

# Food Security and the GATT: a Neglected Agenda<sup>1</sup>

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*Developing countries are generally positive towards the trade liberalisation negotiated during the GATT Uruguay Round but are concerned the Agreement does not include a commitment to maintain, distribute and finance sufficient global food stocks. They also fear the Agreement may damage food security, reduce food stocks, raise food prices and limit food aid. Such measures would impact chiefly on the poor. The GATT Agreement must include provisions to ensure global food security for developing countries.*

## Introduction

Opinion in development circles was divided about the General Agreement on Tariffs and Trade (GATT) Uruguay Round. Opponents of a GATT agreement among development NGOs feared the increasing integration of developing countries into the global economy which would follow as a result, stressed the sacrifices developing countries would be asked to make (in providing more liberal access to their service sectors, for example) and worried about the environmental consequences of a world trade regime which limited governments' ability to impose trade restrictions to pursue environmental objectives.

From being initially suspicious of a further GATT Round, however, developing countries swung round to seeing the advantages for them of a successful outcome. Brazilian ambassador Rubens Ricupero, acting as spokesman for the developing countries at GATT, is quoted as saying that "having

placed our faith in the system, we cannot afford to wait any longer".<sup>2</sup> The prominent and pro-active role played by developing countries in the Uruguay Round was in marked contrast to previous negotiations.

Part of the reason for this shift is the remarkable liberalisation of trade policy which many developing countries have unilaterally undertaken (under the auspices of structural adjustment programmes or otherwise) in the years since the Uruguay Round was initiated in September 1986. Nowhere has this shift been more remarkable than in Latin America, traditionally the most protectionist of continents. Many Latin American economies have reformed their trade policies, introducing much lower and uniform tariffs, and the continent is alive with schemes for regional integration and the formation of free trade areas. These countries now wanted to see the *quid pro quo* from the industrialised countries through the removal of their tariff and non-tariff barriers to Third World exports. For the first time, the impetus for trade liberalisation came from the Third World rather than from the industrialised countries which professed to accept liberal norms.

Nonetheless, when a change in the rules occurs in any game it is unlikely that everyone benefits equally. Overall gains to developing countries could mask insignificant gains to many countries and net losses to others. From a development perspective, it is not so much what happens to countries as to the people within countries which matters. In particular, the question must be asked whether the poor will really benefit from the Uruguay Round deal.

One way to address this question is to ask what the likely consequences of the deal will be for food security in developing countries. For all of us, food security is important. One of the aims of the Common Agricultural Policy (CAP) is to ensure a secure supply of food. For the poor, however, food security is vital. Undernutrition remains the most tangible sign of poverty, whether it be the chronic undernutrition of those with permanently less food intake than their bodily needs, or the periodic undernutrition of those pushed below the poverty line by sudden shocks in food supplies or prices. Examining the effect of the GATT agreement on food security is therefore a helpful, if not comprehensive, way of evaluating its likely effect on the poor.

Despite the brave resolutions of the 1974 World Food Conference, food insecurity remains a blight affecting dozens of countries and millions of households in the Third World. The increasing dependence of some of the poorest countries on

imports to meet their food consumption needs makes them more vulnerable than ever to even small changes in the international trade environment.

This article describes a number of channels whereby a GATT Uruguay Round agreement could impact on the food security of households in developing countries. In the main these reflect the impact of international changes on the national food security of developing countries. An improvement in a country's national food security (its ability to supply a high share of its food needs from its own resources and to maintain consumption levels in the face of external shocks) does not guarantee improvements in household food security. The latter are the outcome of a complex series of domestic economic factors and institutional arrangements, including access to land, income distribution, welfare and public works programmes and transport infrastructure. If these factors do not change, however, anything which undermines national food security will also have adverse effects on household food security.

