Circulation:

Date: 3 June 2010
Ref:
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Globalisation and Agriculture

Introduction
This paper describes the impact of globalisation on the farming sector, examining a number of issues including the effect of trade liberalisation, the role of agricultural support policies and the food crisis of 2007/8. The paper draws from practical rather than academic experience although it draws to some extent on globalisation and international political theories and their relationships to agriculture.

Paradoxes

1. Food has been seen as a strategic issue in the 20th century for many developed countries.
The experience of two world wars and the demands of post-war industrialisation ingrained a sense that domestic food production was essential to the population and to economic prosperity. It is ironic then that food has seemingly been taken for granted in most of the developed world in more recent times with food abundant and affordable to all but those on the economic margins of society.

This all changed in 2007 as runaway commodity prices, export controls and climatic events combined to restrict the availability of food, especially to the world's poor, sparking food riots in several countries. While most developed countries were relatively unaffected, the dramatic turn of events in 2007/8 has spawned a renewed debate and interest in agriculture and food as a strategic issue. Going further, the impact of the financial crisis and economic downturn has caused investors to take a new look at global agriculture as a relatively safe investment bet in volatile times.

2. Globalisation has dramatically increased the market for agricultural products.
There has been a substantial increase in agricultural trade in the last 30 years: a three-fold increase in the value of exports between 1985- 2004 from $123bn - $393bn, representing a compound growth of 6.3% per year. The total value of trade now represents about $600 billion globally. Therefore globalisation has affected agriculture: trade has increased in value terms and there has been an increase in global transactions.

That said the increase in trade is much less than for industrial goods or services. Agriculture has not been affected by globalisation as much as other industries and still, for the most part, comprises a largely domestic industry. The OECD estimates that 95% of food consumed is produced in same country. Less than 10% of most products are traded globally (except wheat and rice). There are various reasons for this:
- the perishability of farm good makes them difficult to transport
- culture defines the food typically eaten in many countries or regions
- trade is expensive, requiring substantial investments in infrastructure and credit
- trade policies can inhibit agricultural exports
- agricultural policies are often designed to promote domestic production and increase its relative competitiveness thus reducing market opportunities for imports

3. *Globalisation has created new market opportunities*
This has arisen as a result of changing diet and consumption patterns, partly stemming from international trade, in part facilitated by market opening and partly a result of migration and travel. Yet

the bulk of trade still takes place between developed countries. More countries are now involved in agricultural trade and there have been some shifts in patterns of the major players with the role of countries such as Brazil growing at the expense of others. But basically, the same players who were involved in agricultural trade 30 years ago are still at the forefront today. In value terms the USA and EU are the most important agricultural traders.

4. Globalisation has changed the governance of agriculture
At the multilateral level a number of organisations have carved out specific responsibilities for the governance of agriculture including the WTO (trade rules and facilitation), the UN and its institutions (FAO, World Food Programme), the World Bank and the Office Internationale des Epizooties. Regionally, players such as the European Union have take responsibility for determining farm policy at a regional level.

Non-governmental international organisations are playing and increasingly important role in terms of farming and food policy (especially in terms of poverty alleviation in developing countries). And finally, globalisation has allowed large, private sector bodies, especially multinational companies to take commanding positions in a variety of global markets, especially for farm inputs such as seed and fertiliser.

All now play a role in determining the shape of agriculture. Yet, the paradox is that food and food policy retain strong national identities. Food still has a strong cultural and regional identity as can be seen in the Italian government's advocacy of protecting geographical indications. What is more, when the chips are down countries look inwardly. This can be seen by the decision taken by the Argentinian government in 2008 to introduce export taxes on food with a view to limiting trade and reducing consumer prices. Though economic liberals may think dimly of food sovereignty, the bare necessity of a country to feed its population or risk crisis ultimately places limits on global level activity.

Trade flows

The analysis of globalisation and trade opportunities masks two important factors.

Firstly, global trade disproportionately affects those countries who are either major exporters or those who need to import. The former category includes those countries that comprise the Cairns Group of countries such as Australasia and parts of South America, largely developed countries that have exploited geographical advantages to boost agricultural output. The latter category comprises a mixture of countries, predominantly developing and the least developed countries. There is also a group of countries that depend on two-way trade flows of agricultural goods, usually exporting tropical products or cash crops like sugar in return for purchasing staples (rice/ wheat) or processed products.

Developing countries are especially exposed to effects of globalisation in terms of agricultural trade because of their dependence on agricultural imports. Some 80% of globally traded rice is imported by developing countries.

The second factor is the impact of global trade on markets worldwide. Their influence is felt to a greater or lesser extent on national markets and so there is limited immunity for any country from the effects of global market shifts. Even where a market is relatively self-contained, prices in domestic markets are influenced by the major trends that exist in world markets.

