

## International trade in agriculture: a better world is possible ...

On June 8-10, 2004 the next G8 meeting will be held in the US and the G8 Prime Ministers will meet President Obasanjo of Nigeria and other 5 African leaders, representing the Africa Union and the New Partnership for Africa's Development (NEPAD). It is time for the G8 to move to action, on the essential problem of distorted world agricultural prices.

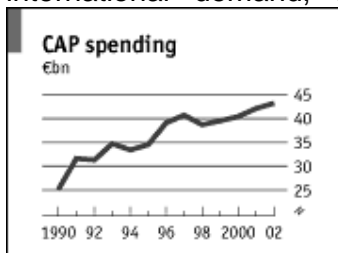
This month and July, the World Trade Organization (WTO) is trying to find, once more, an agreement on how to progressively eliminate agricultural price distortions, caused mainly – but not only - by developed countries; it is one of the last, devastating economic taboos, a mechanism going against economic theory and correct policy, that has distorted trade, world-wide capital allocation, and has curtailed income growth and social justice in poor countries, for decades.

The world's economy is made of agriculture, industry and services. Africa and the other less developed countries don't have a chance of competing with developed countries in most industries and services. That leaves agriculture.

But the US (thanks to the Farm Bill) and European Union (Common Agricultural Policy - CAP) are spending nearly \$1 billion every day on agricultural subsidies and other forms of protection of their agriculture (export credits, import tariffs and barriers, etc.). That's about as much as the whole Gross Domestic Product of all Sub-Saharan Africa...

A great part of this money ("price support") is given directly to western farmers and allows them to produce a product, say, at \$ 10 and sell it at, say, \$ 6. The extra \$ 4, is being paid to them by the Government (with the money of taxpayers).

Because \$ 6 is below the world production cost of that product, there is substantial international demand, at that price, so farmers from the US and EU have the



incentive to produce such product in excess of domestic requirements. The resulting surpluses are sold on world markets, keeping down world prices.

This unfair trade system has the consequence of undermining the livelihoods of millions of smallholder farmers in poor countries, that could produce the exemplified product at, say, \$ 7, but instead are, substantially, out of business. And when, as a last resort, they try to enter developed countries to offer their own labour, they are pushed back!

This trade-disrupting policy goes on since decades. It is not only unethical, it is even economically damaging for the world economy as a whole: the "abc" of the theory of international trade states that everybody is better off, if every country specializes where it has its comparative advantage.

On May 25, the National Associations of the Non Government Organizations (NGOs) of the G7 countries, that work in all the developing nations in the world, have issued to the

G8 a statement: on behalf of the 1.2 billion people living with less than \$ 1 a day, they reminded the Prime Ministers of their past pledges to assist people in the world's poorest nations, soliciting them to take action, including trade issues.

Considering the total lack of power of the rural poor in Least Developed Countries (LDCs), the only means for obtaining significant results fast, is an information campaign to increase awareness on the matter, on the part of consumers in developed countries; they are the only ones that can put pressure on their politicians to break the present harmful spell.

Today, Africa is able to export, essentially, those few "tropical" products countries (bananas, cocoa, coffee, tea, pineapple, exc.) which cannot be grown in developed countries, mostly unprocessed; if they try to process them, they sometimes incur in rising import duties. Our company verifies this often, when we organize, for entrepreneurs in Africa, "sell & buy-back" transactions (sell them the equipment, and at the same time, guarantee with a Letter of Credit to purchase 3 to 5 years of production), often the only way they can obtain financing and build the plant!

All other products that Africa and the other LDCs could produce and export, from sugar and cotton, to cereals, fruit and vegetables, are, more or less, heavily protected and subsidised by the EU and US.

As a consequence of such US and EU policies, even LDC livestock and agro-industry have to pay higher local prices for inputs, like corn, in the case of poultry, and are, therefore, not competitive; so LDCs ends up importing from the West (if they can afford it...) even such low-cost meat food as poultry!

