacity</i>	<i>Country</i>
1. High (0%-10%)	Argentina, Chile, Costa Rica, Mexico, Panama, Trinidad & Tobago, and Venezuela
2. Middle (11%-20%)	Barbados, Bolivia, Brazil, Colombia, Ecuador, Guyana, Paraguay, Peru, Dominican Republic and Uruguay
3. Low (mayor 20%)	Belice, Dominica, El Salvador, Grenada, Guatemala, Haiti, Honduras, Nicaragua, Jamaica, Saint Kitts & Nevis & Lucía & Saint Vincent & the Granadines

Source: FAO (2009b)

The simulations confirm that in all cases there is a deterioration of the trade balance: net imports exceed net exports after the price increase of six foods selected: wheat, corn, rice, soy, sugar and beef. The impact is fairly moderate, however, representing less than one percentage point of GDP. Not all these foodstuffs have the same importance in the imports and exports of the LA countries, and some of them are in fact net exporters (South America and Andean Countries) versus net importers (Central American and Caribbean countries). Lastly, when including the oil price increase, the trade situation improves substantially in countries such as Ecuador and Venezuela, because (with the exception of Bolivia), the other Andean countries export agricultural products, most of whose international prices are now lagging in relation to the significant increase in the price of cereals and oilseeds. In regard to distributive effects, the exercise made by those authors, simulated the effect that a food price increase (such as that

reported between January 2006 and March 2008) would have had on the different dimensions of poverty in 2006 and in the last year prior to 2006 for which a household income and expenditure survey is available. The longer-term life-cycle and even intergenerational impacts are not included in the simulations.

An increase in food prices represents a reduction in purchasing power, which can also be described as an increase in a country's poverty line. Individuals will fall below this poverty line, some not poor before the crisis fall below the total poverty line, while others fall below the extreme poverty line. The most significant simulated impact on the incidence of poverty (considering the price increase for the six foods selected) takes place where food prices increase most and food consumption represents a higher percentage of household expenditure, for example, this is the case of Bolivia.

The great majority of poor rural households (between 60 and 80 percent) are net food producers, so the food price rises in the markets affect a lower proportion of their consumption. For the rest of the countries, whether it is the urban or rural areas which receive a greater impact on poverty is determined by the percentage of food expenditure of urban and rural households "close" to their respective poverty lines. If food expenditure represents a higher percentage of total expenditure among urban households close to the urban poverty line than in rural households in a similar situation, higher prices can be expected to have more impact in urban areas. This is the case in Colombia, but the opposite occurs in Ecuador.

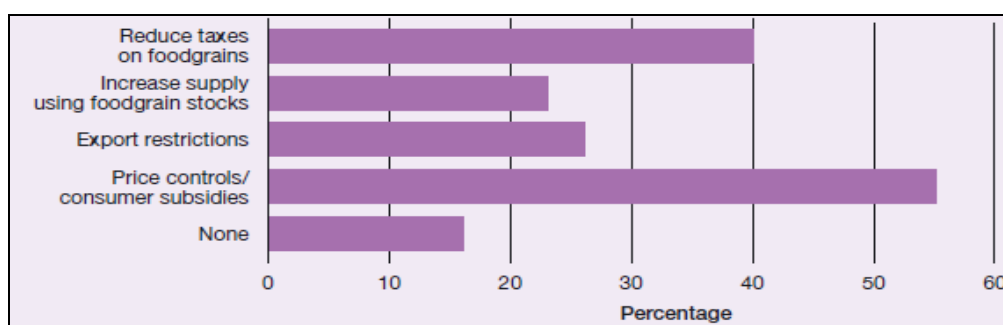
The aggregate affect on consumer purchasing power will be mitigated to the extent that households are capable of producing food for sale. In the Andean Countries 15 percent of households are net food producers (Bolivia raises 50%). In other Latin American and Caribbean countries, the figure ranges from 1 percent to 25 percent of households. Anyhow, the effect of loss of purchasing power is greater than the effect of higher income, as the price increase results in a loss for the majority of net food consumer households and the benefits for net food producers reach only a minority of households. In this context, the nature and design of the policy responses, their scope, duration and costs will determine how much of the initial distributive effect is reversed or expanded. Future analysis should consider the possible additional consequences (or "second round") of compensatory interventions or of individual crisis management strategies.