Finally, trade flows create offensive and defensive interests for those countries either seeking to exploit or to minimise market penetration. However it should be borne in mind that defensive interests are not just a matter of protecting the 'weak' in a particular importing country from competition, but can also about preserving trade preferences for the weak such as developing countries. Such is the case for the European Union with its duty free and quota free trade agreements with the Least Developed Countries (known as the "Everything but Arms" agreement).

Trade liberalisation

The opening of global markets both reflects and precipitates the development of global trade rules. Looking historically at the development of multilateral trade rules, we see three phases of development, at least viewed from an OECD perspective.

1. The post-war period during which national agricultural policy was the core focus of agricultural development. Whilst colonial and historical ties gave rise to agricultural trade, there was no desire or demand for multilateral rules.

2. The creation of the CAP in 1958, brought about a regionalisation of trade and agricultural policy within the EEC. However the relationship with third countries was characterised still by bilateral agreements and preferences.

3. The development of international/ multilateral trading rules especially after the completion of the GATT Uruguay round in 1994 brought about the creation of a proper international framework for agricultural trade and policy rules.

The General Agreement on Tariffs and Trade (GATT) was formed in 1947 in the wake of the Bretton Woods agreement and the stillbirth of the International Trade Organisation, conceived as one of the three Bretton Woods institutions. Though the ITO never got off the ground the GATT, as the key agreement that the organisation was to service, remained in place. Agriculture was never explicitly excluded from the GATT, but in effect the various trade negotiations or ‘rounds’ undertaken since 1947 avoided setting a path for the normalisation and liberalisation of agricultural trade rules until Uruguay Round in 1994.

The Uruguay Round brought agriculture into full ambit of GATT and also led to the creation of the World Trade Organisation (WTO). Why the change came about is a matter of historical review, however an important factor was the change in the psychology of the US administration that had begun to embrace liberalisation during the Reagan era and increasingly saw offensive interests for the US in farm trade.

The GATT/ WTO imposes discipline on Member Country agricultural policy in three key areas:

1. The level and type of domestic support that can be given to the agricultural sector, with support categorised as falling under the Amber, Blue or Green box depending on how trade distorting it is
2. The level of export subsidies that may be deployed by a country to promote agricultural exports. Though normally prohibited, the WTO allows for export subsidies to be deployed for certain agricultural products within agreed expenditure and volume limits.
3. The level of tariffs that can be applied to third country imports.

Additionally, the Uruguay Round also led to the introduction of rules on sanitary conditions that may be applied (SPS), technical barriers to trade, intellectual property and a process for dispute resolution.

Impact of trade liberalisation and theory

In academic circles there are broadly two schools of thought about the impact of trade liberalisation, nominally liberalist and conservative positions. The liberalist position, best embodied by the UK government (ironic, since as an EU member, the UK government does not negotiate trade rules) argues for the pursuit of free world trade at all costs. Protagonists argue that this increases global wealth by stimulating economic activity and at the very least reduces transaction costs. Freeing up world trade in farm goods would increase the availability and access of food to all countries, especially poorer ones and also create export opportunities that allow developing countries with natural advantages to raise cash through farm trade. Finally, greater global trade reduces political insecurity.

The conservative position argues that agriculture is specific and cannot be left to the sole rule of the market. Agricultural production is characterised by strong cultural and social values which can be undermined by free-trade. Moreover, long-production cycles, combined with market volatility reduce the scope for commercial investment by small businesses. In turn liberalisation has allowed global corporations to set the rules in terms of agriculture and food not national governments.

This analysis represents something of an over-simplification but ultimately both views have strengths and major flaws. A flaw in the liberalisation argument is that free trade in farm goods would benefit developing countries. This may be the case for some, but those who stand to benefit are those that are already exploiting world trade as they have the commercial and infrastructure capacity to do so. Indeed boosting exports from developing countries may create a new moral hazard by depriving the poor in those countries from food crops. The flaw in the conservative position is that agricultural markets have never previously been tested by liberalised market forces therefore any analysis is based on prejudice rather than empirical fact. Moreover, the malevolent view about global corporations ignores the fact that many of these companies are often investing for benevolent reasons and represent the same developments that exist in industrial goods and services (and therefore is to be expected).

Doha Development Round

The WTO Doha Development Round that commenced in 2001 is the most recent incarnation of talks on multilateral trade rules and is intended to advance the cause of liberalisation to benefit developing countries after 2001.

Those talks have failed to reach a conclusion despite several attempts in Cancun (2003), Hong Kong (2005) and Geneva (2008) to bring them to a close. The challenge in reaching a conclusion resides in the sensitivity of agriculture as a trade topic, the need for a single undertaking (agreement on all aspects of trade at the same time) and the requirement for a unanimous decision amongst over 150 member countries of the WTO.

