Making hay

Print

By Alan Beattie
Published: May 14 2008 03:00 | Last updated: May 14 2008 03:00

Every crisis, it is said, is also an opportunity. But not, apparently, where farmers are involved.

The leaders of international institutions including the World Bank and World Trade Organisation have exhorted governments to use the food crisis to reform policies that distort agricultural production and trade. They argue that fewer subsidies and import tariffs would provide incentives for farmers around the world to increase production and exports.

Yet the effect has instead been to entrench farm lobbies in their existing positions, defending ever more fiercely the subsidies and tariff protection that they would now appear not to need. As one former official from the administration of President George W. Bush says: "Everyone is taking this situation and using it to advance an existing interest. There has been no changing of positions."

Although higher food prices have not enriched farmers everywhere, many with access to big markets have certainly gained. Those also tend to be the producers, particularly in Europe and America, who benefit from state subsidies and tariff protection.

The most obvious example is in the US, where Congress and the White House have been painfully thrashing out plans for a farm bill that will set subsidies for the next five years. Capitol Hill and Mr Bush are in a stand-off, with the president threatening to take up his rarely used veto pen if subsidies are not reformed.

With the farming sector flush with cash, the time would seem ripe for reform. Farmers complain that rising input costs, largely oil and fertiliser, have limited their gains from higher farm gate prices. But as the former administration official points out, the hard data show a big boost to income and wealth.

The US Department of Agriculture forecasts farm sector income to increase again this year on top of big jumps in previous years, up 4.1 per cent to a level 51 per cent above the 10-year average. Debts have increased but nothing like as quickly as assets: soaring land prices mean that net equity in the farm sector has nearly doubled in the past five years, increasing by around $1,000bn (£514bn, €647bn).

So what could happen? The US doles out subsidies to its farmers in two main ways: price-related payments, which kick in when prices fall, and "direct payments" that are related to overall acreage but not current output. Payments under the first type have dropped rapidly because of stratospheric prices. But farmers are reluctant to see those falls locked in by having a lower ceiling imposed on overall payments - defying demands from America's partners in the faltering "Doha round" of global trade talks.

Bob Stallman, a rice-grower from Texas and president of the American Farm Bureau Federation, which represents many subsidy recipients, says: "Does someone want to guarantee me from now on as a farmer that prices will stay where they are? Anyone who has been involved in farming for a long time knows that what goes up can come down."

US farmers also argue that prices are themselves also subject to the vagaries of Washington politics. Though some of the higher demand for food looks like a secular trend, because of rising consumption of meat and dairy produce in India and China - which in turn lifts demand for grain as a feedstock - there are undoubtedly some more artificial elements in play. Demand for biofuels, for example, has been increased by generous federal subsidies of 51 cents a gallon, buttressed by an import tariff of 54 cents a gallon. The reduction of that support, another item on the Bush administration's wish list, could result in prices falling back.

As for the effect on the developing world itself, American farmers argue - with some logic - that the overall effect of subsidies is to depress prices by encouraging farmers to stay on the land and produce, so taking them away is not a sensible response to soaring food costs.

Their resistance to reforming food aid, however, is regarded by development experts as far less defensible. The US is the biggest donor of food aid in the world by far, much of its help being channelled through the United Nations' World Food Programme, which administers emergency humanitarian assistance to communities struck by disaster or famine. But American food aid bears the marks of agricultural lobbying: it has to be bought from American farmers and transported in US-flagged ships, which adds considerably to costs - an inflation that looks increasingly indefensible given the rocketing price of feeding the poor.

The White House has been pushing to bring the US into line with international best practice by giving cash to be used to buy food close to where it is needed. But its proposal that a quarter of US food aid be converted to cash met fierce opposition from the farm lobby and Congress, which conceded only a small pilot programme.

The farm bill has barely been changed as a result of the food price crisis, not least because the main planks were agreed by Congress in the autumn before it became a highly salient political issue. Congress has gone some way to compensating poor US families for higher prices by adding some $10bn over 10 years for food stamps, a category that already makes up by far the biggest part of the agriculture budget. But that is small change in a spending programme that will total nearly $300bn over five years. Support prices for the heavily subsidised commodities such as rice, cotton, wheat, corn and soyabeans have generally been maintained or even slightly raised, while lawmakers have been resisting the White House's insistence that farmers with an income higher than $200,000 should not receive subsidies.

There is poignant irony in the adversaries' positions. A House of Representatives led by Nancy Pelosi, a liberal Democrat from urban San Francisco, is arguing for higher pay-outs to rich farmers, the Democrats being desperate to hang on to their electoral gains in the rural heartland states. Meanwhile, a Republican White House headed by a Texas conservative not known for his levelling rhetoric or instinctive multilateralism inveighs against subsidies going to "big corporations and wealthy landowners" and warns that the farm bill will lead to America facing a wave of litigation in the WTO.

Reform efforts are complicated by a quirk that puts the White House's two stated aims, fairness and good global citizenship, at odds. Of the various types of subsidies, direct payments are the most compatible with WTO rules since they do the least to distort production, and the Bush administration prefers them to price-based support. But it looks odd at the moment to be handing out money irrespective of soaring prices and farm incomes.

In an interview, Susan Schwab, US trade representative, says: "It is hard to explain politically . . . it is a paradox in terms of what we are doing." She says the way to square the circle is to regard direct payments as a safety net that does not distort production.

Whatever emerges out of the fight between Congress and Mr Bush, it is unlikely to produce a farm bill that looks very different from the current one. Across the Atlantic, prospects for reform of farm support look similarly dim. European sceptics of liberal trade have seized on the crisis to argue that the world markets cannot be relied on.