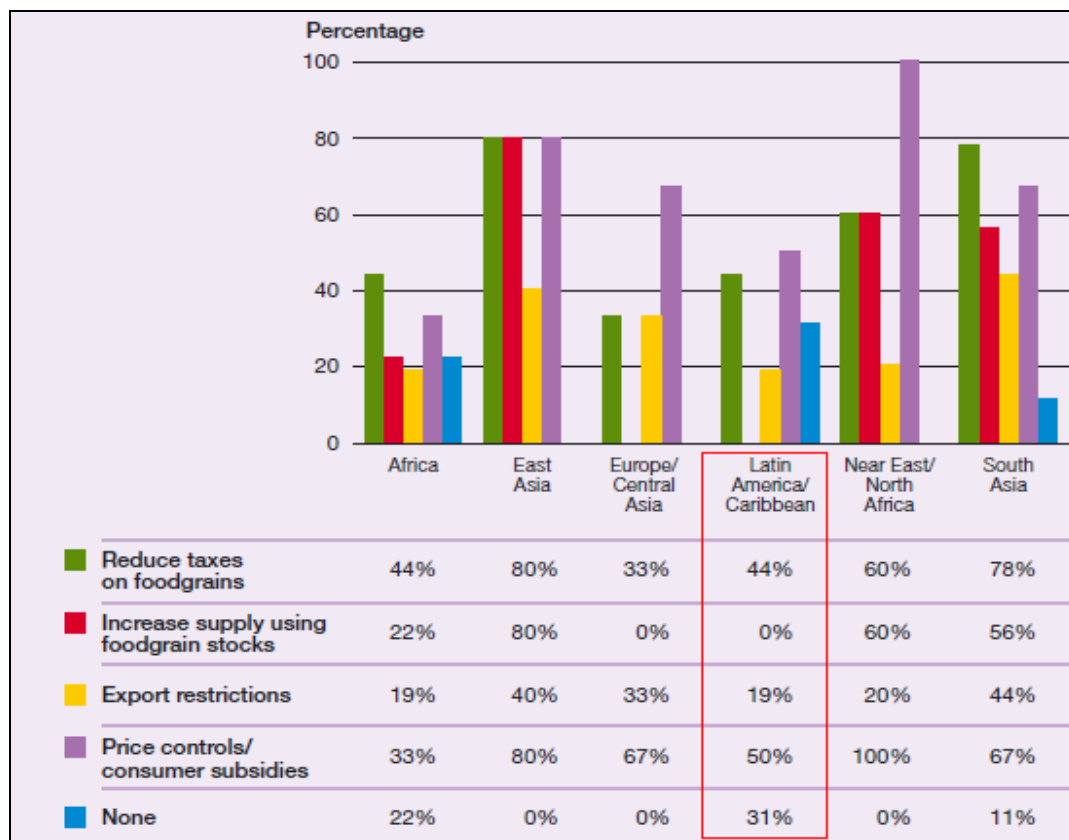
III.- Policy Responses to the GFC in LA

As mention in section I, the rapid expansion of the GFC made it difficult for LA countries to introduce macroeconomic adjustments. In this context, governments recognized the importance of investing in agriculture; the need to increase food production and provide assistance to small-scale producers to increase their productivity; and the need to invest in and improve existing systems of social protection and food security in order to mitigate the effects of the most vulnerable sectors affected by the price crisis. Since there is no clear consensus on what to do, how to do it or who should do what at international o regional level, it is not surprising that, at the country level, this lack of clarity has resulted in a variety of policies and interventions.

