

Preliminary Key Messages

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Preamble

This paper is written as a discussion paper within the framework of the project “EcoFair Trade Dialogue. New Directions for Agricultural Trade Rules” (www.ecofair-trade.org).

The EcoFair Trade Dialogue is an international project carried out by the Heinrich Böll Foundation in cooperation with MISEREOR and facilitated by the Wuppertal Institute. The overall aim of this project is to enrich the debate on the reform of the current regime of global agricultural trade through the development and advancement of forward looking guidelines and instruments, taking the concepts of ‘food sovereignty’ and ‘sustainable agriculture’ as reference points. Since the beginning of 2005 the EcoFair Trade Dialogue has brought together a group of 11 ‘experts’ on agriculture and trade issues from around the world, the so-called Expert Panel, to exchange views, work intensively together and make innovative and feasible proposals for a profound reform of the international agricultural trade regime. During 2006 a series of stakeholder dialogues in different regions of the world are being conducted to bring additional expertise to the process, and ground the group’s proposals in local and regional experiences. A concrete and coherent reform proposal that responds to the 21st century’s social and ecological challenges for global agriculture is envisaged as the outcome of the project at the end of 2006.

In the following pages we would like to offer some building stones for this coherent reform proposal. They are ordered in three groups. The first group of considerations attempts to highlight some major flaws in the trade system, the second group assembles perspectives that set out a vision for a long-term future trade system, and the third group comprises a range of policies and instruments that may serve for a transition. It goes without saying that this is an evolving document; the topics addressed need to be elaborated, sharpened, and added on to. As of the state of discussion, the messages are not yet brought into a consistent line of thought.

The trade system and its flaws

1 Indifference towards agriculture

Trade regulation in agriculture is about everything but agriculture. Be it the WTO Agreement on Agriculture, or rules agreed in numerous bilateral or regional trade agreements, be it trade policies enacted through loan conditions of international financial institutions: the world of farming and rural life remains largely ignored by the current free trade paradigm. Neither the depopulation of the countryside nor inequality and poverty amongst farmers, neither stagnant productivity nor the global decline of soil fertility, figure highly in the talks on international agricultural trade. By and large, most of what troubles small and subsistence farmers and their families is conspicuously absent from negotiation tables.

Instead, free trade diplomats look at agriculture through a commercial lens. In this optic, rather opaque issues such as import tariffs and access standards, domestic support and export subsidies dominate the scene. However, this is a very limited approach that leaves a great deal of agriculture out of account. For roughly 90% of the food supplied never crosses borders, and even the remaining 10% raise many more vital issues than just trade. While such a focus may be useful at times, it presents a problem when the regulation of a certain aspects of an issue continuously spills over into the regulation of the sector at large. But this is what happens with agricultural trade rules. The effort to create unified global markets by removing so-called barriers to trade casts a long shadow on agriculture in its entirety. Moreover, loan conditions or the fear of sanctions by the WTO Dispute Settlement Body provide the free trade paradigm with powerful teeth. Given that there is no other multilateral body that coordinates global agricultural policies the world over with equal authority, WTO rules end up holding the social and natural order of agriculture hostage to their mission of maximizing trade flows.

2 Wealth beyond measure

The importance of agriculture reaches much beyond the sector's share in GNP or, for that matter, its export value. Many, however, consider the money value of market turnover, an appropriate indicator of the weight of agriculture relative to other sectors of the economy. As the share of agriculture in GNP decreases with conventional development until it reaches a meager 3-5% in industrial countries, farming is frequently perceived as a sector that is fading into insignificance. "Why should European business be held back by something as marginal as farmer interests?" sighed representatives of industry as they saw their export opportunities dwindle with the European Commission's stubborn defense of agricultural subsidies in recent trade talks. However, this conclusion is hardly more convincing than the one that says that the human heart, given its share of 2-3% in body weight, is unimportant to the body.

