Internal market management and constraints due to the WTO

International Agricultural Workshop
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Doha Development Agenda

- Doha Declaration 14.11.01
  - Agricultural negotiations (art 13)
    - Base: article 20 of URAA 95
    - Simultaneous progress in 3 traditional pillars:
      - Improved market access
      - Progressive elimination of any form of export subsidies
      - Reduction of the domestic support
    - “Non-trade concerns”
    - Agenda of negotiations fixed “without prejudice to the outcome of the negotiations”
  - Specific measure (art 6)
    - Each Member State has the right to take measures with regard to food safety and the environment
Doha Development Agenda

• Failures
  – Cancun: 2003
  – Hong Kong: 2005
  – Genève: 2008

• Vertical process is still continuing
  – AG: Falconer text
  – NAMA: Stephenson text
  – Services: almost nothing
  – NTC: nothing at all

• Horizontal process ?
  – G20: wants to conclude AG & NAMA by the end of 2010
  – But when is the US ready to make a move?
Agriculture

- **Domestic support**
  - Yellow box, strong trade distortive: -70%
    - Intervention, private storage,…
    - After MTR and Health Check no more a problem
  - Blue box, trade distortive: -50%
    - Coupled support
    - After MTR no more a problem
  - Green box, non market distortive: unlimited
    - R&D, VLIF, rural development, but also single payment scheme (SPS)
Agriculture

• Export competition
  – Export subsidies
    • Elimination by 2013
    • 90% for dairy and sugar
    • Limited impact on other sectors
  – Export credits, food aid, state trading enterprises
    • Rather weak regulation
Agriculture

• Market access
  – Reduction of tariffs
  – Higher tariffs will decrease more
  – Exceptions
    • Sensitive products: less reduction
    • Tariff rate quota: no or reduced tariff
    • Special safeguard clause: extra protection
    • Tropical products: stronger reduction
Impact on agriculture

- Imports will increase
- Export potential will be reduced
- Prices will be under pressure
- Production volume will reduce
- Production value will reduce
- Jobs will be lost
- Farmers income will reduce
Impact on sectors

• Meat sector
  – Price reduction up to 25 %
  – Imports will double

• Poultry
  – Price reduction up to 33 %
  – Imports will increase with 50 %

• Pig sector
  – Price reduction up to 20 %
  – Imports will start
Impact on sectors

• Dairy sector
  – Price will reduce to world market level
  – Imports will reduce

• Sugar sector
  – Reference price equals world market price + import duty?
  – Quota could be under pressure.
Cancun, Hong Kong, Geneva ???

- Deadlines were not met
  - Much remains to be done
    - In agriculture
      - on domestic support: (1) size of cuts, (2) thresholds
      - on export competition: realize parallel progress in food aid export credits and STEs
      - on market access: (3) size of tariff cuts, thresholds, (4) sensitive products (# lines, TRQ expansion, …), SSG, special products and SSM, preference erosion
    - In Nama
      - (5) % cut for developing and developed countries
      - (6) flexibility offered for certain tariff lines and countries
  - Lamy’s “six” numbers : (1) ➞ (6)
Cancun, Hong Kong, Geneva ???

- Deadlines were not met
  - But progress in the technical discussions
    - on domestic support:
      - (1) size of cuts, (2) thresholds are fixed of
        » Overall reduction of trade-distorting domestic support (OTDS)
        » Final bound AMS
    - on export competition: parallel progress in food aid export credits and STEs is realised
    - on market access:
      - (3) size of tariff cuts and thresholds, are fixed;
      - (4) sensitive products (# lines is not done, TRQ expansion is done)
      - SSG, special products and SSM, preference erosion is not done
Food security in compliance with societal requirements

Singularity of the agricultural sector

Fair income

Reasonable consumer price
Two major issues

- Farm continuity – and therefore food security – is threatened by
  - An insufficient price level
    - Weak position of the agricultural sector in the agro-food chain
    - The natural environment strongly influences the type of production and the productivity (agriculture in urbanised areas)
  - Increased price fluctuations
    - Inelasticity of the agricultural market creates strong price fluctuations
    - Climate conditions, diseases and pests can heavily compromise production
    - Low return on investments is only viable in a stable market environment

- Therefore, remedial action is necessary
Which instruments are needed?

- **Measures correcting market failure** so that additional costs are compensated by the market
- **Direct government intervention** for the producer for that part of the additional cost that's not compensated through the market
- **Policies stabilising** the inherent instability of the agricultural market
- **Enabling policy** so that farmers continue to invest in efficiency improvement and fulfilling societal expectations

→ A mix of these instruments is needed to meet the agricultural policy's objectives
Sufficient price level

• Market correcting measures
  – Supply side
    • Import duties
      – Ensuring a sufficient degree of self-sufficiency
    • Quota
      – Not effective for most sectors in current WTO framework
        » Not for export-oriented sectors
        » Not for sectors where import duties don't protect the market sufficiently
        » OK for non export-oriented sectors with sound market protection
Sufficient price level

- Market correcting measures
  - Supply side (continued)
    - Producer organisations ➔ Strengthen position in the food supply chain
      - Combining supply and keeping more added value in the agricultural sector
      - Must be a means and not an end
    - Inter trade agreements ➔ Agreements within the food supply chain
      - Respect for the singularity of the agricultural sector through the entire food supply chain
EU Commission