The LA countries have adopted a great variety of policy responses. The commonly used policy instruments for short term responses to the food crisis are of two types: those that aim at containing the rise in domestic prices, and those that aim at providing access to cheap food for the poor. It is also considered the macroeconomic impacts. For food importers, these include balance of payments problems resulting from higher food import bills and increased inflationary pressure because food is such a large element in the consumer's basket of goods. Food exporters enjoying higher earnings from higher food prices on world markets may need to consider how best to manage increased export earnings in order to ensure that they are channeled into productive investments to stimulate long run growth. In many cases, governments have used existing policy measures already in place, as shown below.

Figure 1 - Policy actions to address high food prices





Source: FAO (2009c)

On one hand, many countries, especially least developed countries, have intervened to safeguard poor consumers' access to food through a variety of emergency and safety net measures. These have included distribution of basic food staples (grains, bread and milk), cash to buy food (or food for work) to the most vulnerable groups – the poorest in urban and rural areas, schoolchildren or the sick in hospitals. Consumer price subsidies, especially for the main food staples, have been widely used. At the same time, some governments have also reduced consumption taxes. For example, price controls, through sales from public stocks at pre-set prices or simply freezing retail prices by decree, have also been used.

A survey of 77 countries (FAO 2009c) shows that 55 percent of them have used price controls or consumer subsidies in an attempt to reduce the transmission of price increases to consumers (see Figure 1). While such measures can be effective in controlling prices in the short run, they are expensive in terms of scarce budgetary resources and can distort food markets. Price controls can lead to rationing and suppress incentives to producers. Income transfers are less distortionary than subsidies on food and can be targeted on the poor and vulnerable, whereas non-selective blanket subsidies and price controls benefit the rich and poor equally. This also applies to other safety nets such as food and nutrition programs.

On the other hand, many countries have introduced trade policy measures to curtail price increases and ensure adequate supplies on domestic markets. These include tariff reductions to facilitate imports, export bans and taxes to divert supplies onto domestic markets. In the short term, these trade measures are feasible, cheap and easy to implement. However, they may have adverse effects on incentives to expand food supplies through increased domestic production and on world markets by further restricting supplies and pushing up prices even more. While imposing export taxes raises some additional government revenue, a number of exporting countries have reported that export controls and, hence, low output prices coupled with high input prices actually led to decreased planting of cereals. Reducing import tariffs also incurs a loss of tariff revenue, which may make an important contribution to overall budgetary resources for development. *As shown in Figure 1, Latin America and the Caribbean showed the lowest level of policy intervention, with roughly 20 and 30 percent of their countries.*

Finally, reducing producer taxes, especially on grain production, has been a widely used policy to boost production in both low- and middle-income countries. Production subsidies, especially on grain production, have been used to reinforce incentives. Subsidies on inputs such as fertilizer and seeds have also been common. While such subsidies and the distribution of productive inputs (e.g. seeds and fertilizers) can provide a short or medium-term stimulus to production, these schemes can be costly and may lead to suboptimal use of these inputs, especially if they are maintained over a long period. In spite of a perceived need to secure adequate food supplies, some countries continue to control producer prices, setting the price lower than the free market price, or procure grains from domestic suppliers at low prices for stockholding. Moreover, the release of grain stocks at low prices puts downward pressure on prices, discouraging increases in domestic production.

Not necessarily all the actions generated were in direct response to the food price crisis, since some were planned previously. As a matter of fact, each country combines a mix of policies in which expected positive impacts predominate and others where the opposite is expected. Only the social compensation dimension is in a strong position in all countries to act more or less immediately against the crisis. Efforts on short-term policies have been much stronger than on long term policies. This contrast involves, among other factors, with the size of the crisis and the ease or cost of implementing these interventions. In order to make an approach to the policy

options utilized to confront the GFC linked to their potential effectiveness, the next section display the “coping and curing” process.