Indeed, agriculture underpins the availability of common goods in both the natural and the social sphere. Ecologically, it is mainly through agriculture that humans enter in exchange with nature. On the one hand, they profoundly modify species, water courses, and landscapes, and on the other hand, they receive vital resources and life-sustaining services. For better or worse, agriculture largely shapes the natural commonwealth. Socially, agriculture is the mainstay of the rural world, but the rural world comprises much more than just agriculture. Agriculture is the foundation of rural economy that may include the subsistence economy, the informal sector, and small businesses along

with local industries, just as it is the foundation of rural culture that may encompass community relations, construction styles, festivals, and worldviews. Agriculture is not just a business but also a way of life. The economic value of agriculture is important, but cannot be divorced from the equally, perhaps greater, value of agriculture for ecology and society.

3 Mindless of livelihoods

Free trade agreements along with other attempts to liberalize agricultural trade, such as structural adjustment programs, have not been adequately sensitive to the fact that close to 3 billion people worldwide depend on agriculture for their livelihoods. In Least Developed Countries more than 70% of the workforce is engaged in agricultural activities, the vast majority as poor smallholders and laborers. Many of these farmers and farm workers rely on customary knowledge and techniques; they plant indigenous seed varieties from stock they have saved from previous harvests, they practice crop rotation, and they share vital resources like water, labor and forests at the communal level. Small-scale agriculture is not small in aggregate terms; it accounts for much more employment and staple food production than larger commercial behemoths, though the latter dominate food and commodity trade.

It is the hidden assumption of free trade diplomats that small farmers are on their way out. Too often, the elimination of small farmers is seen as a regrettable but unavoidable necessity; the price of progress. Indeed, in the wake of trade liberalization a great number of small farmers lose their livelihoods, with sometimes no other choice than to leave their land. This policy of sacrifice rests on the expectation that the rural poor will eventually obtain economic security through employment in other spheres. The dominant economic model requires that these subsistence farmers acquire purchasing power and join the money economy. The expectation that these farmers will find jobs has so far only partially been borne out by history, and they seem even less likely to find work in the future. Small farming systems continue to be the backbone of rural worlds, and their importance will continue into the future. They offer jobs and thus slow down migration. They are efficient in production, particularly when environmental costs and external input costs are factored in, and thus play an indispensable role for food security. Against this backdrop, it is a violation of economic, social and cultural human rights to wreck people's livelihoods today in pursuit of imagined economic gains tomorrow. This is not to argue that social and economic change is wrong or unimportant. Many people scratching a living from agriculture today would welcome the opportunity to work in other sectors, for more security and wider horizons for their children.

4 Forgetful of nature

Most trade agreements, as for example the WTO Agreement on Agriculture, undervalue the intimate connection between agriculture and the environment. This neglect has potentially ruinous consequences for both nature and farming. An increase in cross-border trade in agricultural goods will predominantly lead to a further spread of industrial agriculture, i.e. large-scale farming systems that are capable of delivering large quantities of standardized products at low prices for shipment, processing and retailing. Yet large-scale farming relies heavily on external inputs, such as engineered seeds, energy-intensive fertilizers, chemical pesticides, electricity, fuel, and irrigation. Industrial agriculture is based on predatory technologies. As a result, agricultural trade liberalization speeds up the degradation of local and global ecosystems.

The future of farming itself is put at risk by this degradation of our environment. Industrial agriculture is highly dependent on environmental resources that cannot be renewed at the rate industrial agriculture is using them. The loss of agrobiodiversity diminishes the capacity of farming to cope with biological shocks, the increasing scarcity of water makes irrigation-intensive farming ever less viable, and the imminent peak in world oil production deprives industrial agriculture of its main ingredient – cheap oil. Above all, industrial agriculture is both a major cause and a victim of climate change. Its practices release much more greenhouse gases than traditional or organic forms of farming, while for example, monoculture farming and uniform hybridized seeds determined to maximize yields are more vulnerable to changing environmental and climatic conditions.