As the UNCTAD and many others have stated, "the current form of globalization is tightening the poverty trap". The level of damage to LDCs, though unquantifiable (how do you quantify people's suffering? in Dollars?), is very high. And it is hardly compensated by scant aid policies, for which rich countries spend a sixth of what they spend on their agricultural subsidies. 550 million Africans, and many more elsewhere, that toil long, tiring, hours every day, are expropriated of their right to work with a minimum of productively.

So the West shouldn't blame the poor countries, if they export the illegal crops: marihuana, hashish, opium and cocaine! The West, precisely because of its high level of conscience, cannot get away with it, by just giving aid to a few million of them, or keep financing a few projects, here and there, that are mostly doomed to failure, precisely because of the facts we are describing.

Most developing countries have 70% of their populations in rural areas, and 60% – especially women – are involved in subsistence agriculture. And 60% of people depending on agriculture, means also 60% of children (and adults..) that need education, and 60% of sick people that need health instruction and assistance. Worldwide, we are talking of over 2.5 billion people, depending on agriculture income, in Developing Countries.

All these income, education and health problems are interrelated. They would find a fast solution, if developing countries could improve their agriculture and agro-industry; in fact, if prices were not distorted, they would quickly be able to get some investment in agriculture and food processing, and they would have a chance to rapidly increase their "human capital" (education, health, etc.), in rural areas, with the help of the new

Information & Communication Technologies (ICTs). All this could be immediately provided, if LDCs could pay for it.

The total amount of money that the US and EU put into agriculture is more than 300 billion dollars a year. Overall, as much as 31 cents in each dollar of revenue for the average farmer in the world's richest countries comes from government support (the taxpayer). Only the rest comes from the market (OECD estimate).

But in the US, farmers are now just 1.6% of the population, about 4 million; as the Wall Street Journal once stated, Federal farm programs have failed to save the "beloved species" of the American farmer. Estimates for the EU (before enlargement) are less than 4.0% of population, which should amount to something around 10 million people. Overall, we are talking of something in the order of barely 14 million people, between US and EU. Add some Japanese to reach 20. In fact, only 4% of world farmers are in developed countries (International Monetary Fund data).

So the North-South divide amounts to an Industrial-Agriculture divide: we should leave them at least a chance on the second. To the contrary, LDCs import much more food from the US, than they export to it. And even the EU is a net exporter of agricultural products to as many as 79 developing countries. And the recent EU enlargement to heavily agricultural Eastern European countries, will not make things easier, for developing countries. If action is not taken, now. The EU is already channelling enormous amounts of investment in ex-East Europe agriculture.

Still, after all the "pumping up" of the sector through the decades, with enormous disbursement of taxpayer money, we are still talking of a relatively small sector, in the rich countries. Plus, most of the subsidy money in rich countries is going to large scale farms and multinationals, not to small-holders, which keep being unprofitable and often have to earn even non-farm income, to make a living. So, even within western countries, subsidies make the rich even richer and the poor even poorer.

The World Bank estimates that phasing out agricultural subsidies world-wide would lead to increases in annual income in developing countries in the order of \$150-\$200 billion, and would immediately lift over 144 million people out of poverty.

We believe that this significantly underestimates the enormous economic, social, political and ethical benefits that would occur, world-wide. A clear indication on the part of G8 on the will to rapidly solve the issue, will be a very timely and effective message to a world affected by mounting fundamentalism, terrorism and unrest. Many, starting from the World Social Forum (in their not-to-analytic manner), all the way to more than one Nobel price winners in economics, such as Joseph Stiglitz and Amartya Sen, have been requesting this, for some time.

Why, then useless, decades-long, negotiations? Why simply not compensate the damaged western farmers and agro-industries, for a while, and free billions of poor people from this trap?

Simply, we believe, because the present beneficiaries, some big farming and agro-industry groups and the bureaucrats that manage the subsidy programs, are well organized and vociferous; while the losers are either powerless rural people in the developing countries,

or Western consumers/taxpayers, that simply don't know that they would gain from agriculture liberalization...