IV.- The process of Coping and Curing in the region

As the World Bank (2009) mentions, food policy interventions fall into two main categories: coping and curing. First, coping strategies are focused on the household but have macroeconomic implications and can be a rapid response option. Longer term coping strategies are a critical in public policy aimed at protecting poor people from food price inflation. Second, curing strategies focus on supply response and are typically an option for the medium to long term. While a wide range of options is available in both categories, there is a distinction between more and less efficient interventions.

The immediate focus of LA countries has been mainly on short-term measures or, in “coping strategies” for food security. The main objectives of these policies are equity-related: ensuring that consumers have access to basic food stuffs, increasing poor people’s real income in terms of the prices of certain foods and thereby their consumption of staples, and insulating consumers from volatility in food prices. The real income effect of consumer-oriented policies such as food subsidies is critical—there is considerable empirical evidence that poor people’s current income increased in proportion to the share of their total expenditure that goes to food, even though general inflation erodes some of this increase.

Governments have long used agricultural policy on both equity and efficiency grounds. Food insecurity stems from rising food prices, but it is also a structural problem related to poor people’s low purchasing power. Many countries have therefore used strategies to enhance food security during different periods, and in several cases on a permanent basis. These so-called second-best policy strategies are necessary because the first-best (or free market–driven) response fails to account for market imperfections that call for government intervention.

The design of public policy is also shaped by political factors. First, the strength of different interest groups—such as urban poor people or rural farmers—is critical in influencing policy choice. For example, because urban consumers are usually better organized than rural net buyers of food, several countries are biased toward urban food subsidies. This implies that even when exogenous factors drive rising food prices and when the country is a net food exporter,

the government has an incentive to support net food buyers. Besides, there is a danger that the government may not be able to eliminate subsidies after the shock has passed—that is, consumer and producer groups may come to believe that food subsidies are their right. The political costs of implementing a change in an existing policy may turn out to be higher than the economic benefits, especially in countries where the affected groups are well organized.

The most efficient policies—in terms of achieving the equity objective at the minimum cost to the government—are targeted food vouchers and price subsidies. Income support to poor people, however, may not have the desired marginal impact on food consumption per se. This is because even though both income and price elasticities of food are high for poor people, demand is shaped by several factors—substitution effects, household income source, the proportion of own-produced food consumed, and intra-household distribution of nutrition.

In addition, policy interventions have potential incentive-disincentive effects. In this context, a further distinction needs to be made within price subsidies between explicit and implicit policies. Explicit subsidies, such as school feeding programs, food vouchers and food stamps, and consumer price subsidies on specific foods, include all measures that directly support consumption. The goal of explicit food price subsidies is to support consumption of basic necessities without forcing agricultural producers to share the cost of the scheme. Implicit subsidies, such as price controls, keep agricultural prices artificially low, thereby damaging farm income, adversely affecting agricultural response, and worsening supply shortages. Venezuela experienced the dangers associated with failing to account for the potential disincentive effects of implicit subsidies that usually do not occur with explicit subsidies.

The macroeconomic implications of food policy interventions depend on how measures are financed and designed. If budgetary costs are below the line, which is often the case, and the government does not have contingency resources to draw on, financing through money supply increases is likely, as is higher general inflation. The alternative is to transfer the cost to the rest of the market— or to taxpayers, which may be infeasible.

V.- Implications for regional and multilateral institutions

Since LA countries tend to use rapid responses or coping strategies, it is important to establish a better set of options to deal with future shocks, in other words, medium-term responses with

positive impacts on the regional level, for example, inside Mercosur as well as inside the Andean Community. Food price rises are an example of the large-scale covariate risks that are increasingly common in the global economy. They reinforce the need to establish strong targeting systems and programmatic frameworks that can quickly and effectively protect the most vulnerable households against shocks and to develop structures to provide basic nutrition, health and education services, such as, effective nutrition strategies, ensuring basic health care, social pensions for the elderly poor, and so on.