5 The uniqueness of agriculture

Free trade requires that unregulated market mechanisms control exchanges of goods, capital and services. Markets can be superb in driving the efficient allocation of productive resources in the economy. They play out this strength in an optimal fashion when resources can be moved from one allocation to the other without any friction, in flexible response to changing demand. In economies governed by free trade, sectors marked by highly mobile resources, i.e. financial markets, have a structural advantage over sectors characterized by less mobile resources, e.g. industry with its factories and employees. Global markets particularly favor the fast ones over the slow ones. As a rule, owners of mobile production factors benefit from transnationalization, while owners of place-bound factors find themselves at a disadvantage.

Seen from this angle, agriculture has a fundamental handicap. Land and plants, animals and, to a lesser extent, people are bound to place. While in many industries and services, productive resources can be smoothly recombined according to market conditions, in agriculture, land can neither be moved nor be put to different use, except in a limited way. Moreover, not only is land fixed to place, but so are soil quality, water availability, hours of daylight and climate. Interventions can change some of these factors, for instance by adding fertilizer, but there are clear limits. Furthermore, both crop cultivation and raising livestock are linked to regenerative cycles that, despite many efforts, can only within narrow margins be accelerated, slowed down or modified. As a consequence, given that agriculture competes with other sectors of production, such as industrial goods or services, investors prefer to put their capital in other sectors with greater structural certainty and higher productivity, while research and development in agriculture is comparatively low, too. This is why prices for agricultural products have steadily decreased during the past decades, losing out to the greater productivity gains in other sectors of the economy. Since there is this mismatch in productivity between the agricultural sector and the rest of the economy, farmers need public support to survive. Even with that support, they remain under pressure to boost productivity turning their farms into animal or crop factories.

6 Rigged rules

There is a long history in international trade agreements of Southern countries taking at face value the promise of a level playing field in world trade held out by the North. For thirty years, Southern countries have pinned their hopes on greater and easier access for their products to rich country markets. Governments hoped to export their way out of

underdevelopment. Yet Northern countries continue to engage in targeted protectionism and export dumping, both of which deny Southern countries the opportunity to take advantage of those markets where at least some of them would be competitive, such as textiles and agriculture. Taking exception for themselves to the free trade rules they impose on others, the Northern countries refuse to play by their own rules.

However damaging this hypocrisy, it is doubtful that even completely free trade could create anything like a level playing field: the asymmetries among countries are just too great. Yet treating unequals equally can be the height of injustice. Letting countries that are drastically unequal in their economic performance compete on a level playing field, will reinforce advantages instead of demolishing them. How can, say, the sickle-swinging Malian peasant ever compete with the harvester-driving Canadian wheat farmer? To realize greater equity among nations weaker players need preferences. In view of the gross disparities among countries, "special and differential treatment" should be the norm rather than the exception.

7 Corporations, not countries

Nation states are the actors at international trade negotiations, and much of the critique focuses on the fact that some nations dominate over others in deciding agricultural trade rules. Yet this is only the political side of the coin. In the market indeed, it is not states that act, and seldom state-owned enterprises that set the stage, but private firms. In fact, two thirds of all world trade is handled by transnational corporations, and more than half of this takes place within firms themselves. Yet the international trading system fails to even acknowledge that agricultural markets are increasingly distorted by the weight and power of transnational corporations. Where corporations are dominant, producers are hampered in selling their products not because of tariff barriers or public subsidies, but because corporations control the market, setting contract terms, even prices, and establishing their own standards. Market power in agriculture looks like an hourglass: a large number of farmers at the base sell to a small number of processors and distributors and supermarkets in the middle, who sell to a very large number of consumers at the top. While the trade agreements are built on the assumption that the main obstacle to free trade is state intervention in markets, in fact corporate production networks have emerged as the main failure for sound market functioning.

