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Responses by the International Trade and Aid Community to Food Security

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I. Introduction

This chapter assesses the origins of the food price rises in the context of the international distorting policies of trade (including through food aid), global food markets and food price developments and trends. Recognising that the policy response to higher food prices requires both a short and longer-term perspective, the chapter looks at both the efficacy of immediate mechanisms (notably food aid both in kind and cash, including the impact on domestic production incentives) as well as medium to longer term support of agricultural development and trade.

The short term policy dimension, needs to be set in the context of the "right to food for the truly needy".[2] Although the issue of food security lies arguably outside the remit of the WTO, and scope of regional trade arrangements, without reliable and effective support mechanisms, it is unsurprising that countries will look to trade policy instruments to address food and livelihood concerns. The chapter reviews the adequacy of existing food aid instruments and trade policy rules and measures. It recognises that to support a global system that progressively looks to liberalise trade in agriculture, is severely compromised by the lack of a credible and predictable system of support. The work proposes and recommends a serious reflection and assessment on the need for a stand alone emergency mechanism that is cash based and determined *ex-ante* by criteria reflective of global staple food prices and malnutrition and famine indicators and therefore not linked to (i.e. decoupled from) trade liberalisation in agriculture (unlike the "Marakesh Decision").

In terms of medium term support and policy advice, the chapter draws on the work and rationale that gave rise to the concepts associated with the "aid for trade" initiative (Prowse, 2006, Hoekman and Prowse 2008). There were two very distinct purposes to proposing the increased allocating of resources to "aid for trade". Firstly, it recognised that in terms of overall development assistance, there had been a significant under-investment by donors (both bilateral and multilateral), in trade, growth and the productive sectors of the economy, including agriculture. But

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[2] The right to food is a human right and is a binding obligation well-established under international law, recognised in the Universal Declaration on Human Rights and the International Covenant on Economic, Social and Cultural Rights, as well as a plethora of other instruments. The right to food is defined as "the right of every man, woman and child alone and in community with others to have physical and economic access at all times to adequate food or means for its procurement in ways consistent with human dignity". According to the right to adequate food (Art. 11) UNESC E/C.12/1999/5: the right to food implies three types of obligations – the obligations to respect (existing access to adequate food), protect (access to and utilization of resources and means to food security) and to fulfil (facilitate) in activities intended to strengthen people's access to food security. Finally "whenever an individual or group is unable to enjoy the right to adequate food by the means at their disposal, States have the *obligation* to fulfil (provide) that right directly."

moreover the second purpose was that of political economy. It was specifically recognised that for international structures to provide considerable aggregate welfare gains representing strong global public goods, in themselves, will need additional support and revitalising (i.e as the cost to potential yet substantial global benefits). In the context of agriculture, countries (and notably the poorest) need support and confidence in the international systems to overcome fears related to food security, to meet adjustment and social protection, and to take full advantage of the opportunities that effective international systems would represent.

The chapter provides a background to the rationale for "aid for trade" (AFT) and its evolution in the international trade architecture. It looks at addressing preference distortions through increased AFT. Adjustment to higher food prices may well imply a policy prescription of trade reform and facilitating agricultural trade in developing countries. In turn however this requires an assessment of the fiscal and macroeconomic implications and appropriate support responses (including safety nets). To a large extent the increase in food prices provides an opportunity for the global community (donors both traditional and non-traditional) to refocus on investment in agriculture and social protection where there has been a long-term problem of under investment in agriculture.

Finally, the chapter also reflects on whether in light of the prolonged failure to achieve an agreement through the Doha Trade Round that now may well be the time to consider how appropriate is the present agenda to the current and future trends in the agricultural sector.

II. Factors behind the recent food price rise

Domestic policy responses and international efforts to address recent turbulence created by the rise in food prices are determined by the complexity and juxtaposition of a host of factors that underlie the recent upward trend and spike in prices. As discussed in detailed by Jones, (chapter five), these factors can be clustered around three categories; (i) seasonal and cyclical factors (drought, flooding, pests and disease in key grain regions, declining dollar and low stocks); (ii) speculative (excessive pricing bubbles, significantly above that justified by fundamentals, has contributed to price volatility, through rising expectations, speculation and hoarding (including through export bans)) and; (iii) structural (energy policy and pricing, climate change, increased demand associated with emerging country income and dietary changes). Consequently single instrument solutions and policy prescriptions to the upward trend and volatility in food prices are inappropriate. Arguably the first two categories are predominantly responsible for the volatility and price spikes, while the latter is likely to result in a more permanent upward shift in prices.