These days, there is recognition that different actors must assume different responsibilities, and that the scope of certain measures is necessarily national while others measures have to be international and require a degree of international inter-institutional coordination. Following the analysis of section III, it is interesting to ask how the current interventions of the LA countries perform in relation to these packages of short and long-term measures. There are three key results: one, the dynamism with which the countries have adopted interventions is heterogeneous, with Peru as the most active country and Colombia the least. Two, only the social compensation dimension is in a strong position in all countries to act more or less immediately against the crisis. Three, the efforts on short-term policies have been much stronger than on long-term policies. This contrast involves, among other factors, with the size of the crisis and the ease or cost of implementing these interventions, with implementation difficulties at the regional level. *Mercosur and CAN failed at the implementation of common policy responses, but these institutions did provide an important forum for their members to litigate their disputes, voice their grievances, manage their conflicts, and accord with future steps at long term in order to transmit confidence to the markets with anti-speculation regulations, public food storage, strengthening of import finance; invest in social protection; scale up investments which result in sustainable growth of agriculture; and specially procure the negotiations to complete the Doha Trade Round.*

Public discourse on the link between rising food prices and the Doha Round has sometimes been based on a mistaken belief that a conclusion to the negotiations is needed to lower prices by requiring countries to cut tariffs. However all countries currently have the right to lower the tariffs they actually apply—including to zero—at any time. WTO membership only obligates countries not to raise tariffs beyond levels agreed to in previous rounds of negotiations (these are called “bound” rates). In practice, many developing countries have already cut tariffs in the context of rising food prices to bring immediate relief to their consumers, including the

poor. There is a large gap between bound and applied tariff rates, particularly in agriculture, and it is more common for developing countries to maintain such gaps. A major reason they have sought to maintain higher bound rates while sometimes applying low tariffs in practice is their need to deal with the volatility of agricultural prices, discussed above. When global food prices are high, as now, governments have the ability to lower tariffs. When global food prices fall, governments can raise tariffs back up to the bound level to shield their farmers from sharp drops in income. This flexibility is particularly desirable going forward, when two factors may increase price volatility. First, scientists predict more extreme and variable weather as a result of climate change (as a matter of fact, agriculture is an area of concern in the debate about the causes and effects of climate change and global warming) affecting sustainable development), which could lead to more frequent supply shortfalls. The other factor is the increasing role played by futures markets for agricultural commodities. Like other financial markets, they are driven as much or more by speculation, expectations, and herd behavior than by underlying fundamentals and so tend to be much more volatile than actual supply and demand.

There are a number of issues still under negotiation in the Doha Round that will affect the ability of governments to reduce poverty and increase food security in order to manage food price changes in the future. The domestic and export subsidies provided by the United States, the European Union, and some other wealthy countries to their farmers have the effect of inducing greater supply than market prices would warrant and allowing excess production to be sold on world markets at prices below production costs. This has reduced global food prices over recent decades, which was seen as positive by some net food importing countries. However it has hurt farmers in developing countries who cannot compete with subsidized exports in global markets. Agricultural subsidies and in-kind food aid by wealthy countries have discouraged production and investment in developing country agriculture. The resulting shortfall has emerged starkly as global food demand has risen. Thus, while reducing these agricultural subsidies and constraining in-kind food aid will increase prices modestly in the short run, it is a necessary correction to global agricultural market distortions and an essential part of the Doha deal if developing countries are to build up their own agricultural sectors and increase food supply in the medium and long term.