To reach a conclusion requires a balance to be struck between offensive and defensive interests of WTO members, of which there are over 150 members from across the world. Key trading blocs have different interests in terms of agriculture, industrial goods and services and finding trade offs that accommodate offensive and defensive interests of such a diverse group, allowing all to benefit from liberalisation is difficult, especially when economic downturn causes some to ponder whether further liberalisation might damage domestic industries and therefore jobs.

Ultimately, the WTO owes its existence to national member governments. Having multinational rules is fine in the sense that it should create fair and equal treatment as well as a dispute mechanism. However, agriculture is still seen as strategic by many/ most members. This reinforces realist positions which assert the primacy of member states over multilateral groupings.

The failure to conclude the Doha Round has provoked an increased interest among major trading blocs to seek out bilateral trade agreements, in which the calculations of offensive and defensive interests is easier to reach. Is this a good thing? Whilst it allows trade liberalisation to be deepened (WTO can only go at the level of lowest common denominator) and allows more flexibility in terms of trade-offs, this risks for farming lie in a lack of reciprocity.

Agricultural policies

Why do governments support agriculture? The OECD estimates of the level of support to farming vary between $250 - $300bn among its member countries, therefore the levels are significant.

Support policies can take a number of different forms

- Import or/ export controls and incentives are designed to either insulate domestic producers from competition or to boost exports in order to maintain internal market balance or grow market share.

- Sanitary and phytosanitary rules can be deployed to limit trade to products that meet certain hygienic standards
- Market support instruments are deployed to soften the effects of commodity markets, such as through the setting of floor prices for agricultural commodities
- Direct/ indirect subsidies can be to farmers, either as payments linked to production/ farmed area or as indirect subsidies to offset the cost of farm inputs, loans and so on.

The justifications for support have evolved over time and a brief history lesson of the EU's Common Agricultural Policy shows that the rationale has gone broadly through three phases, with the first period 1958 to the early 1980s characterised by a demand to boost production and productivity. In the second phase from the early 1980s to 2000 the main theme was containment, seeking to limit expenditure having achieved the goal of production, but with an unswerving belief that these gains needed to be protected through direct income support. In the latest phase, the CAP appears to continue embodying a need to support farm incomes whilst at the same time encouraging farmers to become more competitive and to deliver greater public goods and services such as environmental benefits.

Broadly speaking then, countries justify support based on:
1. The desire to sustain or increase production – food security/ self-sufficiency
2. To account for differentials in production costs and protect farmers from unfair competition
3. Provide support for farm incomes to promote greater territorial equality, thus to avoid land-abandonment or other negative socio-economic effects
4. Reward for public goods that would not otherwise be paid by the market
5. To stimulate greater competitiveness and ultimately reduce the burden of support

Total CAP support amounts to over €50bn per annum, more than 40% of the EU budget. However, this represents less than 0.5% of EU GDP and a little over 1% of EU public expenditure in total.

Does agricultural support represent a good or bad thing? There are diverging views on this matter. Detractors often point to the poor public value for money in terms of the economic contribution of farming which typically makes up less than 5% of GDP for most developed countries. However this masks the wider value of the food industry which is often the largest manufacturing sector. In addition there are strong views about the impact that subsidies and other instruments have on trade which increase transaction costs to consumers and inhibit market development. Furthermore, mechanisms that promote production out of line with demand can lead to surplus production and market dumping. On the other hand, support policies provide some insurance against market volatility, facilitate access to credit, and act as a tool to deliver public goods. Interestingly, despite the generally negative public discourse about agricultural subsidies in the UK, a large majority of the EU general public (according to Eurobarometer surveys) believes that the support to farming is either about right or insufficient!

Food crisis 2007/8 – an analysis
The spike in global commodity prices witnessed during 2007 and early 2008 amounted to an average 60% increase of prices compared to those two years prior. The impact of these increases was felt worldwide by producers but especially consumers, particularly those in developing countries due to the levels of expenditure on food as a percentage of household expenditure. An extra 200m people fell below official measures of hunger. Prices have come down since, although remain structurally high and the situation has instigated major debate about the causes and long-term future projections.

The causes were both short-term and long-term. A very good summary of the causes was recently prepared by the UK government (http://www.defra.gov.uk/foodfarm/food/pdf/ag-price100105.pdf)

Direct factors included:
- The rise in energy prices which increased production costs
- Stocks of grain declined relative to use
- Poor harvests. Successive years of drought in major agricultural producing regions (notably Australia) contributed to a run down of stocks.

- Currency, especially the devaluation of the US Dollar also played a role.
- A debate remains about the role of speculation on markets as a factor, but it is fair to say that the unprecedented situation gave rise to a state of market panic among some commodity traders.
- National policies, especially export constraints by some major exporters (Kazakhstan, Argentina, Thailand) exacerbated problems, especially for developing countries

Long-term trends also played an important contributory role, especially population growth, economic development, urbanisation and falls in productivity growth. These factors suggests that a seismic shift in agricultural markets is taking place that will have lasting impacts.

