



## HUNGER, POVERTY AND FREE TRADE: Preventing the Next Food Crisis Before It Starts

### THE PROBLEM OF VOLATILITY AND THE SAFEGUARD SOLUTION

In 2008, oil and commodity prices—including basic food-stuffs such as rice, wheat and corn—spiked around the globe. The resulting turmoil caused riots around the world in countries as diverse as Egypt, Mozambique, Bangladesh, Cameroon and Haiti.

As bad as the spike in global food prices was, it was only a symptom of a much deeper problem. In response to demand from international financial institutions and powerful trading partners, many governments have severely weakened their ability to guarantee a safe and affordable food supply to their citizens. In times of cheap food, the removal of trade barriers can result in imports flooding the market at prices so low that local growers simply cannot compete. This can dramatically reduce or even eliminate domestic production, creating a reliance on foreign produced and controlled food.<sup>1</sup> When global food prices go up, people must either spend a huge portion of their incomes on food or starve.<sup>2</sup>

### THE IMPACT OF BAD POLICY

Over the past 30 years, examples of imports undermining local production have been plentiful. In developing countries, markets vital to food security are being devastated by these imports, causing widespread hunger and loss of livelihood.

Ghana is just such a case. By the late 1990s, conditions imposed by the World Bank and the International Monetary

Fund greatly reduced tariffs on agricultural goods and all but eliminated subsidies.<sup>3</sup> These policies left the government with few options to control imports. Between 1998 and 2003, imports of processed tomato paste from the EU flooded the market, an increase of 650%.<sup>4</sup> The result was the displacement of Ghanaian tomato farmers who could no longer make a living and were forced to search for work elsewhere. In recent years, the lack of trade protections has continued to affect farmers—mostly women—many of whom have been driven out of business because of imports. This has had major repercussions not only for Ghana's food security, but for their social fabric as a whole.<sup>5</sup>

Another example is that of Nepal in the 1990s. Nepal is a relatively small country of less than 30 million people located next to the two biggest countries in the world—India and China. The predominantly rural population of Nepal is heavily dependent on rice as a staple crop and as an export.

In 1991, Nepal signed a trade agreement with India, which had been its largest trading partner since 1950. Among other provisions, the new agreement limited rice tariffs to 10 percent. By 1994, rice imports had risen by 175 percent and in 2000, imports rose a further 800 percent. This was largely due to a decision by the government-owned Food Corporation of India to sell its excess stocks—surpluses due at least in part to a significant subsidy given to Indian rice farmers. Predictably, rice prices plunged, especially in the areas that border India, driving many Nepali rice farmers out of business. Although this meant cheap rice was

available for purchase, without an income, even the imports were out of reach for many families. In some areas the retail value of rice fell by more than 17 percent, marring local economies.<sup>6</sup>

Chronic malnutrition is widespread in Haiti, the poorest country in the Western Hemisphere. Haiti was self-sufficient in rice production as recently as 30 years ago. But in 1986, after the expulsion of a corrupt dictator, the IMF provided Haiti with a desperately needed loan of US \$24.6m. IMF conditions attached to the loan forced Haiti to reduce tariff protections on rice and other agricultural products in order to open up the country's markets to international competition. Within two years, cheap U.S. rice flooded the market and all but destroyed domestic production, leaving Haiti no shield from the price shocks of 2008.<sup>7</sup>

### **THE PERVASIVENESS OF MARKET DISTORTIONS**

Many advocates look at the situation in Nepal or Ghana or Haiti and argue that the solution is to convince the larger and more developed countries—the EU, India and the United States in these cases—to reduce or eliminate their own subsidies. While lowering excessive subsidies might lessen dumping in times of low prices, it would not address the root of the problem.<sup>8</sup> Governments and the citizens who elected them should have the right to control their own agricultural policy and be able to use all the tools at their disposal to protect and manage their food supplies. The negotiations and trade-offs between open markets, food security and food sovereignty should occur without external interference.

In the case of bigger players, this is well understood. EU farm subsidies are part of a complicated series of compromises that allow the trading bloc to function. The United States also subsidizes certain crops, including corn, soy and rice. The current system tends to favor overproduction and low prices, as well as corporate control over supply chains. It also creates an uneven playing field for developing country farmers. Their governments will never be able to afford these levels of subsidies. At a minimum, they need to retain and strengthen trade protections in order to safeguard their food supplies and ensure their ability to plan both their food security and rural livelihood strategies.