Earlier in the Doha Round a framework agreement was reached to allow developing countries to shield some agricultural products, designated special products, from tariff reductions in order to

address the livelihood security, food security, and rural development concerns that have been discussed above. A large group of developing countries known as the G33 has proposed that twenty percent of tariff lines should be subjected to lesser or no tariff cuts based on these considerations. The United States and some other countries have sought to sharply limit the number of eligible tariff lines and to require other constraints in the designation of special products. The outcome will determine how much flexibility developing country governments will have to provide some price continuity as a long term incentive to their farmers to increase production. It will also influence the degree to which they will be able to shield poor farmers and rural communities from high levels of risk or periods of depressed prices that they are ill-prepared to absorb. While the G33 has been outspoken throughout the negotiations about the need for this policy flexibility, the recent price volatility and supply shortfalls on global food markets have convinced some other developing countries that they need to consider ways to achieve greater domestic production in order to improve food security and reduce vulnerability to global markets. As already discussed, the impact of food prices on poverty and income distribution varies widely among countries and for different agricultural crops within countries. As a result, the decisions on how to select special products must be left to developing country governments themselves, according to their market access necessities.

Developing countries also seek a special safeguard mechanism that would permit them to raise tariffs in response to agricultural price drops or import surges. While the special products exceptions would provide some policy space for developing countries to address medium term food security and livelihood concerns and long term rural development strategies, a safeguard mechanism would still be needed to address short term volatility in food markets. As noted, food prices have always been volatile and volatility is likely to increase due to climate change and increased use of commodities as investments and hedges. Small producers in developing countries are in no position to bear the risk of sharp price and supply swings. The special safeguard mechanism must be easy to use, allow developing countries to respond swiftly to market disruptions, and be available for relatively small disruptions.

Conclusions and final remarks

Despite the optimism among many camps that the global food crisis presents an opportunity to reshape the international trade system in line with food security and poverty alleviation, the analysis presented here suggests such an outcome must face several challenges.

The policy tools needed to address the current food crisis cover a broad range. They include immediate assistance for the poor and hungry and dramatically increased investment in developing country agriculture by the international financial institutions, wealthy country development agencies, and developing country governments. Financial regulators should turn their attention to financial markets in agricultural commodities, which show signs of the speculation, and overshooting that have resulted in ongoing crises in global finance and some housing markets. As painful and destructive as those crises have been, they pale by comparison with the threat of serious market failure in the case of food.

Trade policy also has a role to play, especially in fighting global warming. Many developing countries aspire to link their agricultural producers to larger regional and global markets as they gain the capacity to compete against more efficient producers under conditions of volatility. However, trade liberalization that removes flexibility from the hands of developing country governments prematurely or leads them to rely on global food markets and not invest in their own agricultural sectors has proven to be shortsighted. In the case of the Doha Round, a quick conclusion would not influence the current spike in food prices. Instead, an agreement should be carefully constructed to ensure that in the future, developing countries will retain the policy flexibility necessary to develop and provide appropriate incentives to their domestic agricultural sectors, to increase food security, and to shield the poor from market failures that can affect their very survival.

Even though there is consensus on what factors are causing the GFC, there is less agreement on how to confront it: specifically, how to obtain a balance of short- and long-term interventions on the one hand, and, on the other hand, how to achieve in practice another balance between cautious macroeconomic measures, effective compensatory social policies, and a lasting supply-side stimulus without disastrous distortions. The analysis of the section II suggested that in the LA countries the magnitude of the crisis and the trade and distributive effect are very significant, although less than in Central America and the Caribbean. In this context, considering a temporary crisis as a permanent shock could be a less costly error than considering a structural change as transitory. To the extent that the crisis offers an opportunity for continuing the structural reforms needed to improve agricultural productivity, and guaranteeing timely and adequate compensation for the most vulnerable.

In the context of GFC, improvements can be made to these programs such as: extending them to areas or beneficiaries who do not currently receive benefits; index benefits to the food price increase or to the total loss of purchasing power; establish automatic alarm formulas (on certain thresholds in key indicators which are easy to track). How complicated or simple it is to implement these responses and how effectively the government can transmit the temporary nature of the intervention will determine the effectiveness of this intervention.