Just an example: wheat: in the U.S., support to wheat farmers comes through a government cheque per tonne of wheat produced, which raises the price farmers receive, without raising the price paid by consumers. The taxpayer is paying, the heavy eater benefits... Japan, by contrast, applies import tariffs which raise the price paid by consumers and received by farmers. The consumer is paying. In both cases, consumers/taxpayers are paying... With no price distortions, they would be much better off: more choice of food, lower taxes or lower prices, or all three! In fact, economic analysis can easily show that consumers from the West would be the greatest beneficiaries of trade liberalization.

By the way, based on this example, which would you guess is the more obese and which the slimmer country? Price distortions "distort" many things, not just trade! They are even one of the causes of the so called "fat divide".

So, the losers from this decades-old policy are legions, billions! May be, it's time someone gives them a clear word, about this. Though without going as far as some World Social Forum troublemaker has suggested; a label like on cigarettes: "This product is made in the European Union, by eating it you kill them"...with a photo of starving Africans.

In fact, the backwardness of the LDC's agriculture cannot be attributed only to agriculture subsidies in rich countries. There have been a host of past mistakes and limitations on the part of developing countries themselves (excessive country risk because of ethnic or religious instability, unethical and corrupt leaders, much too centralized power, unreliable property and legal systems, anti-agriculture domestic policies, etc.), some of which their Governments are now trying to solve.

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So, it would be absurd to say that 2.0 billion farmers in developing countries are in trouble simply because of the unfair competition by 20 million farmers in the rich countries. But it is true that they are significantly aggravated by what we have described. But not only rich countries are responsible: even developing countries are using a lot of trade distorting measures and sometimes vexing their agriculture.

In the past, the G8 has made strong declarations about supporting Africa and the world's poor. But at the WTO, politicians and bureaucrats, dominated by the Trade and Agriculture Ministers of the rich countries, haven't followed up on their "bosses" declarations. The rural poor can't wait any longer!

At Cancun, last September, poor countries left the bargaining table at the WTO talks because they felt they were getting a bad deal. This has inevitably pushed back the timetable for world trade liberalisation. However, they have been resisting America's and the EU's efforts to bypass the Doha multilateral round of talks, with bilateral trade deals, with single countries or group of countries. .

And recently, the UN and almost all the International Financial Institutions are pressing the rich countries to act. So, the time is right!

If developed countries finally agreed to fully liberalize their agriculture, right now (notwithstanding such things as the election year in the US), and the same did developing ones..., higher crop prices would make African agriculture more profitable and lower its risk. This in turn, would rapidly draw substantial (and desperately needed) investment and long term financing, into African agriculture and agro-industry. There would be a rise of labour productivity, employment, profits, and per capita income. The lives of millions of poor wouldn't be shattered, any more, every time there is a draught or price fluctuation.

The few "northern" farmers that are left (and some damaged people in agro-industry), will have to be compensated, for a while. Countries such as France and Italy, with very substantial agriculture and agro-industry, would have to undergo some restructuring of these activities. One cannot stop the development of electricity, which benefits all, because the candle producers may have to change jobs.

But there are other reasons for which western Governments subsidise agriculture, apart from keeping up incomes of farmers: for example, if an additional, significant, number of farmers in developed countries, went out of business, the countryside would be abandoned, with a lot of negative consequences for rural landscape and environment..

Plus, the US and EU could have a problem of food supply security and quality control, especially if they increased import from developing countries.

With respect to Conservation of rural landscape and environment, in fact, in the past, abandoning areas where agriculture was insufficiently productive, like mountain areas, did create a lot of problems (insufficient maintenance of water drainage causing floods, greater risk of fires, etc.).

But, on the other hand, landscapes in developed countries, because of the continuous effort to boost production, are not suffering from too little human intervention, but from too much. And in any case, many productions, in which the North has a true comparative advantage, will still take place.

And now, on food supply security: the West, some say, is blackmailed by OPEC on oil; it shouldn't lose some know-how specific to food and transfer production to developing countries, and risk being one day blackmailed on that too. In fact, one shouldn't transfer the production of "strategic" crops to a handful of unreliable countries. But having the possibility of buying, say, potatoes, from more than a 100 different countries, that surely cannot set up a "cartel" (OPEC.. but this time P for Potato!), should provide a pretty good control of one's potato supply.