### **SAFEGUARDS—A NECESSARY PART OF THE SOLUTION**

One group of countries has found a potential remedy for reconciling import price swings and sustainable domestic food production. Bolivia, Colombia Ecuador and Peru participate in the Andean Community of Nations. The Andean Community has established safeguards to help protect food security. This safeguard is based on price bands. When the

price of a certain commodity goes below a certain level, new tariffs automatically kick in; these tariffs automatically switch off should prices go up again. Such innovative mechanisms should be expanded upon and supported.<sup>9</sup>

### **DIFFERENCES OF OPINION**

In recent years, developing countries have made proposals that would attempt to ensure food security even during times of market volatility. One such proposal was made by the Group of 33 developing countries (G33) at the 2005 WTO ministerial in Hong Kong.<sup>10</sup> These countries came together to insist that they be allowed to protect agricultural markets that are essential to food security, rural livelihoods and rural development. Their proposals on Special Products and Special Safeguards Mechanisms (SP/SSM) would allow countries to set aside certain key agricultural goods and prevent imports from flooding sectors which are vital to food security. These mechanisms would also protect fragile economies from short term shocks. Ideally, it would also allow countries to think about long-term development of the agricultural sector and ultimately to raise living standards for farmers, who make up a majority of the world's impoverished population.<sup>11</sup> This is the heart of food sovereignty—the idea that countries should have the capacity to democratically determine the food policies that make most sense in their own national contexts.

The US government has been less than accommodating to the G-33 proposals. The original counter-proposal from the U.S. Trade Representative was that a total of 5 tariff lines—out of an average of 2000—could be invoked by developing countries under SP/SSM. That amounts to a counter-proposal of 0.0025% to the original G-33 proposal of 20 percent of agricultural goods. In April of 2008, the U.S. changed its position significantly to 8 percent of tariff lines, but this was not enough to salvage the already sinking Doha negotiations.<sup>12</sup>

Because of the pressing nature of its proposals, the G-33 refused to relent. In July of that year, Bozkurt Aran, the head delegate of the Republic of Turkey, delivered a statement to the WTO, "At this critical crunch time, it would be unfair and inappropriate to ask more from developing countries on these vitally important tools for development. In no way, these issues can be compromised for pure commercial interests. We have a chance, a real chance to settle a balance in the world agricultural trade and create fair and more equitable conditions for the future."<sup>13</sup> These provisions, along with disputes on cotton subsidies and trade preferences, contributed to the July 2008 collapse of the WTO talks.<sup>14</sup>



## RECOMMENDATIONS FOR A NEW TRADE POLICY

Under a set of policies that economist Jeffrey Sachs terms “market fundamentalism”, the United States has played a leading role in free-market policies that aim to remove social protections in developing countries. No matter how data is analyzed from this period of pushing free trade at all costs, impoverished and marginalized communities have not fared well. With the advent of the Obama administration, the ongoing economic crisis, and a global food crisis not long behind us, U.S. legislators have an opportunity to break with years of bad policy.

### The TRADE Act

On June 25, 2009, the Trade Reform Accountability Development and Employment (TRADE) Act was reintroduced in the U.S. House of Representatives. The act focuses on U.S. free trade agreements that have proven detrimental not only to partner countries, but to the U.S. as well. The effects of agreements such as the North American Free Trade Agreement (NAFTA) on food security and the livelihoods of farmers abroad have been devastating. One widely supported example is the effect of U.S. corn import surges in Mexico. Those imports put over 1.5 million rural farmers out of work, destroying not only a means of economic support for their families, but a vital element to their cultural heritage and food security.<sup>15</sup>

The TRADE Act would hold the U.S. accountable for implementing responsible and balanced trade agreements. The Act outlines provisions on agriculture in trade agreements that would allow all parties to establish safeguards to protect food production and rural livelihoods and allow for the establishment of strategic food reserves to stabilize prices and supplies.<sup>16</sup> This would signify a good step forward for the U.S. and a potential ray of hope for small farmers in the affected regions.

Special protections alone will not ensure the ability of countries to provide food security for their people; they are only one vital tool to which developing countries should have access. Such trade policies must go hand in hand with other measures, such as comprehensive agricultural development programs that prioritize sustainable food production and support for small-scale farmers. These efforts should be decided democratically by local people to fit each country’s own economic and social needs. In addition to the proposals in the TRADE Act, US policy makers should consider new policies that would prioritize the need of every country in the world to feed their population over a desire to see U.S. exports rise.

They should:

- a) Insist that international financial institutions and USAID expand support for sustainable food production in developing countries and eliminate conditions on their loans and grants that require liberalization of trade in agricultural products.
- 2) Require that any new talks on the WTO or other trade agreements support developing country proposals for to achieve food security and protect rural livelihoods.
- 3) Examine the impacts of existing trade deals on food security and open talks to renegotiate trade agreements that undermine food sovereignty in any of the trading partners.

<sup>1</sup> Gilpo, Arze, 2006, 'Achieving Food and Livelihood Security in Developing Countries: The Need for a Stronger Governance of Imports', Ecofair Trade Dialogue Discussion Paper No. 2, December 2006. Available at [http://www.ecofairtrade.org/pics/en/EcoFair\\_Trade\\_Paper\\_No2\\_Glipo\\_new.pdf](http://www.ecofairtrade.org/pics/en/EcoFair_Trade_Paper_No2_Glipo_new.pdf).