Worse than this oversight is the tendency of trade reforms to actually encourage the final triumph of transnational corporations. Trade barriers at national borders impede the easy international movement of goods and capital. As a consequence, the free trade agenda coincides with the interests of corporations. Lifting national trade barriers is crucial for transnational agribusinesses, which want to source an abundant and cheap supply of commodities wherever it best suits them around the globe. Moreover, as agriculture becomes more vertically integrated and more cross-border trade is conducted intra-firm (rather than between firms), trade barriers make it more expensive to do business. As a result, the current ideological push for state de-regulation of markets coincides with the interests of those who hold corporate market power. While liberalization aims to bring down border protections, it ends up strengthening transnational cartels.

Perspectives for reform

8 Re-embedding markets

Present international trade negotiations aim at creating a globally unified arena of competition where enterprises can move according to market imperatives, unencumbered by any loyalty to place or community. Markets are seen as a no-man's land; they do not belong to anybody in particular, but are to be made accessible for everyone. This can be called the default position of the free trade paradigm. In the WTO, as in other international trade agreements, however, exemptions to this position are provided by the category of 'non-trade concerns' that allows governments to constrain the workings of the market in the name of their responsibility to societal needs. In the South, non-trade concerns are supposed to be taken care of by instruments such as 'special products' and a 'special safeguard mechanism'; in the North by 'sensitive products' and 'green box measures'.

This approach fails to do justice to the many non-trade dimensions of agriculture. It is essential for any eco-fair framework for trade to reverse this hierarchy of issues. Rather than treating deregulated trade as the rule and non-trade concerns as exceptions, non-trade concerns should be treated as the rule and unregulated trade as the exception. Concern for people and ecosystems comes first, concern for unimpeded markets is second. As a consequence, nations and communities have a right to bring their rights and collective preferences to bear on the definition of policies for food, land tenure, agriculture, and the environment. This, for instance, includes the right to independently define a national level of genuine quality, health and environmental standards for domestic production and for imports, both for Southern and for Northern countries. 'Independently', however, does not mean 'arbitrarily'; in particular insofar as transborder trade is affected, extra-territorial responsibilities will have to be identified and negotiated.

9 Regenerating agriculture

Ever since humans settled and started to sow wheat, plant pumpkins, or raise sheep, agriculture has generated environmental degradation and social tensions. Yet the 20th century transformation from small-scale family farming to large-scale industrial agriculture has multiplied these problems, its success in producing cheap foodstuff for large populations notwithstanding. For one, industrial agriculture is highly mechanized, substituting machinery and fossil fuels for human labor. Fewer and fewer farmers are able to earn a living from their production. It is primarily agribusinesses operating in global markets that are benefiting from industrial agriculture. Moreover, the massive use of heavy machinery, chemical fertilizers, and pesticides, degrades soil, water, and biological diversity. For these reasons, industrial agriculture marks the intersection of several of today's major global environmental and social crises.

Under the broad term 'sustainable agriculture', various strategies have been developed to de-industrialize farming practices and re-generate agriculture in an environmental and social sense. These strategies converge on promoting knowledge- and labor-intensive technologies that rely on resources found on or near the farm. In particular, they advocate biodiversity farming that attempts to exploit the complementarities and synergies that result from the right combinations of crops, trees, and animals in integrated agricultural systems. More than just using natural resources carefully, these

strategies intend to use agriculture to actively regenerating the environment, for example, by restoring water tables, maintaining soil fertility, and fostering biodiversity. At the same time, a broad body of literature proves that farmers around the world earn a better living by substituting capital-intensive off-farm inputs with human labor and regenerative farming practices. For sustainable farming to succeed, an enabling economic framework and trade rules are essential.