Fine, but how, it is said, can developed countries, that would import more agricultural products from developing countries, manage and control food sanitary and quality security? This is an issue that has a lot of merit, but it could be overstated, to cover other interests. After all, developed countries are already importing cocoa, coffee and bananas.

In our opinion, the way to go about it is twofold: one, extend the powers of the European Food Safety Authority; two, develop good Control, Information and Communications Systems, in rural areas of LDCs.

After a series of food scares in the 1990s (e.g. BSE, dioxins...which had nothing to do with products imported from LDC's which undermined consumer confidence, the EU established the European Food Safety Authority (EFSA), charged with providing independent and objective advice on food safety issues. There are now the technological means by which EFSA can extend its controls, with the help of local Governments, to the entire "food chain" of products that Developing Countries intend to export to the E.U. The same should be done by the Food & Drugs Administration, in the U.S.

Finally, some people in rich countries say: why should we disrupt our agriculture, trying to benefit poor people in developing countries, when, more often than not, those benefits are "intercepted" by corrupt politicians and Government officials in those countries, who get richer and richer, without giving a damn for the well being of their populations? Now, this has been true in some cases in the past. But in our opinion, it is easier to "divert" money from aid loans or donations made directed to Governments, than from more equitable commodity prices. Assuming markets are reasonably efficient and there are no monopolies or "cartels" in the area of agricultural inputs (seeds, fertilizers, etc.), in crop transport and in their trade, most benefits should accrue to smallholder farmers.

Of course, it is smallholders in the best managed Developing Countries that will benefit most of this new "rural renaissance"; their productivity will increase more, as they will find more capital and know-how, and will be able to accept the risk of specializing in agriculture, stopping to conduct "multiple livelihoods".

In few years, these well managed LDCs will become self sufficient in many crops, will produce new ones and will soon become net exporters in many of them (like fruits and vegetables, etc.) and in processed food. Their incomes will rise more than in badly governed ones; they will be able to buy more of the industrial products & services that developed countries are, for the time being, better at producing. As we said, their whole rural educational, health, communications systems will greatly improve, granting a substantially better quality of life to the now destitute rural poor.

And rich country farmers and food processing industries will invest in agriculture and agro-industry, in developing countries, on their own or with local partners. As their sectors of activity, at home, become progressively less profitable, they will benefit from their investments in poor countries, made either directly, or through Investment Funds, to diversify the risk. They know their business and can use their know-how (and money) to help develop activities in well managed and reliable poor countries. Soon their investments will rise in value, further compensating them for their losses.

So, ALL trade distorting measures, both in rich and poor countries, should be eliminated, now. Immediately already available mechanisms would be activated, with the help of companies such as ours, to:

- 1) allow capital and know-how to flow to agriculture and agribusinesses in poor countries,
- 2) allow the rural poor, literate and illiterate, to rapidly increase their education, health and agricultural knowledge, thereby improving their productivity and their now dreadful, quality of life.

These three "pillars" (prices, investment and "human Capital") make up a fully integrated and sustainable development program, that jointly addresses the top priorities (including Millennium Goals) set by the G8, the United Nations, the World Bank, the Food and Agriculture Organization, the World Health Organization, and other Institutions. Together,

the three “pillars” can launch a new era of human and economic development for Africa and other Developing Countries.

Ultimately, all will benefit. By helping more effectively Africa and other developing countries to help themselves, developed countries will achieve a less desperate, more equitable, reliable and why not, enlightened world. With a lower risk of fundamentalisms, terrorism and un-wanted migrations into Europe. After many declarations such as “I carry Africa in my heart” (Rome manifestation, Apr. 17, 2004), people and Governments now have the opportunity of DOING something about it. An opportunity they shouldn’t lose.

Dr. Arrigo della Gherardesca- managing Director

ITAFRICA – ITALIAN AFRICAN ALLIANCE srl, Milano

P.S.: information is available ([info@itafrica.it](mailto:info@itafrica.it)) on our consulting activities for entrepreneurs and Governments, including our development proposal, codenamed: “A.F.R.I.C.A. – African Farm & Rural Investment & Communications Alliance”.