Statistics show the vulnerability of national food security in many developing countries to external shocks. Overall, cereal imports currently amount to about 10 per cent of developing countries' cereal consumption, and this ratio has been growing by nearly four per cent annually for some time. The North Africa/Near East region has the highest import dependence, with one kilogram out of every three consumed being imported. This is followed by sub-Saharan Africa and the Latin America/Caribbean regions, where import dependence averages one kg of every seven consumed.

Import figures do not tell the whole story. For several developing countries food aid represents a considerable, though declining, share of total cereal imports. In recent years aid has accounted for only 1/8 of developing country cereal imports, compared to between 1/5 and 1/4 in the early 1970s. Nevertheless, for a large number of countries food aid remains an essential source of imported supplies. For more than 40 recipient nations, the share of food aid in total cereal imports still exceeded 40 per cent in the late 1980s.

Of course, the importance of the external shock which a GATT agreement might cause should not be exaggerated. Many other factors are in play as well. The debt burden, world interest rate levels, trends in commodity prices and the prospects for world economic growth will all affect Third World countries' ability to boost food consumption while meeting food security goals. Food security is also influenced by such internal factors as

political stability, the impacts of structural adjustment and the extent of redistributive policies pursued by governments. The importance for household food security of the global demand and supply factors which fall within the province of GATT is relatively minor in comparison to these factors.

However, precisely because it is a negotiated agreement, steps can be taken to mitigate any foreseeable adverse consequences for food security of the GATT deal. The five channels considered in this article are (1) the impact on the level of global food stocks; (2) the impact on world food price instability; (3) the impact on the level of food aid flows; (4) the impact on the level of world food prices; and (5) the impact on overall foreign exchange earnings of developing countries. The GATT agreement could, indeed, have negative consequences for national food security in many countries through these channels, although some fears are more real than others. In particular, the neglect in the GATT agreement of any commitment to maintain a sufficient level of global food stocks to counter short-term production variability, and to agree on arrangements for their distribution and financing, is highlighted. This important issue needs to be pursued more forcefully.

## Global food stocks

Maintaining adequate food stocks at the global level is a key safeguard against short-term production variability. While an individual country can prevent consumption from falling in the face of poor domestic harvests by increasing imports, this option is not available for the world as a whole. To prevent temporary food shortages driving up food prices adequate global stocks are necessary.

The Food and Agriculture Organisation (FAO) recommends keeping global carryover stocks at around 17-18 per cent of consumption to cushion variations in the following year. Actual carryover stocks exceeded this minimum nearly every year since the recommendation was adopted following the food shortages of the early 1970s. Between 1961 and 1971, carryover stocks ranged from 17 to 24 per cent of annual consumption, while in 1972 and 1973 they fell as low as 15 per cent. In the 1980s, with depressed international prices and rising government support to farmers in the industrial countries, stocks accumulated well above the FAO minimum, but fell again to

just the minimum after the 1988 droughts in major exporting nations. If 1987 stock levels had been that low (as opposed to the actual 27 per cent) post-drought stocks would have fallen to only eight or nine per cent of consumption. This suggests the FAO standard is not overly stringent.

Nonetheless, the costs of government stockholding of food and associated surplus disposal undoubtedly provided a major impetus to the inclusion of agriculture in the Uruguay Round. The main thrust of the GATT negotiations in the food area was to discipline the amount of financial assistance governments provide to their farmers. This discipline will be enforced through reduced border tariffs and increased mandatory market access (minimum import amounts of 3% rising to 5% for individual products and product groups have been agreed), reductions in the amount of domestic support provided to agriculture, and reductions in the value (36%) and volume (21%) of subsidised exports over a six year period. This reduced support should lower the amount of unwanted production (unwanted, that is, at current prices) and will likely reduce global stock levels generally. This expectation is reinforced by the domestic farm policy changes undertaken unilaterally by both the US and EU in recent years.