The rising trend in food prices is not observed to be temporary phenomenon, but is assessed to persist in the medium term. The World Bank, FAO, OECD, and USDA are continuing to project commodity prices that will remain above the 2004 levels for most food crops through until 2015. According to the World Bank prior to the rise in food prices, 850 million people already had too little food to eat. The Bank suggests that higher prices has the potential to push a further 100 million into hunger, while rising food prices also undermines recent gains in reducing malnutrition, with malnutrition a contributing factor in over half of under-five deaths in developing countries. Just as importantly however in terms of policy response, price volatility will likely continue to be a factor given climatic changes.

To a large extent current global food production and trading systems can provide sufficient staple food surplus to meet demand reasonably reliably (albeit not the most efficiently, including environmentally and at global price levels that are likely to be higher than previous trends). Currently the world is producing more than 340 kg a head of grains a year, more than sufficient to feed the global population (Wiggins, 2008). Hunger and malnutrition is far less of a problem of global supply, as of income, food distribution and local market distortions.

The issue therefore becomes how to ensure effective distribution both in the short and longer terms, and raise income and minimize local market distortions in the medium to longer term. For the medium to longer term, this will require a more open trading system (notably regionally) and complemented by in country support for agriculture (aid for agricultural production and trade). Immediate to short term however, the issue remains one of distribution. It is also one of how to provide an effective, reasonably immediate and predictable response to external shocks, which does not distort local markets, and will not incline countries to take mitigating trade policies that are globally destabilising to food production and trade and counterproductive to medium term policy responses to food security.

III. Immediate policy response mechanisms

a. The efficacy of food aid

Over the years the domestic and export subsidies provided by a number of OECD countries but notably, the United States, the European Union, Switzerland, Japan and Norway have greatly increased supply above that which market prices would have warranted. This has allowed excess production to be sold on world markets at prices well below production costs. In turn this has reduced global food prices over recent decades. It has inevitably hurt farmers in developing countries who found it difficult to compete with subsidized exports. The Doha Trade Round has been concentrated on reducing these traditional forms of agricultural protection, and notably on export subsidies and domestic support. The major beneficiaries will be larger emerging economies and larger farms.

However in terms of poverty reduction and food security, of particular concern to low income subsistence and small scale farmers, has been the highly distortionary production impact resulting from the provision of food in kind (food aid). While food aid can be indispensable in cases of disasters when normal supply channels are completely disrupted, it has in many instances had undesirable and unintended consequences. Food aid in kind delivered in significant quantities has potentially a very large impact on local market prices. The distortion is often magnified because distribution is free and therefore even if it is sold at “market price” actual sales prices are frequently far below local prices. This tends to depress prices for local producers, lowering their incomes and reducing incentives for production and thereby increasing the country’s future dependence on food imports. Furthermore, the reduction in prices created by food aid, distorts seasonal (inter-harvest) price movements and discourages the development of private storage facilities. Additionally, food aid is in many cases distributed through governmental channels, and can significantly undermine private sector development in marketing infrastructures.

This is one of the principle forms of food assistance provided by a few donors and notably the United States, Canada, and Germany. While many donor countries have shifted emergency food aid to a cash based system, by purchasing from farmers in country or in neighbouring countries, food aid in kind still makes up a significant contribution of overall emergency assistance (Polaski, 2008).

The same shortcomings are true of tying assistance by subsidized credit for food imports (including export credit from the exporting countries). The subsidized imports depresses farmers' prices and discourages production. They can distort seasonal price movements and are often channelled through government agents, undermining private sector market development (Ingco et al., 2004). Untying of food aid would imply a significant increase in assistance for any 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).

b. The "Marrakesh Decision"

Negotiators recognised that there were some possible negative effects resulting from the agricultural reform process agreed under the Uruguay Round of Agreement on Agriculture, for least-developed and net-food-importing developing countries, arising from world market increases.[3] To address the concerns of LDCs and NFIDCs, the Marrakesh Ministerial Conference of 1994 approved a decision on the possible negative effects of the reform programme (The "Marrakesh Decision"). It recognised that the ability of LDCs and NFIDCs to finance adequate levels of commercial imports of basic foodstuffs may be compromised and consequently appropriate compensation measures needed to be put in place. The "Marakesh Decision" provided for the following:

- A review of the level of food aid and negotiations on food aid commitments sufficient to meet the needs of developing countries
- Adoption of guidelines to ensure that food aid is given in grant form and/or on concessional terms in line with Article IV of the Food Aid Convention of 1986 to include support by the International Financial Institutions (IMF and World Bank).
- Technical assistance by members, in the context of their aid programmes, to LDCs and NFIDCs for improving agricultural productivity and infrastructure, again largely under provision from the IFIs as well as bilateral donors.