10 Empowering Small Farmers

The future of truly socially and environmentally sustainable agriculture is, without doubt, with small farming systems. It is true that some less intensive farming systems in history have failed, as for example, the parts of the Andes, of North Africa, or the Middle East, as they were over-farmed to the point of degradation and even desertification. Even today, looking at the interrelationship between agriculture, poverty and the environment, it is clear that small producers can cause significant environmental problems, for example by being constrained to farm marginal land, not having efficient equipment, or lacking adequate information about better practices. Still, there is sufficient scientific evidence today to show that compared to input intensive, large-scale industrial farming, especially if the small farmers are largely producing their own inputs and practicing biodiversity farming, small farming systems carry the highest potential to realize agriculture's role in regenerating social communities and the natural environment.

Whether small farming systems will endure the 21st century all depends on their economic opportunities. To realize the full potential of small farming systems, at the regional, national, and international level, small farmers need to be empowered in their rights and political participation. This includes, among other things, ensuring land rights of communities as well as access to basic natural resources, especially strengthening women's rights and land entitlements, investments into sustainability research and development, and help small farmers achieve 'critical economic mass' by promoting farmer unions, cooperatives, and other forms of cooperation.

11 Regionalizing production chains

It has been recently suggested that the period of globalization will come to be seen as the Indian summer of the oil age. As the days of cheap oil grow numbered, not only farming but the entire food system will have to turn into a low-energy enterprise. About three quarters of the energy consumption in the food system takes place beyond the farm gate. The processing, packaging and retailing of agricultural products require even more energy than production and transportation. Still, energy used to transport goods no matter when in the year and from where in the world accounts for a significant part of total energy consumption in the food system. If climate change is taken seriously, the reduction of food miles through the re-regionalization of production chains has to be the cornerstone of energy and infrastructure policies that will guide the reform of the industrial food system. International trade rules will then have to change; 'freeing trade' certainly runs counter to reducing the environmental effects of long-distance transportation and countries will need to recover the right to use environmental objectives as a reason to regulate trade.

At the same time, supporting local and regional markets is a precondition for sustaining dynamic rural areas. Such policies improve food security, as localizing production

reduces countries' dependence on uncertain world markets. There are regions where certain factors of production are scarce, such as water in arid areas, where international trade may add to environmental security if carefully managed; arid areas may be better off environmentally if they import rather than produce foods that demand a lot of water. The regionalization of food systems can also serve as a catalyst to spur development in the region, if production is well linked to other sectors of the local economy. Backward linkages may connect farming to locally provided agricultural inputs and services, while forward linkages ensure that agriculture provides inputs for locally processed products. And additional value can be kept in the region if consumer income is spent on goods and services with a large local content.

12 Maintaining plural economies

Agricultural markets are unique, but never uniform. They come in various sizes and forms, and serve numerous functions. A London stock exchange broker, who trades options and futures on expected agricultural raw material prices on the world market, associates fundamentally different elements of a market than, let us say, a Dioula merchant in West Africa, who serves as a middle woman in trading different types of legumes on the local market, a trade particular to her ethnic group and sex for centuries. Efficiency in the allocation of goods is but one function associated with markets, while others include the reproduction of livelihoods; the differentiation of gender relationships; the social integration of people, subcultures and ethnic groups; and, the establishment of regional and national identities. While most markets use currencies to exchange goods, others rely on barter, or a mix of both. How can diversity be maintained in a fast globalizing world, in which the exchange of goods on the world market constantly gains in importance?

To date, the main aim of the international trading system is to establish one uniform "free" world market. In contrast to the current practice, however, an international trade regime should be geared to maintaining the coexistence of various types of markets. Rules would serve to facilitate trade between relatively independent regional or national markets, instead of harmonizing those markets into one. Such a 'multi-market trade regime' would foremost pursue rules for fairness in the interplay of different markets, for example, when products from the global cash economy reach a regional subsistence market where barter dominates. Regions and countries may then pursue their specific non-trade concerns in an optimal fashion, without losing value – both cash and cultural – by entering in exchange with other markets.