<sup>2</sup> Kwa, Aileen, 2008, 'Impact of Agro-Import Surges in Developing Countries', ActionAid International, March, p. 7. Available at <http://www.actionaid.org/-docs/cheap%20imports%20and%20protection%20of%20ag.pdf>.

<sup>3</sup> Khor, Michael, 2008, 'Rising world prices reinforce need for food security policies', Third World Network, July 3,. Available at <http://www.twinside.org.-sg/title2/wto.info/twninfo20080703.htm>.

<sup>4</sup> Kwa, op. cit. p.11.

<sup>5</sup> Integrated Regional Information Network, 2009, 'GHANA: Plummeting profits drive tomato farmers to suicide', United Nations, IRIN, April 17th 2009. Available at <http://www.irinnews.org/Report.aspx?ReportId=83980>.

<sup>6</sup> Kwa, op. cit. p.15.

<sup>7</sup> Quigley, Bill, 2008, 'The U.S. Role in Haiti's Food Riots', Democracy Now, April 24, 2008. Available at [http://www.democracynow.org/2008/4/24/-the\\_us\\_role\\_in\\_haitis\\_food](http://www.democracynow.org/2008/4/24/-the_us_role_in_haitis_food).

<sup>8</sup> Ray, Daryll E, 2003, 'Rethinking US Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide', Agricultural Analysis Center, University of Tennessee, 2003. Available at <http://www.inmotionmagazine.com/ra03/APAC.pdf>.

<sup>9</sup> Further reading see Comunidad Andina, 2004, 'Rural Development and Food Security' July 10th, 2004. Available at <http://www.comunidadandina.org/INGLES/rural.htm>.

<sup>10</sup> Text of G-33 proposal available at <http://www.cutsinternational.org/pdf/G33%20Proposal%20on%20Special%20Safeguard%20Measures%20and%20on%20Special%20Products.pdf>.

<sup>11</sup> Hansen-Kuhn, Karen, 2006, 'Salvaging Special Products from the Wreckage of Global Trade Talks', ActionAid International USA, Policies and Priorities volume 1, issue 3, November 2006. Available at [http://www.actionaidusa.org/assets/pdfs/food\\_rights/policies\\_priorities\\_fall2006\\_bplan.pdf](http://www.actionaidusa.org/assets/pdfs/food_rights/policies_priorities_fall2006_bplan.pdf).

<sup>12</sup> Khor, Martin, 2008, 'Agriculture: G33 states current stand on SP and SSM', Third World Network, April 22nd 2008. Available at <http://www.twinside.org.sg/title2/wto.info/twninfo20080405.htm>

<sup>13</sup> Aran, Bozkurt, 2008, Statement to the WTO on behalf of The Republic of Turkey and the G-33, July 28th, 2008. Available at [http://www.wto.org/english/tratop\\_e/dda\\_e/meet08\\_stat\\_tur\\_28jul\\_e.doc](http://www.wto.org/english/tratop_e/dda_e/meet08_stat_tur_28jul_e.doc).

<sup>14</sup> Khor, Martin, 2008, 'Trade: Don't blame SSM for breaking the talks, say G33 Ministers', Third World Network, August 4, 2008. Available at <http://www.twinside.org.sg/title2/wto.info/twninfo20080803.htm>.

<sup>15</sup> For further reading on Mexico, corn farming and NAFTA see; Polaski, Sandra, 2006, 'The Employment Consequences of NAFTA', Carnegie Endowment for International Peace, September 11th, 2006. Available at <http://www.carnegieendowment.org/files/naftawrittentestimony.pdf>; Public Citizen's Global Trade Watch, 2001, 'Down on the Farm; NAFTA's Seven-Years War on Farmers and Ranchers in the U.S., Canada and Mexico', Public Citizen, June 2001. Available at <http://www.citizen.org/documents/ACFF2.PDF>; Aziz, Nikhil, 2007, 'NAFTA is Killing Tradition of Corn in Mexico', Grassroots International, November 9th, 2007. Available at <http://www.grassrootsonline.org/news/articles/nafta-killing-tradition-corn-mexico>.

<sup>16</sup> TRADE Act 2009 full text available at [http://www.citizenstrade.org/pdf/TRADE\\_Act\\_Text.pdf](http://www.citizenstrade.org/pdf/TRADE_Act_Text.pdf).

#### For more information:

[www.actionaidusa.org](http://www.actionaidusa.org)  
ActionAid International USA  
1420 K Street, NW, Suite 900  
Washington, DC 20005  
202-835-1240

**ActionAid** fights to end poverty and the injustices that cause it by helping poor and excluded people to secure and exercise their rights.



#### Acknowledgments:

This paper was written by Sameer Dossani and Emma Greenbaum with comments from Karen Hansen-Kuhn. Layout designed by Lynda Jorgensen. All photos by ActionAid.

Support for this report was provided by the Moriah Fund. The analysis and conclusions in this report should be solely attributed to ActionAid and do not necessarily reflect the views of the Fund.