No concrete measure were subsequently decided and the policy instruments suggested inevitably represented best endeavour promises being totally outside the remit and

[3] The least-developed countries (LDCs) are defined as those recognized by the Economic and Social Council of the United Nations. Net-food-importing developing countries (NFIDCs) are Barbados, Botswana, Cote d'Ivoire, Cuba, Dominica, Dominican Republic, Egypt, Honduras, Jamaica, Jordan, Kenya, Mauritius, Morocco, Namibia, Pakistan, Peru, St Kitts and Nevis, St. Lucia, St Vincent and the Grenadines, Senegal, Sri Lanka, Trinidad and Tobago, Tunisia and Venezuela.

competence of the WTO (discussed in detailed by Haberli, chapter nine). To a large extent the problem to effectively engage the IFIs was the inability to establish causality between trade reform undertaken in the context of the Agreement on Agriculture and changes in global food prices and food security.

Under the draft modalities for the Doha Trade Round, somewhat inevitably, food aid and security (both in terms of amounts and type) continues to be dealt with on a best endeavour basis. For example, the draft modalities call for “commitment to maintain an adequate level of international food aid” and “members commit to making their best efforts to move increasingly towards more untied cash-based food aid”. [4] This position is hardly credible in providing an assurance to low income countries and net food importing countries in particular, that their food needs will be met in the event of external shocks. Although the issue of food security lies arguably outside the remit of the WTO, without an effective instrument, it is unsurprising that countries will look to trade policy instruments to address concerns.

c. Trade policy measures to ameliorate short-term threats to food security

The rise in major food commodity prices over the last couple of years has been exacerbated by two types of trade policy interventions: export restrictions on foodstuffs, and trade-related biofuels policies in the industrial countries (covered in detail by Schmidhuber and Matuschke, chapter six). In the peak of the food price hike in 2008, 18 developing countries imposed some form of export restrictions. On justifiable domestic political economy grounds, each country was trying to maintain adequate domestic supplies. But inevitably as more countries implemented export bans, global supply contracted, pushing prices up further and aggravating global food security. This inevitably has strongly encouraged importing countries towards a programme of self-sufficiency given the unreliability of global food trade and as an insurance in difficult times.

Two mutually supportive policy instruments are required to meet the concerns of low income countries and notably those that are net food importing and provide for a more open trading system in agriculture. Low income countries, need to be assured (and net food importing countries in particular) that fears over food security will not be exacerbated by trade policy and that support and assistance mechanisms are predictable and adequate in the event of global price shocks, whatever the underlying cause.

At present export bans are not disciplined under the WTO (neither are they a part of the current DDA negotiations), although the need to restrict such action is highly important given that countries confronted with them (and notably net food importers) need to have the ability to support their farmers through restrictive trade policies. Justifiably in the absence of reliable world markets for food, countries cannot help but look towards self-insurance and support of their own farmers. Therefore the global trading system needs to credibly provide assurance that both imports and exports for food remain open in good times and bad (Mattoo, and Subramanian, 2008).

[4] Revised Draft Modalities for Agriculture, TN/AG/W/4/Rev.2, 2008, Annex L, para. 1- 3.

However this needs to be complemented by a predictable system of assistance for those in need in the event that prices for food increase significantly (i.e. "to achieve a serious instrument that ensures the right to food for the truly needy"). To be credible the system should be a stand alone instrument and determined on the bases of trends in global food prices and need. To be effective it should not be linked to (i.e. decoupled from) trade liberalisation in agriculture (unlike the "Marakesh Decision").

d. Existing Mechanisms – IMF, World Bank and UN support

The IMF provides short-term finance for countries in need. In response to external food price rises the Fund can provide assistance through it's Exogenous Shock Facility (ESF) for low-income countries and the Compensatory Financing Facility (CFF). These are the only international mechanisms that are specifically linked and can be triggered following exogenous shocks and adverse movements of certain commodity prices. The external shock and/or commodity price change is assessed on the basis of balance-of payments need. A number of developing countries view the ESF and CFF as having a number of shortcomings, including limited commodity coverage, and that the usual IMF terms of the facility and policy conditions can apply. The ESF is aimed however to meet the needs of low-income countries for rapid and adequate sized shock assistance with streamlined conditionality requirements. For the CFF the terms are usually better than commercial costs, they are not provided on a concessional basis, although surcharges do not apply. The value of the support largely has to be determined by the country's capacity to repay including current debt service obligations. Importantly, in the context of food security the loan is provided through general budget support and therefore the benefits may not be shared with the people within the country whose food security is at risk due to higher food prices. The assessment of need is in most if not all cases *ex-poste.*

At present the World Bank has no facility that is specifically designed to help countries manage price shocks, as is the case with ESF or CFF, but it does have a number of instruments to provide emergency assistance when a country is hard-hit by an exogenous shock that dislocates its economy and requires a quick response. This assistance again is generally provided through budget support, thereby making foreign exchange available for additional food imports and in country social protection programmes. The bulk of the response tends to be through traditional lending and non-lending support by the Bank aimed at the medium to longer-term factors behind the nature of the problem. Help is provided to stimulate food grain supply over the medium-term, including strengthening basic infrastructure in investment in agricultural technology. Some investment projects are also aimed at improving trade and distribution facilities and countries trade facilitation infrastructure (World Bank, 2008).