13 Putting exports in context

In the view of free trade diplomats, exports are the panacea against economic underdevelopment. They are supposed to save ailing economies from debt, lack of foreign currency, stagnation, and inefficiency. While under certain conditions, these expectations have proven to be valid when it comes to exports in manufactures, the role of exports in agriculture remains controversial. Especially in Least Developed Countries, where the linkages between export-oriented agriculture and the rest of the economy are rather weak, export enclaves have often emerged that not only fail to stimulate other sectors but also fail to induce steady growth in the face of volatile commodity prices on international markets. Even where agricultural exports have brought about income growth, they more often than not have failed to advance poverty alleviation and human development. Exports can play a useful role as disciplining stick though. Without a

proper framework, they tend to favor large farmers, undercut livelihoods, increase food insecurity, and threaten ecosystems. While exports can make a positive contribution to both poverty reduction and human development, they do so only if certain conditions are fulfilled. Realizing the potential gains from exports depends on the overarching domestic policy framework in which trade takes place. Such a framework needs to be designed according to the particular circumstances of each country.

A good framework will ensure export earnings are reinvested such that a virtuous circle is initiated. For example, export earnings could be used to upgrade and diversify the agrarian production base, and at the same time more broadly improve human development. Second, since benefits often remain concentrated in the hands of a few in countries where agriculture is wide-spread but exports far and between, there will be no broad distribution of advantages unless small farmers and cooperatives are involved in the export economy. Third, the production for subsistence or domestic markets should have priority over production for foreign markets; therefore the export sector cannot be allowed to occupy land and water to such an extent that domestic sectors suffer. And fourthly, policies are needed to avoid the industrialization of agriculture, and to spread a knowledge-intensive agricultural production that promotes sustainable forms of biodiversity farming and agroecology. In a nutshell, upgrading ‘fair trade’ arrangements from an exception to the norm, promises a road to sustainable agricultural exports.

Approaches and Instruments

14 Enlarging national policy space

In principle, there are two different roads for overcoming barriers to social and environmental sustainability throughout the international trade system: Global standards may be established through multilateral agreement, and the policy space for communities, usually represented by national governments, may be widened to allow for the proper choices to be adopted and implemented. Though any governance architecture will include both approaches, the second one is to be given priority for reasons of democracy and subsidiarity. Citizens need to be sovereign to deliberate and to realize their collective choices of how to shape trade and investment policies.

If the space for democratic self-rule is widened for each country, fears of Northern protectionism against the South may lose ground. While some countries may choose high standards for environment or human rights, others may want to manage trade for the sake of livelihood protection or the development of infant industries. However, enlarging political space requires the right to control borders. Otherwise, local rules will be undercut by incoming foreign competition. More specifically, governments should retain the power to reject goods on the grounds of public policy and with reference to production processes along the commodity chain. Again, while some countries may wish to secure that products have internalized certain labor standards, others may, for example, choose to keep out sports utility vehicles for environmental and energy reasons. In any case, both North and South must have the possibility to protect the common good; economic inefficiencies, which might slip in, will then be considered a minor evil. However, cooperation mechanisms have to be devised for avoiding unilateral decisions; it is in any event desirable that border rules are worked out in negotiation.

15 Redressing asymmetries

Rules are fair if they favor the weak over the strong. The ‘one-size-fits-all’ prescription of eliminating trade barriers across countries regardless of their economic strength puts less competitive countries at a disadvantage. Free trade plays into the hands of the strong. De-rigging the rules is therefore not sufficient for a fair trading system. Instead, weaker economies need to receive special and differential treatment that privileges them in both the governance of imports and the access to foreign markets with respect to stronger economies. Just as in golf weaker players are granted extra strokes (a ‘handicap’) for a given course to allow players of different proficiency to play against each other on equal terms, in a fair trading system weaker trading partners are given allowances that are not available to the stronger ones.