The current incarnation of the European Union's Common Agricultural Policy is due an interim "health-check" this year before it is fundamentally revised in 2013. Much of the money the EU transfers from European consumers to farmers is through import tariffs that hold up domestic prices.

EU member states such as the UK that want lower protection say that the food crisis makes early CAP reform, and particularly tariff cuts, imperative. But those opposed to the European Commission offering big tariff cuts in the Doha round, particularly France, have marshalled their forces against rapid change.

Michel Barnier, the French farm minister, while denying that he is in favour of autarky, argues that the food crisis underlines the need for regions to keep food production at home. "The [CAP] budget has been going down, but it needs to be high enough to keep strategic assets in agriculture in Europe," he said last week. "Food security is not only about trade - it is about producing enough to feed yourself. If free trade were the answer to global hunger, we would know about it by now." Irish farmers, meanwhile, threaten to vote against the EU reform treaty that will be put to a referendum in Ireland next month if farm tariffs, particularly on beef, are cut sharply as part of a Doha deal.

Indeed, while most economists argue that more liberal trade policies could help reduce prices by encouraging more production in food-exporting countries, the crisis has, if anything, harmed rather than helped the chances of a deal in Doha.

Even countries such as the Philippines and India, which have slashed their food import tariffs, are demanding even more strenuously than before to retain the right to raise them again. They have drawn a similar lesson to that of Mr Barnier: world markets cannot be trusted, so countries need to grow more of their own food, and that means keeping the flexibility to protect their farmers from competition.

Agencies such as the World Bank argue for a grand bargain that ends in freer food trade. If agricultural importers could always be sure of having plentiful food to import, they might be more willing to fix their tariffs permanently lower. If exporters were guaranteed open markets into which they could sell, they might accept restrictions on their ability to ban or tax exports when prices were high.

But such co-ordination has proved elusive, not least because substantive restrictions on export taxes have not formed a central part of the Doha talks. There are currently no restrictions on export taxes under WTO law and even temporary export quotas or bans are permitted if imposed to prevent "critical shortages" of food at home.

Countries that import much of their food, such as Japan, South Korea and Switzerland, have repeatedly asked for laws controlling export restrictions and taxes. But though some agricultural exporters including New Zealand and Australia have been willing to discuss the issue, plans for strict new controls have foundered on opposition particularly from Argentina, which has used export restrictions extensively in the current crisis to stop food going abroad.

All of which leaves those who believe that government intervention in agriculture has helped to cause the current crisis firmly on the back foot. For them, the policy response of governments worldwide is simple and dispiriting: more of the same.

Towards a 'coalition of the caring'

Americans do not have to go to the Philippines or Haiti to see how a drama can turn into a food crisis: they can find it at their local superstores. Costco and Wal-Mart, the US retail giants, were forced last month to limit the amount of basmati rice any one customer could buy from their warehouse stores after rumours of a shortage triggered a stampede of purchases. There is, in fact, no rice scarcity in America. But if a vicious spiral of higher prices and emergency stockpiling happened at the terminus of one of the most efficient supply chains in the world, it can happen anywhere.

Much of the policy reaction to the global food crisis has focused on boosting worldwide food supply in the medium to long term, particularly in developing countries. But even a world with enough food to eat is vulnerable to hoarding panics. Could there be a way of preventing crises by disconnecting the feedback loop?

Panic spreads easily because the reality of food distribution is often a long way from the efficient, flexible markets of microeconomics textbooks. Trade in food, particularly rice, in fact serves a relatively small part of global demand and is vulnerable to sudden shortages. Poor, landlocked countries with bad roads and creaky communications are particularly at risk, especially those dependent on a large neighbouring nation for food supply - such as Niger with Nigeria or Afghanistan with Pakistan.

Some countries have reacted by building stockpiles, such as Oman, which announced recently it wanted two years' worth of rice reserves. The world collectively used to hold a lot more food reserves than it does now, often by accident. Big stocks were a by-product of the domestic agricultural policies of the European Union and the US, which used to rely heavily on "intervention buying" where governments would support farmers by stepping in and buying food if the price fell below a certain level. As farm subsidies, particularly in Europe, were reformed and governments cut intervention, the grain mountains shrank.

Food policy advisers say the crisis has pointed to a missing pillar in the architecture of global governance. But one such expert, Joachim von Braun, director-general of the International Food Policy Research Institute in Washington, says that going back to each nation holding its own physical stocks is not the answer - particularly in countries with weak and corrupt governments. He points out that officials sold off the national grain store in Malawi several years ago as a food crisis loomed. "I do not think we want this story to repeat itself. In countries with governance problems, there will always be a huge incentive to sell off stocks in times of trouble. That is the time when they are worth their weight in gold."

Nor does he think a solution will be found in the World Trade Organisation, which he says would be overburdened by questions of short-term food supply. Mr von Braun's solution is for a "coalition of the caring" - the Group of Eight rich countries together with some of the big agricultural exporters, such as Brazil - to establish a global food bank on which the world could draw at times of crisis, under strictly predetermined criteria. As an interim step, Asia could start a rice-pooling arrangement - though quite different from the price-fixing "rice Opec" plan recently proposed and then withdrawn by Thailand.

"There would be no bureaucracy and no bricks and mortar but a promissory note among governments who can trust each other," Mr von Braun says. Just like a bank with capital requirements, it need only hold assets to cover 5-10 per cent of its promises, he says. The very existence of such an insurance mechanism, analogous to a lender of last resort in the financial system, should be enough to bring some calm to the commodity markets.

One thing is clear: without a collective mechanism, countries will continue to take their own actions - and that could make the spiral of short-term food shortages and price rises worse.