The UN system and regional development banks also have a range of facilities and support instruments, both for short-term help to meet immediate concerns and longer term support initiatives to increase local production and trade. The World Food Programme working along side other partners is largely responsible for immediate assistance. However as is the case with other sectors, assistance is frequently provided in a rather fragmented and ad hoc manner without due consideration to country national plans, and hence the continuous calls for harmonised processes. Moreover all assistance is based on an *ex-poste* assessment. Immediacy in delivery is critical in this sector however, to prevent the problems associated with hunger and malnutrition rapidly escalating.

Just as critical, is the fact that food aid declines just when it is most needed. As food aid is programmed by budget, not volume, rising prices reduce supply and therefore food availability falls just when it is needed the most, requiring a call to donors and additional time before providing a response. Throughout 2008, the World Food Programme urged donors to increase assistance to help meet the higher costs of food aid (identifying a funding gap of $750 million to meet higher costs of food for emergency use) and that all parties should work towards a comprehensive and co-ordinated approach and greater alignment with national efforts and priorities (Levy & Wiggins, 2008).

e. An ex-ante mechanism to short-term threats of food security

The structural shifts that have contributed to the food price spike of 2008 suggest that prices while trending lower from these peaks will remain above levels seen earlier this decade. Moreover food price volatility is likely to become more frequent, brought about by changes and variable climate. Therefore irrespective of medium term policy shifts to agricultural investment including in infrastructure it will remain the case that policy responses must retain a short term dimension that will provide the poor with a buffer against food insecurity.

(i) Food stocks

Food stocks, built up in the decade following the food price peak of the early 1970s, have been run down, falling from around one third of annual use to less than one fifth. This decline to levels that represented operating stocks at “just-in-time” inventories, provided very little to no buffer for alleviating price pressures. In the 1970s and 1980s many developing countries implemented a grain buffer stock system to physically provide grain surpluses from low price years to high price years. In practice, this policy tended to entail high fiscal costs with difficult management and governance issues, while the benefits it yielded for household food security were not clear (World Bank, 2008). For the future it may well be beneficial to raise stocks from these exceptionally low levels. However, in terms of operating costs, distributional issues and local producer impact, increasing stocks is only a very partial solution to providing an effective short-term policy response for the poor.

(ii) Cash support

Interestingly, the approaches taken toward the food needs of the domestic poor in several donor countries is markedly different in approach to that taken toward international food aid. In the United States for example, domestic assistance is provided through a mandatory programme with trigger criteria determined by overall economic activity, and/or poverty increases for other reasons (including food prices). In addition the assistance is provided largely by an electronic debit card, which can be used to purchase a very broad range of food items without regard to whether they are domestically produced or imported (Orden, 2008, see chapter eleven).

A possible way of providing a rapid response to the poorest from a sudden spike in international food prices would be to establish an ex-ante facility, available for eligible LDCs and low-income net food importers. The availability of resources would be determined by objective criteria, agreed in advance, such as by global food prices, country per capita income and other factors related to warning indicators of malnutrition and famine. This would allow countries to import (or domestically procure) basic food staples up to an agreed limit. The criteria and trigger for this mechanism would be determined in advance, support would be for basic food staples and not for general budget support. It would have the advantage of being immediate, and cash based, providing a "right to food for the truly needy". Moreover, the triggers would be based on price spikes in global food prices whatever the causes (including, although unlikely significant price rises as a result of agricultural trade liberalisation). That is the instrument unlike the "Marakesh Decision" would be decoupled from new trade disciplines.

IV. Medium to long term response mechanisms

a. Background and rationale for Aid for Trade

The rise in food prices over the last couple of years does reflect a number of long-term structural factors and in terms of longer term food security need to be addressed at that level. In terms of trade policy as discussed by Martin and Ivanic, (chapter two), taking appropriate action towards an open trade regime is supportive for promoting development, it provides incentives to increase production, technology transfer and reduces the cost of food to consumers and particularly to the poorest consumers.

However, the benefits of trade reform to growth and poverty alleviation and notably in agriculture, are dependent on at least two conditions being met. Market access regimes need to be favourable to the products of importance to low-income developing countries and secondly these countries require support to meet the opportunities that market access improvements offer, in terms of human, institutional and production capacity as well as support to meet adjustment to domestic reform (Njinkeu and Cameron, 2007).