A debate has raged about the contribution of increased biofuel production to food price increases. There is no denying that this was a contributory factor in some locations, but the facts blur a good news story. Analysis varies from the impact accounting for between 3% and 70% of the price increases experienced! Rice prices experienced the greatest increases in grains, but no rice is used for biofuel production. Now that prices are falling, there is no clamour to illustrate the role that biofuels might have played in boosting production and thus dampening prices. The subject is perhaps the biggest food myth of recent years.

Solutions
It might be expected that the logical response to this situation would have been to increase trade flows to stimulate production and to provide some short-term relief to the lack of availability. However the response of some governments has been to look inwards rather than outwards, favouring national policies such as export controls to dampen market prices to the benefit of indigenous consumers (but damaging farm prices and stifling investment). Rather than stimulating debate about free trade, the economic crisis has strengthened the hand of those who argue that liberalisation is inherently dangerous to food security.

There are multiple lessons to be learned from the food crisis. The first the impact that the decline in agricultural investment has had on productive capacity. The World Bank's own support for agriculture dropped from thirty-three percent of its development aid in 1981 to only eight percent in 2001, mirroring the declines in public expenditure around the developed world. The second is the importance of global stock levels. The third is the role played by national production and export controls which are not dealt with by the WTO.

Above all, the food crisis has heightened the strategic level of interest in food production and agriculture worldwide. For the first time, the G8 group of industrialised countries recently held a dedicated meeting of Agriculture ministers on the subject of food security.

Food imperialism
Concerns about long-term food security have caused some countries to buy or rent agricultural land in order to 'offshore' production for their national markets. The total size of some recent deals amounts to the agricultural area of France.

The pros and cons of this approach are well-debated in a recent study by the International Food Policy Research Institute (http://www.ifpri.org/publication/land-grabbing-foreign-investors-developing-countries), which contrasts the value of financial investment in developing country farming with a apparent lack of tangible benefits for producers in the country in which off-shoring is set to take place. It is likely that this phenomenon will remain a factor for some years to come and could play a role in realising the potential that exists in some under-developed regions of the world.

Food security and long-term perspective
At core of the strategic debate about food security is the question of whether the world can feed itself? There are both optimistic and Malthusian camps, both of which have persuasive arguments. Whatever

the outcome for global food security there are several, pretty undeniable factors that impinge on the ability of the world to feed itself:

1. Forecasts of population growth from 6.7 billion today to over 9 billion by 2050
2. Long-term economic growth fuelling lifestyle changes and greater consumption of animal proteins
3. Urbanisation and a greater reliance on agriculture rather than sufficiency production
4. Climate change, leading to changes in geographical advantages in production and impacting on many established production regions
5. Water depletion
6. The limited availability of agricultural land that can be exploited sustainably (estimated at 500m ha but not all easily accessible)
7. The decline of productivity growth and underinvestment in agricultural research

Globalisation and sanitary issues

One possible consequence of agricultural globalisation is the rise in food borne diseases and animal health issues. The Chinese melamine fiasco illustrated just how extensive food networks are, reflecting not only the growth of trade, but also the greater development of food processing, often combining source ingredients from various origins. Globalisation is likely to exacerbate some of the risks inherent in food safety as a result of increased transactions and the relative concentration of manufacturing.

Looking at animal health, the 2001 FMD outbreak in Northern Europe showed not only the extent of trade flows in that region but the higher risks posed by exotic disease transmission.

International rules under the WTO and International organisation for diseases (OIE) exist to govern rules and restrictions in respect of veterinary or public health and there are calls to internationalise these. However there remain shortcomings in respect of newer societal values such as environmental protection and animal welfare.

Where does the NFU sit in this?

Farming unions are often categorised as defenders of protectionism and farm subsidies. There are vested interests, however the NFU takes a pragmatic view about globalisation, seeking risks and rewards, but ultimately an unassailable fact that it will continue to happen.

The organisation believes that the market can deliver profitability if it works fairly. That said, there are medium term risks of market volatility which need to be overcome increasingly through commercial structures and mechanisms such as more secure contractualisation of production. However, public support through the CAP in the form of decoupled aids will continue to play a role, providing a secure platform for farmers to invest and allowing producers to stand back from the market. The NFU supports multilateral trade liberalisation, provided that it is evenly applied (not unilateral) shored up by robust rules, takes account of export restrictions, and gives some flexibility for countries to address non-trade concerns that are valued by society. However in taking this pragmatic approach, the organisation also has concerns about the naivety that is often expressed by those who pursue liberalisation at all costs (including parts of the UK government).