One way to differentiate among countries’ rights and obligations is to implement the so-called ‘asymmetric opt-out provision’. This provision grants more trade opportunities to economically less powerful countries, allowing them to opt out of import liberalization on the one side, and giving them preferential market access on the other. In other words, poorer countries would be entitled to establish protective barriers against goods from countries richer and larger than themselves, while more affluent countries would be required to grant preferential access to goods from countries smaller (in terms of GDP) and poorer (in terms of GDP per capita) than themselves. As a consequence, potential trade benefits would be distributed progressively as the poorest countries have preferential access to all other countries, thus realizing the largest gains, while they would be exempt from the duty to reciprocate. Moreover, the provision, binding developed and developing countries alike, runs counter the conventional tendency of distributing rights and obligations along the North-South axis. For example, a middle-income country like Algeria would enjoy preferential market access to the European Union, but would itself be required to give preferential market access to Niger. This way, the provision not only contributes to closing the North-South gap, but also to help balance fast evolving asymmetries among developing countries.

16 Counteracting corporations

The degree of concentrated market power in global agricultural markets is not factored into the models and assumptions that inform the trade and agriculture debate. But it is clear that in the name of efficiency gains from economies of scale, transnational businesses have already grown to an alarming size, enabling them to undermine proper market functioning. Sound markets depend upon competition; it is therefore indispensable to enforce policies that ensure proper competition.

Public authorities need to subject mergers, acquisitions and inter-firm contracts in agriculture to tighter review. The first requirement is access to information, as there is a dearth of information about the size and scope of large agribusinesses, the market share they control, and the terms of their contracts. To implement anti-trust law, governments must shut the revolving door between corporations and government agencies. This could be done by requiring full disclosure of money received from agribusiness or corporate lobbies by potential staff members, or by performing more rigorous checks for conflicts of interest before appointments are made. Stronger laws may be needed to ensure longer mandatory gaps between holding public office and working for corporate interests. To establish more transparency on which firms are dominant in any given market, a multilateral institution (e.g. FAO or UNCTAD) could be charged to maintain a databank with comprehensive information on mergers, acquisitions and joint ventures in agri-food

markets. Unless there is a concerted attempt to control the extent of vertical and horizontal concentration in global commodity markets, open markets cannot yield the benefits their proponents promise. State trading enterprises in developing countries should be subject to a strategy of reform, accountability and good governance, rather than abolished. Properly run, they can play a helpful role in counteracting the market power of global agribusiness and also provide services in countries where the private sector is too little developed to support strong markets on their own.

17 Domestic investment for the common good

Agricultural markets have unique market characteristics. They are also unique with regard to their need for governmental support. Agriculture cannot thrive and be sustainable without public support. In many Southern countries, the long-standing trend to provide government support in the first place to the urban economy and to tax agriculture to fund this priority, has contributed to the relative impoverishment of rural areas. Reversing this trend requires, next to adequate producer prices, national policies that favor small farmers and rural development. If properly implemented, such support can encourage rural productivity, create employment, and secure sound environmental management. Support should focus on rural livelihood security, as well as on environmental stewardship. Farms produce much more than food and fiber; they also contribute to common goods like good soil, sufficient water, distinct landscapes, and biodiversity. Public support is needed because markets do not compensate farmers for these services.

While in the free trade logic, most kinds of government support is considered as trade- and market-distorting, in fact the contrary is true: agricultural markets *without* any support are highly distorted in favor of large holdings and industrial techniques. Left to their own devices, market forces tend to reduce employment and degrade the environment. For this reason, instead of seeking to eliminate subsidies, trade negotiations should focus on redesigning subsidies such that they benefit small and family farmers and protect the environment. ‘Green boxes’ or ‘development boxes’ are indispensable; however, they will have to be constructed in the light of the extra-territorial responsibilities of nations, avoiding the curtailment of exports from weaker economies. As a precondition to receiving any public support, dumping of products on foreign markets cannot be allowed.