Prior to the recent initiative on aid for trade, donors have provided assistance to developing countries over many years which in principle included support to countries to increase trade and support growth. What has set the recent push on AFT apart from previous efforts is largely derived through (i) evidence of aid practices and (ii) theoretical underpinnings, that if one is to take international trade theory seriously, factored into negotiations should be the recognition that trade agreements (multilateral and regional) to trade reform may imply strong aggregate gains but will simultaneously involve redistributive impacts and costs. For some countries a domestic response to the reform is too costly both in terms of resources as well as for political economy reasons. The AFT initiative that emerged in 2005 had two very distinctive purposes.

(b) Evidence of aid practices

Cross country growth analysis (Growth Commission, 2008 amongst others) clearly demonstrates that no country has developed successfully by turning its back on international trade and long-term capital flows. However the evidence does suggest the need to place trade reform in the broader context of a development strategy that will allow a gradual opening to imports and foreign investment as the complementary behind-the border institutional and social structures are put in place. Seen in this context, it makes sense to support trade and growth priority areas as defined in national development plans and strategies and clear accountability on the delivery of assistance.

However, empirical assessment of aid delivery during the early part of this decade, shows little support for the productive side of the economy. Promoting trade and investment within a country's national development strategy has been weak. Reviews of Poverty Reduction Strategy paper (PRSPs) indicated that the productive sectors and the growth agenda receive limited attention.

Trade concerns when they were expressed in PRSPs did not necessarily result in trade-related investment (Capra International 2003; Hewitt and Gillson 2003, World Bank 2004). In part this is because investment needs for trade compete with other much-needed country-level investments in such areas as health and education, which donors have been actively pressing developing countries to undertake.

A significant factor behind the present difference between supply and demand for food can be explained by the "decades-long underinvestment in agriculture" in many developing countries (Polaski, 2008). Some countries that were previously self-sufficient in food have become net importers. The World Bank identifies five factors responsible for this change, most of which are related in part to the *modus operandi* of donors (both bilateral and multilateral) and/or agricultural support policies in donor countries: declining international commodity prices that made agricultural investment less profitable; competing demands for development assistance from social sectors such as health and education; emergency responses to food crises in the form of food aid in kind; opposition from farmers in some donor countries to support for agriculture in competing export markets of recipient countries; and opposition from environmental groups (World Bank, 2008). The World Bank's support for agriculture declined even more than bilateral donors, from thirty-three percent of its development aid in 1981 to just 8 percent in 2001 (World Bank, 2007).

c. Taking international trade theory seriously

However, even accepting that trade is likely to generate aggregate gains, the distributive and redistributive dimensions of trade integration need to be taken into account if the political viability of the process is to be ensured (Verdier 2004). That is policy needs to take international trade theory seriously. Domestic adjustment and reform may be too costly in terms of resources and implied political response for some developing countries.

Historically it is worth noting, that providing significant assistance was instrumental in persuading countries to adopt more democratic, open, market-oriented systems. The European Union provides a system of "jurisdictional convergence" where members are obliged to accept freedom to trade, migrate and movement in capital. In exchange the European Union has provided a process for relatively successfully integrating the poorer members and helping them converge with the richer states. The post-war Marshall Plan was instigated in large measure to neutralize the forces moving Western Europe away from multilateral trade (Foreman-Peck, 1983) and to thereby facilitate global economic recovery. About $13 billion representing several percentage points of U.S. gross domestic product was provided between 1948 and 1952 (Price 1955).

In the Doha Declaration of 2001 there was no mention of Aid for Trade. It mentioned the need for technical assistance for countries to comply with new rules and obligations, stating that "technical cooperation and capacity building are core elements of the development dimension of the multilateral trading system" (WTO, 2001), but there was no statement that this should be a negotiated part of the round. It did not envisage any possibility of losses from trade liberalisation. The concept of a "development round" was based on the understanding that broad based improvements in market access would provide significant benefits for all developing countries and an assumption that it could not be harmful.

Responding to the repeated concerns expressed by developing countries, significant research was placed into drawing out the key issues of Aid for Trade. In particular, on the importance of complementary support for trade-related supply capacity needs, adjustment issues notably related to preference erosion, and fiscal costs as well as concerns expressed by net food importers. From 2004 to the first half of 2005, a group of aid officials and experts chaired by Ernesto Zedillo examined what developing countries could gain from the Round and concluded that Aid for Trade was an essential part of a package to rescue the Round and ensure that developing countries gained. (Zedillo, 2005.).[5] Others followed (including the Commission for Africa, later in 2005, [6] the IMF (2005, 2006), and the World Bank, (2005, 2006)), reiterating the importance of aid for trade to help developing countries benefit from the opportunities offered by a trade round.

