



# Global Food Price Crisis— Trade Policy Options

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*The current global food price crisis has deep historical roots in the distortions of the world trading system (see companion note, Global Food Price Crisis—Trade Policy Origins). Trade policy options to deal with the crisis involve correcting these historical distortions. They include removing export controls on agricultural products, eliminating restrictions on humanitarian food aid, reducing excessive stocks of food grains, reversing biofuel subsidies and protection to inefficient producers, lowering customs duties on agricultural products, facilitating agriculture trade, completing the Doha round of trade negotiations, and, in the long run, further liberalizing agricultural trade on a multilateral basis. Many importing countries have already embarked on this agenda by slashing tariffs to lower the costs in their domestic markets.*

## Trade Policy Options: Eight Ways to Make the Future Better

Pressure on food supplies and associated high food prices are likely to be a medium- to long-term reality, because some of the driving factors—rising prosperity in the developing world, which creates more demand; high fuel prices; stagnant agricultural productivity; and climate change—induced pressure on agricultural supplies—are also durable. While the policy response to the current crisis must involve much more than trade policy (World Bank 2008a), a number of trade policy options could help mitigate the impact of the crisis, both in the short term and in the medium to long run.

### 1. Removing export bans and other export restrictions on agricultural products

While exports restrictions are introduced as an attempt to address the complex political economy of rising food inflation, they only make matters worse both from a global and domestic perspective (Nogués 2008). In the case of the thinly traded rice market, the impact of these restrictions has been espe-

cially strong. India's decision last October to ban rice exports, except for Basmati, was quickly followed by Vietnam and other major players, with an immediate impact on prices. Actions by large rice importers, such as the Philippines, which organized large tenders to obtain needed rice imports against this background of shrinking traded supplies, aggravated the problem. Reversing these policies would significantly ease market pressure and reduce the price of rice. For example, when Ukraine announced that it would relax its export restrictions in April 2008, wheat prices immediately declined by 18 percent. An international call has been made for removing all export bans and restrictions on food products, at the very least for shipments to the least developed countries and those in fragile situations (World Bank 2008b). Furthermore, the need to discipline export restrictions is all the more important as the prospect of being confronted with them perversely bolsters the argument that net food importers need to have the ability to support farmers through restrictive trade policies. In the absence of reliable world markets for food products, a country cannot help but self-insure and support its own farmers.

## **2. Eliminating taxation or restrictions on humanitarian food aid.**

Untying food aid would allow countries such as the United States, Canada, and Germany to significantly increase their assistance for a given amount of financial resources (Subramanian 2008). If the tying requirements were eliminated, just the savings from increased shipping and distribution costs would allow every dollar of food aid to go much further (Elliot 2006). Clear rules should be set so that even countries with restrictions on commercial exports allow food for humanitarian needs to be sourced from their country. Restrictions on procuring food grains for humanitarian purposes have been particularly detrimental.

## **3. Reducing excessive stocks of food grains.**

Japan currently has roughly 900,000 tons of U.S. medium grain rice and 600,000 tons of long grain rice imported from Thailand and Vietnam, which are surplus to domestic consumption requirements based on its World Trade Organization (WTO) obligation. However, this rice may not be reexported because of Japan's market access commitments under the WTO Agreement on Agriculture. These stocks are not sold domestically; instead they are allowed to decay and then used as livestock feed. Last year about 400,000 tons of rice was disposed of in this manner. Temporarily allowing Japan to sell its stocks commercially or as food aid could make a significant difference and prick the current rice price bubble. China is also holding rice stocks equal to at least four months of domestic consumption (significantly in excess of food security guidelines of 18–20 percent of total consumption) and could help stabilize the world rice market without affecting its food security.

## **4. Curbing subsidies and tariffs on European Union (EU) and U.S. biofuels production and imports.**

Phasing out biofuel policies that subsidize production from food crops, such as corn and vegetable oils, and reducing tariffs that restrict imports from lower-cost producers would promote biofuels that are both more

efficient and less competitive with production of staple foods (that is, sugar cane). It would remove pressure from food prices and allow the potential benefits of biofuels to be gained without the negative consequences. Biofuel production from sugar cane in Brazil is both competitive at current oil prices without the need for subsidies and does not come at the expense of shifting large amounts of land away from staple foods. It is also five times more efficient in terms of carbon emissions than biofuel from corn. This is an opportunity not just for Brazil, but for many other developing countries, including several in Africa (for example, Mozambique, Tanzania) that are very large potential efficient suppliers of sugar cane biofuels.

## **5. Reducing import tariffs on agricultural products.**

Many countries that had relatively high import tariffs on wheat, maize, and/or rice until the recent food price surge have reviewed and significantly reduced their duties on food products in recent months to cut food costs to local consumers. However, such revisions, at times, appear to have been ad hoc, to lack transparency, and to lead to uncertain effects on the actual level of protection and domestic food prices. Tariff cuts should to the extent possible be made in the context of a broader tariff schedule reform. Countries where high import duties still apply (for example, rice in the Philippines) should consider reducing their tariff, especially when they have the fiscal space.