18 Qualified market access

Less affluent countries need to have a wide range of flexibility in using the policy tools appropriate to their specific context, in particular the import measures needed to protect or promote growth of their industries, agriculture and other important sectors of their economy. Above all, protective measures against import surges that destroy local food supply and security are paramount. For this purpose, traditional instruments such as tariffs, quotas and subsidies have to be considered in terms of their suitability for protecting common goods.

Once more affluent countries have phased out rigged rules and aggressive export policies, and once they have redressed asymmetries, they too should obtain the right to legitimate border protection. They may need to use political space to establish qualified market access. However, the reasons are likely to be different with respect to Southern countries. Farmers, especially small and family farms, cannot compete with low price

imports from developing countries, among other things because they face much higher production costs including various obligations to respect substantial environmental, social and health legislation. Moreover, transnational companies find a loophole to circumvent the quality standards at home by extending their supply chains into countries where labor, health, and environmental standards in agricultural production are comparatively low. For these reasons, differentiated charges are to be imposed at national borders to protect sustainable local production and rural development policies. The revenue generated can be recycled into an international fund that supports rural development and food security worldwide.

19 Not without certificates

Global production chains operate behind the screen of distance. At the receiving end, the public – in both its roles as consumers and as citizens – has barely any means at its disposal to ensure a minimum level of quality in supply, because distance obscures the origin of products and the circumstances of their production. Transnational markets, however, should induce a race to the top rather than a race to the bottom; high standards should be their distinguishing mark rather than low standards. For this reason, any company that wishes to trade internationally should conform to basic quality standards; certification is both a proof of quality and – in the long run – an entry ticket for the world market.

However, globally defined standards for environmental and social quality are not without problems. They tend to put small farmers, especially in the South, at a disadvantage, because certification is costly and complicated. Moreover, by their global nature they tend to be insufficiently responsive to the great variability within ecosystems and natural endowments. For these reasons, it is important to foster the development of local and independent certification schemes, to include the participation of farmers, NGOs, local retailers and small-scale sellers in the standard-setting process, and to link ‘fair trade’ labels to ‘organic’ labels in order to guarantee a fair share of the price to small organic farmers that enter the world market. In view of these parameters, it will be internationally federated licensing bodies rather than globally uniform standards that guarantee good standards in world markets.

20 Internationalizing supply management

Agricultural markets do not self-correct. In many industries, production capacity once built can eventually be cut in response to market signals by slowing output, or dismantling factories altogether and selling the assets to other industries. In agriculture, however, total annual output changes little. If new suppliers on the world market cause excess supply, if domestic support and export subsidy policies cause over-production, or if new technologies enhance productivity, this in turn drives a fall in commodity prices. It does not, however, take land out of production, and reduce supply. Even if individual farmers go out of business, their land is usually taken over by another farmer. In the same vein, demand is relatively constant as well, as consumers do not tend to eat more if food prices fall. Thus a trade regime that is based on the assumption that free market adjustments in agriculture will occur within a reasonable time is not only naïve and ill-advised, it simply will not work.

Supply management is the process of balancing the production of an industry with market demand. In agriculture, the traditional objectives of supply management have been to secure domestic food supply, to increase and stabilize prices and farm income. Acreage reduction programs, production and marketing quotas, and stocks management programs have been used as instruments. A domestic supply management program should have three components: a long term program that reduces the overall utilization of the production capacity; a short term production control program that would provide the ability to do annual adjustments, and a fine tuning mechanism that would deal with intra marketing year variations. An international institution could be established to coordinate measures to prevent free rider behavior amongst participants. The distribution of the adjustment in production and/or export allocation among the participating countries, as well as the definition of what are acceptable levels of international prices should be part of a negotiating process. Regarding the supply management of staples (like cereals, oilseeds) as well as hinge products (like cotton, sugar, rice), a coordinated system that includes the countries of the *Agricultural North* (i.e. Argentina, Australia, Brazil, Canada, EU, USA) would be highly functional as these countries dominate much of the world market.