With increased recognition that a successful liberalising trade round would for some bring adjustment costs and a need for capacity building in productive areas, for them to benefit from the round, aid for trade was added to the Doha Negotiating Round in December 2005, four years after the agenda had been agreed, and after all countries had set their negotiating mandates.[7] This was exceptional with no other precedent to

[5] Global Trade and financial Architecture Programme comprised of a steering committee chaired by Ernesto Zedillo, Director of the Yale Center for the Study of Globalisation (former President of Mexico). The work was designed to build on the finding of he UN Millennium Project task force on Trade. For further details see http:///www.ycsg.yale.edu/focus/index.html

[6] Report of the Commission for Africa, 2005, see: http://www.commissionforafrica.org/english/report/introduction.html

[7] WTO Hong Kong Ministerial mandate on Aid for Trade: "We welcome the discussions of Finance and Development Ministers in various fora, including the Development Committee of the World Bank and IMF, that have taken place this year on expanding Aid for Trade. Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to expand their trade. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda (DDA), particularly on market access. However, it can be a valuable complement to the DDA. We invite the Director-General to create a Task Force that shall provide recommendations on how to operationalize Aid for Trade. The Task Force will provide recommendations to the General Council by July 2006 on how Aid for Trade

an expansion of the mandate mid-way through negotiations. Getting AFT added to the WTO's mandate was designed to protect the weakest members and those with least stake in the liberalising function of the WTO, and notably for least developed countries and others depending on preferential rather than Most Favoured Nation access to developed countries, a challenge to normal analyses of power within the WTO. It committed the WTO to having a monitoring role in aid.

The Task Force report on Aid for Trade emphasised that Aid for Trade financing be "additional, predictable, sustainable and effective." (WTO, 2006) In all the report outlined 32 recommendations for the WTO, donors and beneficiaries to implement to fulfil trade-related needs and monitor the progress of Aid for Trade activities. In October 2006, the WTO General Council accepted the Task Force report and the WTO Director General emphasised the WTO's role in promoting coherence through monitoring Aid for Trade. This would build on the existing OECD/WTO data base, but the WTO would also use direct reports from donors and beneficiary countries to the Committee on Trade and Development. The OECD has now taken responsibility for defining and compiling data on Aid for Trade and the WTO is responsible for annual reviews the first of which took place in November 2007.

According to OECD data, the increase in activity in Aid for Trade is well in line with pledges made by both bilateral and multilateral donors at the time of the Hong Kong WTO Ministerial in December 2005. In 2006, Aid for Trade from both bilateral and multilateral donors combined rose to $23 billion in real terms compared with an annual average flow of almost $21 billion over the baseline period of 2002-2005, representing a 10 percent increase. These figures exclude non-concessional funding from the International Financial Institutions which would add a further $10 billion. Germany, the Netherlands, Spain, and Sweden increased their spend by 50 percent while that of the EU, France, Ireland, Norway, and the United States was one third higher than baseline. The increase in Aid for Trade over this period took place simultaneously to an increase in overall ODA, with social spending also increasing and therefore the increase in Aid for Trade does represent additionality. So far the "Aid for Trade initiative can be considered a success" (Lammersen and Gordon, 2008).

However, with the financial crisis of 2008, prospects for the global economic outlook have changed markedly, and overall development assistance likely to come under pressure. If the Doha negotiations continue, then the fact that AFT is an essential condition for some countries will ensure that there is some leverage for the recipients, in contrast to other aid relationships. If the Doha Round fails, then possible pressure to increase aid for trade purposes may well diminish (Page, 2008).

V Aid for Trade and adjustment

a. Preferences and AFT

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might contribute most effectively to the development dimension of the DDA. We also invite the Director-General to consult with Members as well as with the IMF and World Bank, relevant international organisations and the regional development banks with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional loans." WTO Hong Kong Ministerial Declaration, paragraph 57. WT/MIN(05)/DEC. 22 December 2005

Preferential access has become a key issue in terms of multilateral liberalisation. This partly reflects increasing dissatisfaction by countries excluded from preferences accorded to other countries. But it also reflects fears of the impact of most-favoured-nation (MFN) liberalisation on the preference margins currently received by some developing countries and least-developed countries (LDCs).

Trade preferences remain a key issue in the ongoing negotiations under the Doha round. Middle income countries are concerned about the discrimination they confront in OECD markets as a result of the better access granted in these markets, both to other industrial countries because of free trade agreements and to poorer or "more preferred," developing countries. Conversely, LDCs and non-LDC ACP countries worry that general, most-favoured (MFN)-based liberalisation of trade and the removal of trade-distorting policies in agriculture by OECD countries will erode the vale of their current preferential access.

Preferences are inefficient mechanisms for transferring resources to poor countries, because the cost to consumers and taxpayers in OECD nations is a multiple of any transfer realized and benefits are reduced by rules of origin and the exercise of market power by retailers and importers. An expanded allocation of aid to support trade integration can help gradually eliminate the current system of highly discriminatory trade preferences and strengthen a policy bias toward MFN liberalisation and away from preferential trade agreements (discussed in detail in Hoekman and Prowse, 2008).