In both regions, the thrust of policy has been to reduce the chances of a buildup in government stockpiles as a consequence of farm income support. Europe's well-known "food mountains" arose because market intervention was the main mechanism of income support. Governments stood ready as customers of last resort to buy surplus commodities at a high support price. In both the US and the EU, however, recent policy changes have lowered the trigger price at which government purchases begin, and farm incomes are supported increasingly through direct government payments. The intention is thereby to avoid the buildup of stocks and the associated costs of storage, waste and product deterioration.

The food stock mountains grew as an accidental byproduct of domestic agricultural policy, and were not intentionally managed as a global food reserve. Nonetheless, they provided a substantial measure of security. Given the precarious state of global food stocks in recent years it would be appropriate for GATT to have a role in assuring adequate global stocks and apportioning responsibility for holding them.

The overall level of global stocks will also be affected by the impact of reform on stockholding behaviour in the private sector. Whether global stock levels will fall in tandem with a decline in public stocks depends on whether private stockholding increases

in response. Private firms will hold stocks (apart from pipeline stocks) if they believe future prices will be sufficiently higher to reward them for the cost of stock-holding. In times of low prices, firms will tend to add to stocks; in times of high prices, they will tend to draw down on stocks. This stock-holding behaviour has the effect of evening out the fluctuations in prices that might otherwise have occurred. It is uncertain if private stocks would, in practice, compensate for a reduction in public stocks in this way. Whether food stocks are held by public or private agencies, it is still desirable that there should be some mechanism to ensure that the required minimum of stocks be held and the rules for their use in times of shortage agreed.

It has been the skewed distribution of the costs of stockholding, largely borne by the US and the EU, and not their absolute size which has been the problem in the past. Negotiating a burden-sharing agreement will not be easy, but there is a precedent in GATT's sponsorship of food aid burden-sharing under the 1967 Food Aid Convention. The Convention sets an annual target minimum for cereals food aid and allocates specific responsibility to donor countries to provide this minimum. Other exporters may be more willing to contribute to the costs of maintaining a global reserve if less subsidised competition from the US and the EU accompanied the change. To date, unfortunately, there is no sign that GATT has recognised the need for a global stock-building role.

## **World price instability**

Other elements in the overall GATT package - especially those which reduce insulation of national markets and stabilise world market prices - could reduce the necessary size of a global reserve.

Many countries stabilise domestic food prices through trade barriers that insulate their markets from world price fluctuations. A particular case is the EU, where the CAP's variable levy/export subsidy regime prevents any fluctuations in world prices from being transmitted to EU producers and consumers. While the policy contributes to the valued goal of food price stability within the EU, it does so at the expense of exacerbating the magnitude of food price fluctuations experienced by third countries, and particularly developing countries. For, as noted above, if the world as a whole suffers a drop in food production

and the EU refuses to share in the adjustment to this shortage by allowing EU food prices to rise, the belt-tightening among consumers (and the rise in food prices to bring this about) in other countries must, of necessity, be greater. One outcome of the GATT agreement is a commitment to convert border measures to tariffs, thus reducing the degree to which national food markets are insulated from each other. Less world price variability should result, to the benefit of developing countries.

Volatility of food prices is of particular concern to food importers and is an important motive behind attempts to increase food self-sufficiency. While the tariffication of border measures foreseen in the GATT agreement will reduce volatility, the uncertainty over global stock levels makes the final outcome less certain. Lower global stocks could lead to increased price variability if they result in a reduced ability to absorb shortfalls in global production. On the other hand, private stocks may increase and may be managed more optimally from the viewpoint of price stabilisation. This uncertainty would be reduced, and the likelihood of adverse food price increases diminished, if an agreement to hold adequate stock levels was introduced, as suggested in the previous section.

## Food aid

There are also fears that lower public stocks might adversely affect food aid levels. Such aid originated in the buildup of public stocks in the US in the early 1950s, and a continued link with surplus disposal has been noted. Giving away the stocks saves storage costs, and avoids their price-depressing effect on world markets (if the disposals do not affect commercial sales). The link between food aid and surplus stocks may have loosened during the 1980s, but it has not disappeared entirely - as the sharp fall in 1989 US food aid following the 1988 drought illustrates.