## **6. Facilitating agricultural trade in developing countries.**

Beyond tariff cuts, many developing countries could reduce the price of imported agricultural products through trade facilitation measures. For many low-income countries (LICs), especially net-food importing countries, transport and logistics costs are often a more important component of total trade costs than tariff barriers. Their logistics costs could amount to up to 50 percent of the import value, compared with the Organisation for Economic Co-operation and Development (OECD) benchmarks of around 9 percent. The situation is particu-

larly severe in landlocked countries, notably in Africa, where land transportation adds significantly to logistics costs (typically US\$ 10 cents per ton and kilometer). This could double the shipping charges from overseas sources, which for high volume, relatively low value goods such as grains and edible oils could represent a significant part of the final price to consumers. While countries can do little to reduce ocean shipping costs, or the impact of fuel prices on trucking costs, they have substantial margin for improving the efficiency of their supply chain and addressing the broader facilitation issues that affect price and availabilities of food deliveries. According to the World Bank's Logistics Performance Index, customs clearances, logistics, competence of services, and timeliness are particularly poor in LICs, in particular net-food importing countries. In many LICs, food products are often subjected to a series of delays, unnecessary overhead costs, and losses and damages that further tax consumers. Furthermore, thin markets and weak competition and governance encourage rent-seeking behaviors. In some African trade corridors, distribution margins have been inflated by 30 percent on top of increasing transportation prices.

### **7. Completing the Doha round of multilateral trade negotiations.**

While the WTO cannot provide anything immediate to help solve the current crisis, it can, through the Doha Round negotiations, provide medium- to long-term solutions (WTO 2008). A Doha deal is unlikely to have much, if any, impact on food prices in the next two or three years because implementation of its provisions is gradual and because the long-run impacts on prices of staple foods would be modest since many countries have now reduced applied rates below bound rates, the target of Doha negotiators. Nonetheless, a successful Doha round would place important disciplines on the use of agricultural subsidies and tariffs if and when prices eventually do come down and the temptation to revert to the distorting policies of the past reemerges. Completion of the round would therefore represent a major step in the right direction. It would help create a more transparent, rules-based,

and predictable food trading system. In particular, a Doha agreement would eliminate export subsidies and may somewhat reduce domestic farm support for inefficient production in developed countries. Tariff bindings, even if above applied duties, would allow cutting tariff peaks, which are often the most costly, while reinforcing predictability of the trading system. Such efficiency gains in agricultural production may provide incentives to promote investments in the agriculture in developing countries. A Doha agreement could also add some transparency disciplines on the use export restrictions in enforcing the notification of new export restrictions or prohibitions to the WTO; and minimal disciplines on the period of application of these restrictions or prohibitions. A better functioning multilateral trading system would in turn help prevent the recurrence of such types of crisis by reducing the magnitude of distortions for agricultural production and making agriculture markets more resilient. Current high food prices should make it politically easier to strike a deal that would require farmers in rich countries to adjust. Negotiations in the area of non-agricultural market access (NAMA) services and trade facilitation could also have positive impacts on national transport and infrastructure, food distribution systems, and marketing costs for food and food inputs, especially if supported by a strong Aid for Trade program.

### **8. Beyond Doha, further liberalizing agriculture trade would help.**

In the longer run, taking steps toward fully liberalizing agriculture trade on a multilateral basis would help establish a more efficient and resilient global agriculture sector. Restrictive trade policies by net commodity exporters to protect the urban poor tend to have unintended negative consequences at the domestic level, and at the global level, they push up world prices even further and hurt net importers. From a global perspective, maintaining free trade in commodities while fostering incentives for production and using efficient policies to protect the urban poor (for example, targeted cash transfers) is a priority. WTO members would therefore need to make more substantial cuts to their bound tariff rates and domestic farm support

commitment to seriously begin to eliminate global distortions. Some of these are now being achieved unilaterally with the reductions in tariffs in many importing developing countries. More importantly, the benefits of freer global trade would go way beyond the positive impact on food and changes in food prices. For low-income countries, they will result in higher real incomes as other (nonfood) distortions are removed and more opportunities are created in nonfood agriculture (for example, for cotton farmers, for sugar producers to satisfy ethanol demand), manufacturing, and services.

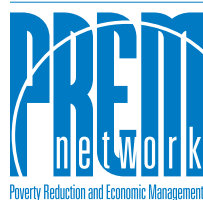
## Conclusion

The long-term trade option to high food prices is greater liberalization around the world and commitment to multilateral trade rules that allow supplies to emerge. Progressively curbing the use of trade policy to interfere with market signals—on both the export and import side—is the most sustainable and inclusive policy option available to trade policy makers to create more efficient and resilient agricultural markets. Trade policy is not the appropriate instrument to pursue equity objectives or to attain goals such as food security and rural development. This is not just because trade policy distorts consumption and production decisions but also because the distributional consequences of protecting agriculture may be harmful to many poor households, especially those that are net consumers and do not derive income from agriculture. Other policy instruments

that are aimed at increasing productivity or linking rural communities to markets are much superior to trade policy in helping the poor benefit from trade opportunities. Trade liberalization therefore needs to be complemented by other domestic policies to help put in place such productivity and income-enhancing policies.

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