Agriculture in particular is highly distorted and segmented by the existence of various trade agreements, and preferential tariff rates and/or market access conditions which are offered on a reciprocal or nonreciprocal basis only to a subset of partner countries. With such a wide array of preferential bilateral tariffs in place in many low-income countries, the trading system in agriculture is non-transparent, discriminatory and highly distorted (Charffour, 2008). In 2005, a study for the Swedish Government to find new forms of special and differential treatment that could offer developing countries real gains in trade (Kleen, Page 2005) concluded that 'some countries will have a measurable negative outcome from any significant liberalisation of trade, predominantly in agricultural products, including in particular, sugar and bananas because their losses from preference erosion will be greater than their gains from other parts of the agreements, so that only financial assistance can give them a positive outcome'.

Preferences also create perverse incentives to resist the global, MFN –based reforms that are critical for non- or less-preferred developing countries. The price of defending preferences is continued protection in rich countries. A distorted global trading system compromises development assistance elsewhere. For example, liberalization of agricultural import tariffs and abolition of export subsidies by the European Union is estimated to yield annual gains of $2 billion in Argentina, an increase that would increase living standards there by 1 percent (Hoekman and Martin 1999). In terms of impact on poverty, both national and foreign trade reforms could significantly reduce poverty in Argentina, but foreign reforms are more important (Porto 2004). MFN liberalisation plus appropriate support for adjustment and integration is thus a far better path for the world as a whole. Aid (rather than preferences) is a more efficient instrument to provide assistance.

b. Fiscal and macroeconomic impact

Trade liberalisation in developing countries may well lead to fiscal and trade deficits and perhaps balance of payments difficulties. The evidence suggests that tariff revenues depend on the structure of the tariff and customs regimes. Average, trade tax revenues represent around 20 percent of total revenues in the average low income country and as much as 50 percent of revenues in the most tariff-dependent countries, this compares with less than 1 percent for high-income countries (Kowalski, 2005). The Commission for Africa, (2005) and IMF, (2004) came to similar conclusions with trade taxes representing one-quarter to one-third of total tax revenue in some low- and middle-income developing countries.

Mobilising alternative sources of revenue therefore is important in countries, particularly low-income countries in which tariff revenues constitute a high component of total public sector resources. Generally, revenue recovery requires a committed and continuous effort to broaden the tax base by eliminating exemptions, simplifying rate structures, improving administration and strengthening domestic consumption taxes, such as excise or value-added taxes.

Middle-income developing countries as well as several low-income developing countries (for example Pakistan and Uganda) have largely succeeded in recovering tax revenue lost from reducing trade taxes. Their experience suggests that supporting reform of the domestic tax system is better undertaken in parallel with trade reform, not necessarily delayed until afterward, in order to increase the credibility of the liberalisation process and reduce the likelihood of a reversal.

Many low income countries impose tariffs on basic food staples, both to encourage domestic production and boost domestic revenues. With the rapid rise in prices, reducing tariffs and taxes has provided some relief to consumers, but for many this has been at a fiscal cost. The revenue loss from tariff reduction plus the increased expenditure in social protection has had budgetary implications. Increasing financial budgetary support may well be appropriate in a number of country contexts to help overcome the fiscal implications. Direct social protection projects can also help low-income countries in particular, where social insurance and adjustment assistance mechanisms may be weak or not exist, and if they do exist, they may provide only partial compensation for adjustment-related losses incurred. Trade reform in agriculture and supply side support in many cases may need to be accompanied by efficient policies to protect the poorest with targeted cash transfers.

Trade policy is generally a very ineffective instrument to address income distribution or to ensure food security and rural development. It not only distorts consumption and production decisions but the distributional consequences of protecting agriculture, tends to harm poorer urban households and those that are net consumers and do not derive income from agriculture. But for trade reform to be successful (both in delivery and in terms of political economy) requires complementary domestic policies to support increased agricultural productivity and investment in technology including linking rural communities to markets and providing sufficient social safety nets.

VI Trade reform and facilitating agricultural trade in developing countries

Trade reform and improved market access in and of itself will not ensure optimal outcomes. Improved market access without the capacity and transportation to sell is not much use. The constraints to the domestic supply response are the main reason for the lack of trade growth and diversification in many of the poorer developing countries. Without action to improve supply capacity, reduce transport costs from remote areas, increases farm productivity through extension services and improve the investment climate, trade opportunities cannot be fully exploited and the potential gains from trade will not be maximized (Hoekman and Olarreaga, 2007).

Research by the United Nations Conference on Trade and Development (UNCTAD, 2004) estimated that international transport costs for imports of landlocked African countries account for an average of 20.7 percent of the value of their imports – a much higher figure than the world average of 5.1 percent and the average for African countries of 12.7 percent. UNCTAD notes that access to high-frequency, reliable, low-cost liner shipping services largely determines a country's connectivity to overseas markets and thus its competitiveness in global markets.