In addition, if the GATT agreement raises world food prices, it will make providing food aid more expensive for donors.

Of course, food aid is controversial in development circles. The elimination of food aid would be seen as a positive, not a negative, development by many people. While food aid is often justifiably criticised, it is important to distinguish between those criticisms that are valid and those that are not. Food aid, particularly cereals food aid, is on balance a positive factor for development. Where it causes damage, this is usually due more

to bad management than to any intrinsic characteristic of food aid itself. Food aid is often criticised for undermining incentives for local food production. Most food aid now substitutes for commercial imports, however, not local production, and food aid recipients are required to demonstrate that they have agricultural development programmes in place.

Food aid is often not a very efficient way of providing aid and would not be the preferred form of aid if alternative cash transfers were on offer. However, in most cases a reduction in food aid would not be followed by a corresponding increase in money aid - so food aid remains a valuable additional element of assistance to food importing developing countries. Recall that, for sub-Saharan Africa, around 40% of cereal imports are provided by food aid.

Thus, for these food-insecure countries, the possibility that food aid flows might be reduced as a side-effect of the GATT agreement is an unwelcome consequence. There are a number of other arguments, however, to counter this pessimistic conclusion. Apart from the 1989 hiccup, food aid flows trended upwards during the 1980s. Part of this rise was due to emergency needs, particularly in Africa, and to the buildup of surplus stocks in the mid-1980s. But it may also reflect a change in the international commitment to food aid. In 1980, the minimum guaranteed level of cereal aid under the Food Aid Convention was increased from 4.2 million tons (as it was under the 1967 and 1971 conventions) to 7.6 million tons. This shrank slightly to 7.5 million tons under the 1986 convention. The 1974 World Food Conference target was to achieve a level of 10 million tons of cereal food aid annually, and this has been exceeded during most of the past decade.

There is thus reason to believe that food aid provision need not depend on surplus disposal motives. This institutional commitment to food aid is underlined in the "Declaration on measures concerning the possible negative effects of the reform programme on net food-importing developing countries" which was part of the GATT agreement. The declaration commits participants to maintain aid at a level sufficient to assist in meeting developing countries' needs. Specifically, there is agreement to review the level provided under the Food Aid Convention to meet these countries' legitimate needs during the reform programme.

While main exporters' public stocks may drop under the GATT pact, the nature of the new GATT disciplines could create another food aid incentive. Recall that pact sets a



minimum import access requirement of five per cent of consumption and requires a reduction in the volume of subsidised exports by 21 per cent over a six year transition period.

For the EU, for example, this discipline would imply that the sum of domestic production plus imports under the five per cent market access requirement could not exceed domestic consumption plus the absolute ceiling placed on subsidised exports. Bona fide food aid shipments are excluded from the calculation of subsidised exports. EU Commission calculations suggest it may not be too difficult for the EU cereal surplus to exceed this permitted export volume. While the MacSharry reform changes to the EU's CAP in May 1992 give the EU additional instruments to control its cereal production (particularly by varying the amount of set-aside land required before producers are eligible for income-support payments), their use may be politically difficult. As a result, the new GATT corset could increase the political attractiveness to the EU of increased food aid flows.

## World food prices

A once-off rise in world food prices is widely expected in the wake of the GATT pact, but very different estimates of the size of the increase are produced by various trade liberalisation models. Higher prices would adversely affect developing country food security by raising import costs and possibly reducing food aid availability (particularly where donor budgets are fixed in nominal terms). Upward pressure on world food prices due to GATT would be spread over a period of years, however, and will also occur against the background of the secular downward trend in world food prices in the past 20 years. Thus it is unlikely that developing countries will see an actual rise in the nominal price of food imports due solely to a GATT agreement.