The effect of other strategies, such as establishment of state agencies for promotion of agricultural production, is difficult to predict because they are not known in great detail. A fundamental point here has to do with the fact that even the countries that seem to have taken (or not taken) measures against the crisis had been planning or initiating these reforms prior to the crisis. This means that, in contrast to the previous reflection, it is not easy to use major long-term interventions to respond to possible short-term changes. It also means that the design of these interventions must introduce certain elements of flexibility and/or consider different contexts to be tackled by the intervention over time. No intervention can be totally guaranteed against all eventualities, but different scenarios need to be considered for intervention in the future.

The exclusive use of compensatory social measures will only address one dimension of the problem, but not its productive or macroeconomic side. A combination of responsible and cautious macro-policies, on the one hand, and measures that effectively support agricultural diversification and competitiveness, on the other hand, must accompany efforts to expand a social protection system that is really effective in dealing with this and future crises. The crisis should be treated as an opportunity that requires continuing implementation of wide-ranging social and productive reforms, rather than as a passing shock which requires exclusively short-term measures.

Some academic views present the necessity of a “new agricultural deal” (Clapp, 2009) where four elements are vital. First, in the short run international food aid needs not to merely increase, but it will also have to be more flexible. International food aid tonnages have fallen in recent years to their lowest levels since the early 1960s. Much of the current provision of food aid is also still tied to donor-grown commodities. Second, volatility on international commodity markets needs to be tempered with the introduction of new financial regulations to prevent large scale opportunistic investment in essential commodities, such as food. Third, there is a need for

a significant increase in investment in agriculture, including credit provision for the world's poorest farmers and research into sustainable farming methods for a world affected by climate change. Finally, there is a desperate need for more balanced international trade rules. There is wide agreement that the current rules have worked against the interests of the world's poorest farmers. But talks at the WTO have been stalled on and off for the past years, stuck on the issue of agricultural trade.

A more realistic point of view was expressed at the recent WTO Public Forum (28-30 September). It was concluded that the Organization needs to develop the areas where it has been seen to be good at this year: monitoring, not just Aid for Trade and protection, but the Trade Policy Review, the Committee on Regional Trade Agreements, etc.; and the areas which have been 'neglected because of diversion to the Round', like the work of the Committees (rules on Technical Barriers to Trade and Sanitary and Phytosanitary Measures); and on the other, start thinking about new 'trade and...' issues, including climate change, subsidies (both emissions permits and bailouts were mentioned).

It is pointless to talk about reforming WTO structure since the problem is not the way decisions are made, but that there is no agreement. The fact that the Green Room has adapted to new large powers and to including representatives of smaller countries shows the advantage of flexibility, in contrast to the need to make formal decisions on structure of IMF and WB. In this respect, Lamy had said in opening session that consensus was a way of ensuring adaptation to new powers. In a context where protectionism grows, the will to maintain negotiations to further liberalize trade is diminishing and so the main antidote to these trends is for the WTO to become a negotiating forum for what trade remedies can be employed in times of crisis, preserving as much as possible the trade liberalization achieved while providing the necessary space to those calls for exceptions. In this way, the WTO can learn some important lessons from these regional initiatives such as Mercosur, particularly on how to become an institution able to negotiate not just trade liberalization, but also instances of trade protection, their terms and timing, and to manage the bargaining implicit in this crisis-driven environment, in order to ensure food availability so as to promote sustainable development.