For many low-income developing countries, transport and logistical costs are often a more important component of total costs to trade than tariff barriers. Many developing countries with appropriate support could reduce the price of imported agricultural products and enhance export potential through trade facilitation measures. This is particularly true for landlocked countries, and notably those in Africa, where land transportation adds significantly to logistics costs (typically $10 cents per ton and kilometre) (Maur and Wilson, 2008). This potentially could double shipping charges from overseas sources, which for high volume, relatively low value goods (notably agricultural products of grains and edible oils) could represent a significant part of the final price to consumers.

Although countries have little ability to reduce international shipping costs there is considerable scope to support countries to improve the efficiency of their supply chain and to help in the broader facilitation issues that affect price and the availability of food deliveries. According to the World Bank's Logistics Performance Index, customs clearances, logistics, and competence of supporting services are particularly poor in low income countries. The logistics costs could amount to 50 percent of the import value, compared with the Organisation for Economic Co-operation and Development benchmarks of around 9 percent.

The combined impact of trade-distorting agricultural policies has been to significantly undermine the efficiency of agricultural production globally and particularly in developing countries. The highly subsidised and protected agricultural production in developed countries has been at the expense of investment in broadly more efficient production in developing countries. Consequently world food prices have been kept artificially low with correspondingly low returns to investment and very thin and highly volatile markets.

Investment in agriculture by donors in low-income countries has been correspondingly affected. Investing in agriculture is considered key to reducing poverty and hunger in developing countries and is an essential component in addressing the impact of higher food prices for developing and notably low-income countries. It is estimated that in sub-Sahara Africa, governments and development partners will need to increase their agricultural spending considerably in order to achieve the Millennium Development Goals. The estimated incremental annual investments required in sub-Sahara Africa, range from US$ 3.8 billion to US $4.8 billion, this is in addition to SSA countries committing 10 percent of their budget to agriculture (Fan & Rosegrant, 2008).

VII Policy conclusions

The impact of the upward trend and spike in food prices will not only vary considerably between country but domestic policy implementation and capacity constraints will determine differing approaches. The very nature of periodic food crises – food security – and the immediate distributional impact (giving rise to civil unrest, reversing recent gains in reducing malnutrition, for example) – will require responses that are grounded by both short to medium and long term considerations. Of particular importance is that measures to address the short term impact need to be crafted in a manner that do not significantly undermine medium to longer term solutions to increased production and productivity. Again the game plan will differ between countries. In terms of international support this will need to be tailored to country requirements.

Just as important, (and arguably more so, given increased domestic flows to agriculture from the private sector and non-traditional sources) is the need for the international community to strengthen and reinvigorate global cooperation and international support structures that will provide a more enabling system and less distortionary environment for the agricultural production sector. The web of subsidies, domestic support mechanisms, protection through trade and non-trade measures, export bans, and a host of other interventionist measures (both in developed and developing countries) has in global terms made agriculture the most highly distorted sector.

Added to which, financial markets have capitalised on market weakness and regulatory arbitrage, with price volatility exacerbated by increased speculative capital from non-commercial traders into international agricultural commodity markets. This has only served to further distort the flow of price and market signals to producers and has imposed "enormous efficiency" losses on the global food system, hitting the poorest countries and people hardest (Braun and Torero, 2008).

Against these malfunctioning international structures, efforts to mitigate the current trends in food prices will continue to be undermined. As a consequence of the rise in food prices, countries are already in the process of reverting to the food policies of the 1970s of food self sufficiency at any cost, costly strategic grain reserves, reversal of diversification policies which inevitably will only exacerbate and be further detrimental to both poverty alleviation and food security, as well as environmental degradation (World Bank, 2008).

Progressive liberalisation (to include disciplines to limit export bans and tariffs on imports of bioethanol) on a multilateral basis would provide a far more efficient and robust international agricultural sector, made possible by effective international assistance that is reliable and responsive to exogenous shocks. For low income countries freer markets will provide higher real incomes as other non-food distortions are removed as well as diversification benefits into non-food agriculture.

Short-term measures to ameliorate exogenous food price shocks (including those associated with trade measures) continue to be provided on a best endeavour basis. In kind food-aid which still makes up a large proportion of total assistance is highly distortionary. Consequently countries understandably have little confidence in international support systems. This absence hugely compromises future progress to agriculture trade reform. But moreover an adequate response needs to be considered in the context of the “right to food for the truly needy”. The time has come for a serious reflection on the need for a cash based, *ex-ante* determined international support facility that is responsive to exogenous shocks in global staple food prices and malnutrition and famine indicators and not linked to trade liberalisation in agriculture.

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