Also, an agreement would be implemented at a time when the formerly centrally-planned economies of Central and Eastern Europe are in transition to market regimes. The reform of the pricing system under way in these countries will significantly affect agricultural markets. In the short run, price liberalisation will give greater relative incentives for cereal production on the supply side, while on the demand side consumption of all foods

should decline, especially cereal consumption due to reduced animal feed demand. This decline will be reinforced by rising unemployment and falling real incomes as the economic reforms, including removal of price subsidies, are implemented. Both factors will lead to reduced cereal import demand, which will depress world prices in the short term.

In the longer run, Central Europe and the republics of the former USSR have considerable production potential, as evidenced by a comparison of current yields with those of Western Europe. Increased agricultural exports will appear as a relatively attractive way to boost foreign exchange earnings, and the association agreements a number of Central European countries have concluded with the EU offer some hope of remunerative markets. If incomes rise as quickly as expected under the impact of the economic reforms, there will be increased demand, particularly for feedgrains as livestock production both for export and domestic markets rises. However, modelling work to date suggests the price-depressing effects of increased production will dominate. All this indicates developing countries have little reason to fear higher world food prices in the next decade.

## Foreign exchange earnings level

Food security at national and household levels is determined by more than what happens in food markets. Changes in the ability of countries and households to obtain food also influence it. Thus discussion of the impact of GATT on Third World food security must also consider the effect on their export earnings. A higher earnings level would be an important offset to either lower food aid availability or higher world prices.

Overall, the results of the GATT deal ought to have a positive effect on developing country export earnings, with most gains coming from the ending of restraints on textile and clothing exports under the Multifibre Arrangement.<sup>3</sup> The negative impact of further tariff reductions reflects the loss of preferential margins which many developing countries enjoy in industrialised country markets under the Generalised System of Preferences, the Lomé Convention and other trade agreements. Within this overall gain, however, there will be important redistributive effects among developing countries. There is evidence that sub-Saharan Africa, in particular, may be a net loser from the

quantifiable GATT effects. As this is also the most food-insecure region, there is justification for redoubling current efforts to improve its food security status.

## **Fears, and an opportunity**

To sum up, fears have been expressed that the GATT agreement might damage food security by leading to reduced global food stocks, higher food prices and lower food aid flows. These concerns are important because increased food insecurity will mostly impact on the living standards and well-being of the poor.

Some of these worries were addressed in the negotiations. Measures to promote food production in developing countries - government efforts to improve rural infrastructure, agricultural research and extension - are exempt from any GATT controls. The increased patenting of plant varieties foreseen in the GATT agreement should also encourage increased private sector investment in agricultural research, although there are unresolved arguments over the terms of developing countries' continued access to genetic material originating on their territory. Food aid flows are excluded from restrictions on subsidised food exports, and the pact's participants have committed themselves to maintaining food aid at a level sufficient to meet developing countries' needs.

Conversion of import barriers into tariffs will improve the flexibility of the world market in absorbing production or demand fluctuations, and reduce world price volatility. Liberalisation of import access for non-food commodities will raise developing countries' foreign earnings and thus their command over food imports - though these effects will be highly skewed and some countries will face greater competition on markets where they had privileged access in the past. The fear that GATT will lead to a once-off price hike must be seen in the context of the secular downward trend in world prices, and the likelihood that policy changes in Central Europe and the countries of the former USSR will put further downward pressure on food prices in the next decade.

The GATT agreement does not adequately address the need to maintain global food stocks and to agree on arrangements for their distribution and financing. This is an omission that can and should be remedied forthwith.

## Footnotes

1. A shorter version of this article appeared in *Ceres*, the FAO Review, no.141, vol.26, May-June 1993.
2. Quoted in *Ceres*, the FAO Review, no.141, May-June 1993, p. 17.
3. See also Gerard Considine and Alan Matthews, "The consequences for Ireland of textiles and clothing trade liberalisation in the Uruguay Round", *Trócaire Development Review*, 1992, pp.29-49; Jim Fitzpatrick, "MFA IV-Prospects for the textiles and clothing negotiations", *Trócaire Development Review*, 1985, pp.65-74.

