

Why Farming Subsidies Still Distort Advantages and Cause Food Insecurity

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For developing countries, it seems, the more things change, the more they stay the same. Despite all the talk of global power shifts and the rise of emerging economies, the run-up to the World Trade Organisation ([WTO](#)) ministerial meeting in Bali next week has once again forced developing countries on to the back foot despite having reason and ethics on their side.

The recent inability to close a deal in Geneva before the talks reflects the intransigence of some governments – the US in particular – in the face of what seem to be fairly commonsense and fair proposals to rectify large anomalies in the trade rules, and demand a pound of flesh in return for every such "concession".

The [Doha development round of trade talks](#) is all but dead, and only two issues have survived to merit serious consideration at Bali. One is "trade facilitation" – the harmonising and standardising of customs rules and procedures that is an agenda of the global north to ease import practices across the world. There are the usual noises being made about how this will dramatically increase both trade and employment worldwide, on the basis of spurious empirical exercises.

The other issue is more central: the focus on agricultural subsidies, which affects the livelihoods and [food](#) security of more than half the world's population. Unfortunately, some wealthy countries have demanded acceptance of the former while refusing to make even the most obvious adjustments to meet the latter.

Since the [WTO's Agreement on Agriculture](#) took effect in 1995, world trade patterns have changed, and there are forces distorting food trade that are not being adequately addressed. Subsidies that wealthy countries give their farmers and agribusinesses are mostly classified as "non-distorting" measures, and remain high. A few multinational agribusinesses have increased their domination of global trade and food distribution. Speculation in commodity futures markets is creating volatile price movements that do not reflect true changes in demand and supply.

All this is bad for small producers, who do not benefit from price increases and lose out when prices decline with import surges. It is also bad for poor consumers, who face much higher prices for their food. In many developing countries this has created two linked problems: food insecurity because of high and volatile food prices, and livelihood insecurity of food producers because of rising costs and uncertain supply.

In the meantime, developing countries must find some way to ensure their citizens' food and livelihood security. Many countries try to do so by introducing measures to make food affordable for low-income consumers or by encouraging domestic food production, particularly through supporting small farmers.

The trouble is that such measures sometimes come up against existing WTO rules. Thus, India's recent law that seeks to provide [food security](#) to one of the largest undernourished populations in the world has [been challenged by the US](#) in the WTO, even though India's scheme would cost a fraction of what the US provides in food subsidies.

This is because of unbalanced and what should be archaic rules that allow higher levels of subsidies and protection for rich countries compared with developing ones. The [WTO recognises three kinds of agriculture subsidies](#).

"Amber box" measures are those that distort trade most severely. Developing countries are allowed to provide such subsidies worth up to only 10% of the total value of their agricultural production; developed countries are allowed up to 5%.

The second category of subsidies, the "blue box", are considered slightly less distorting; developing countries are subject to an 8% ceiling on their blue box support.

And finally, "green box" subsidies are those that are not thought to distort trade at all; these are not subject to any conditions or limitations. Examples of green box subsidies include direct income support to farmers as well as policies for environmental protection and regional development. Most developed countries have shifted towards green box subsidies for agriculture, so they continue to provide enormous support to their farmers without breaching WTO commitments.

But developing countries trying to ensure food security may need more flexibility than global trade rules allow. To that end, the G33, a coalition of developing countries at the WTO, has suggested broadening the green box to include policies such as land reform programmes, the provision of infrastructure, and rural employment initiatives.

It is important to expand the definition of green box support to account for the specific needs of developing countries. For example, some governments may find it necessary to provide crop-specific subsidies to encourage farmers to cultivate more food crops, thus lowering prices for consumers.

Government purchases of crops at fixed, or "administered", prices can be an essential policy instrument. Under WTO rules, however, if governments pay farmers at rates that are even slightly above market prices when they are stockpiling food, those payments count toward the country's 10% amber box ceiling. But grain reserves can be essential to domestic food security, allowing countries to guard against sudden movements in global food prices. So such payments should also be classified in the green box.

Most bizarrely of all, to calculate the level of current subsidies, the WTO uses prices of 25 years ago (the average 1986-88 global prices). This is clearly ridiculous since food prices have shot up since then, so recent prices should be used as the reference. But developed countries currently refuse to agree to this because "it will open up the agreement."

Surprisingly, developed countries are contesting all of these points in the WTO negotiations. So a "peace clause" that would temporarily suspend WTO actions against countries that exceed their amber box limit is being suggested as a fallback negotiating strategy. But such an outcome should be accepted only as a transitional measure towards full recognition of the legitimacy of such policies to ensure food security.

The WTO rules make a travesty of the [first millennium development goal](#), to reduce hunger. If the world community is truly concerned about hunger, then it should not let unfair trade rules reduce developing countries' ability to do something about it.

Yet there is little global outcry about the state of the negotiations, and there are fears that the pressure to do a deal – any deal – at Bali may lead to developing countries accepting this

pathetic compromise with no real gain. People everywhere need to make this a much more vital issue on which no compromise can be tolerated.

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