VI.- References

- Bianchi, E., Piñeiro, M. and Uzquiza, L. (2009), “Respuestas de política en América Latina al incremento en los precios internacionales de los alimentos y el escenario post-crisis –Parte I”, Working Paper CINDES & LATN, forthcoming.
- Claeys, P. (2009). “The Right to Food and Food Sovereignty: Complementary or Contradictory Discourses on the Global Food Crisis?”, Paper presented at the International Global Food Crisis Conference of the Critical Development Studies, Zacatecas-Mexico, 13-15 August. Available soon at www.critdev.org
- Clapp, J. (2009) “The Global Food Crisis and International Agricultural Policy: Which Way Forward?” Global Governance, Volume 15, Issue 2.
- Cuesta, J. and Jaramillo, F. (2009) “Taxonomy of Causes, Impacts and Policy Responses to the Food Price Crisis in the Andean Region”, IADB Working Paper # 674.
- ECLAC (2009). “Panorama de la inserción internacional de América Latina y el Caribe: Crisis y espacios de cooperación regional, 2008-2009”.
- FAO (2009a) “Crop Prospects and Food Situation”, # 2.
- FAO (2009b) “Políticas de reemplazo de importaciones agrícolas”, FAO Report by José Graziano da Silva (FAO’s Latin America and Caribbean Regional Representative).
- FAO (2009c). Report “The State of Agricultural Commodity Markets 2009: High Food Prices and the Food Crisis – Experiences and Lessons Learned”, Trade & Market Division, available at <http://www.fao.org/docrep/012/i0854e/i0854e00.htm>
- GIEWS / FAO (2008) “Policy measures taken by governments to reduce the impact of soaring prices” available at <http://www.fao.org/GIEWS/ENGLISH/policy/index.htm>
- Holt-Giménez, E. (2009). “Food Security, Food Justice, or Food Sovereignty?”, Paper presented at the International Global Food Crisis Conference of the Critical Development Studies, Zacatecas-Mexico, 13-15 August. Available soon at www.critdev.org
- IADB (2009a), “Dealing with an International Credit Crunch: Policy Responses to Sudden Stops in Latin America”, Eduardo Carvallo and Alejandro Izquierdo Editors.
- IADB (2009b), “Policy Trade-offs for Unprecedented Times: Confronting the Global Crisis in Latin America and Caribbean”, Alejandro Izquierdo and Ernesto Talvi Coordinators.
- IFPRI (2008) Report “High Food Prices: The What, Who and How of Proposed Policy Actions”.
- Ivanic, M. and W. Martin (2008), “Implications of Higher Global Food Prices for Poverty in Low-Income Countries”, World Bank Policy Research # 4594.
- Joseph, G. and Q. Wodon (2008), “Assessing the Potential Impact on Poverty of Rising Cereals Prices: The Case of Mali”, World Bank Policy Research Working # 4744.
- Lustig, N. (2009), “Política comercial, pobreza y desigualdad: el estado del conocimiento y la asignatura pendiente” LATN Working Paper # 104.
- Margulis, M. (2009). “International Trade Rules and the Global Food Crisis: Part of the Problem or Part of the Solution”, Paper presented at the International Global Food Crisis Conference of the Critical Development Studies, Zacatecas-Mexico, 13-15 August. Available soon at www.critdev.org
- Piñeiro, M. (2008), “El Nuevo contexto para el Diseño de las Políticas de Investigación, Innovación y Transferencia de Tecnología Agropecuaria en América Latina”, FAOFODEPAL.
- Piñeiro, M. and Bianchi, E. (2009a), “Precios de los alimentos, comercio internacional y pobreza”, LATN Working Paper # 105.
- Polaski, S. (2008). “Rising Food Prices, Poverty, and the Doha Round”, Policy Outlook of the Carnegie Endowment for International Peace.
- Robles, M., J. Cuesta, S. Duryea, T. Enamorado, A. Gonzales and Victoria Rodríguez (2008) “Rising Food Prices and Poverty in Latin America: Effects of the 2006-2008 Price Surge”, IADB.
- Uzquiza, L. (2009). “Global food crisis: Impacts and future scenarios for Latin America”, Paper presented at the International Global Food Crisis Conference of the Critical Development Studies, Zacatecas-Mexico, 13-15 August. Available soon at www.critdev.org
- WB (2008), “Rising Food Prices. The World Bank’s Latin America and Caribbean Region Position Paper”.
- WB (2009), Flyer “Food Price Inflation and its Effects on Latin America and the Caribbean” available at www.worldbank.org/lac
- Wodon, Q, C. Tsimpo and H. Coulombe (2008), “Assessing the Potential Impact on Poverty of Rising Cereals Prices: The Case of Ghana”, World Bank Policy Research Working Paper # 4740.