- EU Commission finds problems in the functioning of the food supply chain (COM(2008) 821)
  - The asymmetry in bargaining power between farmers and the rest of the chain keeps farmers margins under pressure
  - EU Commission proposes a roadmap to
    - Promote competitiveness of the food supply chain
    - Ensure a vigorous and coherent enforcement of competition and consumer protection rules
    - Improve access of new players
    - Better inform the market via European monitoring system of food prices
    - Discourage speculation
EU Commission

- EU COM makes proposals to improve the functioning of the food supply chain (COM(2009) 591)
  - Promote sustainable and market-based relationships between stakeholders in the food supply chain by
    - eliminating *unfair contractual practices* between business actors all along the food supply chain
    - developing a *common approach to relevant competition issues*
EU Commission

- EU COM makes proposals to improve the functioning of the food supply chain (COM(2009) 591)
  - Increase transparency along the food supply chain to encourage competition and improve its resilience to price volatility by
    - improving the oversight and overall transparency of agricultural commodity derivatives markets
    - monitoring producers and consumer prices
EU Commission

- EU COM makes proposals to improve the functioning of the food supply chain (COM(2009) 591)
  - Foster the integration and competitiveness of the European food supply chain across Member States by
    - reinforcing the internal market (addressing territorial supply constraints, revising the legislation on labelling rules, harmonising the implementation of Community food safety standards, ...)
    - promoting and facilitate the restructuring and consolidation of the agricultural sector (producer organisations, innovation and exports)
Ideas

• Solutions
  – Price level
    • “Sweep before one’s own door”
      – Strive for cost efficiency
        » economies of scale and scope
      – Market driven demand
        » Storage, export or alternative use of surpluses
  • Correct asymmetric bargaining power
  • EU Safety net
Ideas

• Solutions
  – Price level
    • Asymmetric bargaining power
      – Code of conduct
      – Enhance the position of farmers within the sector and throughout the supply chain
        » Producer organisations en cooperatives
        » Agreements within the supply chain
        » Systems of certified quality products
Code of conduct fair trade practices

- Extra legal requirements should be remunerated
  - Inventory of all recognised labels
  - Direct payment to the farmer
  - Simplification of certification (mutual recognition)
  - Communication (also to consumer)

Legal framework for inter trade agreement (ITA)

- At European level (level playing field)
  - Implies an exception on competition law
  - Some cost parameters should be taken into account
  - Transmission of farmers’ costs in the chain

- Specificity of each sector must be taken into account
- Within an European framework
- Concept of producer organisations in agricultural sector
- Farmers’ freedom of choice must be guaranteed
Ideas

- **Solutions**
  - Price level
  - Code of conduct
    - Exchange of market information
    - Optimise supply (diversification/reconversion)
    - Competition in a link of the chain, may not hurt the overall profitability of other links in the chain
    - Promotion of local products complying specific quality requirements
    - Respect payment conditions
    - Written contracts
    - Possibility of mediation in case of conflict
    - ....
Ideas

• Solutions
  – Price level
    • Asymmetric bargaining power
      – Enhance the position of farmers within the sector and throughout the supply chain
        » Producer organisations en cooperatives
        » Organisational advantages
        » Market advantages
        » Financial advantages
        » Advantages in logistics
        » Need for a European framework
Elements of an ITA

- Cost parameters
- Determination of the delivered quantity
- Determination of the delivered quality
- Logistics
- Payment conditions
- Agreements on production methods
  - Good Agricultural Practices
  - Books of requirements
- Agreements in private market stabilisation mechanism
- Agreements on the alternative valorisation of excess supply
- Arbitrage clause
Sufficient price level

- Market correcting measures
  - Demand side
    - Quality and promotion policy
      - Only as complementary policy, insufficient as core policy
Ideas

• Solutions
  – Price level
    • Asymmetric bargaining power
      – Systems of certified quality products
        » Distinction between
        » legal quality and extra legal quality
        » market access and commercial quality
        » Mutual recognition
      » Need for a European framework
Basic (legal quality) versus extra legal quality

- Commercial quality is determined by the market.
- Legal quality is covered by a legal quality system.
- Extra legal quality is not covered by a legal quality system.

- Food safety
  - Covered by a legal quality system
  - Not covered by a legal quality system

- Market access
  - Implementation of the law, new legislation
Sufficient price level

• Direct government intervention
  – Compensation for extra costs that are not compensated by the market due to
    • The specific natural situation
    • The specific product and process norms
  – Fair income = market price + direct government intervention
  – Direct payments
    • Alternative models with regard to historic model?
      – Attention to graduality
      – Attention to use as cost compensating instrument
Price stability

• **Export stabilization**
  – Protection of competitively established export positions against exchange rate fluctuations

• **Strategic stock management for basic agricultural products**
  – Absorb baleful price peaks and drops
    • Temper sales during strong price increases
    • Supportive purchases during strong price drops
  – Without blocking the fundamental price signal
    • Limited quantities
    • Graduality

• **Insurance systems**
  – Covering production risks like diseases, plagues and climatic conditions is achievable and affordable
  – Reciprocity and substantial government input are needed to keep premiums reasonably low: public-private partnerships
Enabling policy

• Agricultural investment fund
  – To ensure food security in the interest of consumers in the most efficient way
  – And to promote societal desirable investments in the interest of citizens

• Agro-environmental measures
  – Societal expectations must be included as agro-environmental measures via an enabling policy stimulating investment avoiding direct translation into social requirements (= additional regulation)

• Export credits, export guarantees, export promotion and prospecting
  – To stimulate and guarantee competitive export
Thank you for your attention

Questions?