

International Cooperation to Restore Agricultural Profitability

Daryll E. Ray

University of Tennessee
Agricultural Policy Analysis Center

Facilitated by: National Farmers Union, USA

**Presented before representatives of farmers from around the world in
conjunction with the meeting of the World Trade Organization**

September 10, 2003 Cancun, Mexico

Why Are We Here?

- **Farmers, worldwide, are plagued with unsustainably low prices**
- **Public Intervention costs are about \$360 Billion per year**
- **800 million people lack access to adequate nutrition**

One Set of Problems: Recent Policies and Their Expectations

We were promised that the policy trio of:

- **De-regulation**
- **Trade Liberalization**
- **Privatization**

Would provide:

- **Reduced malnutrition**
- **Increased the rate of social gains**
- **Increased farm prices and incomes**

But it Hasn't Worked Out

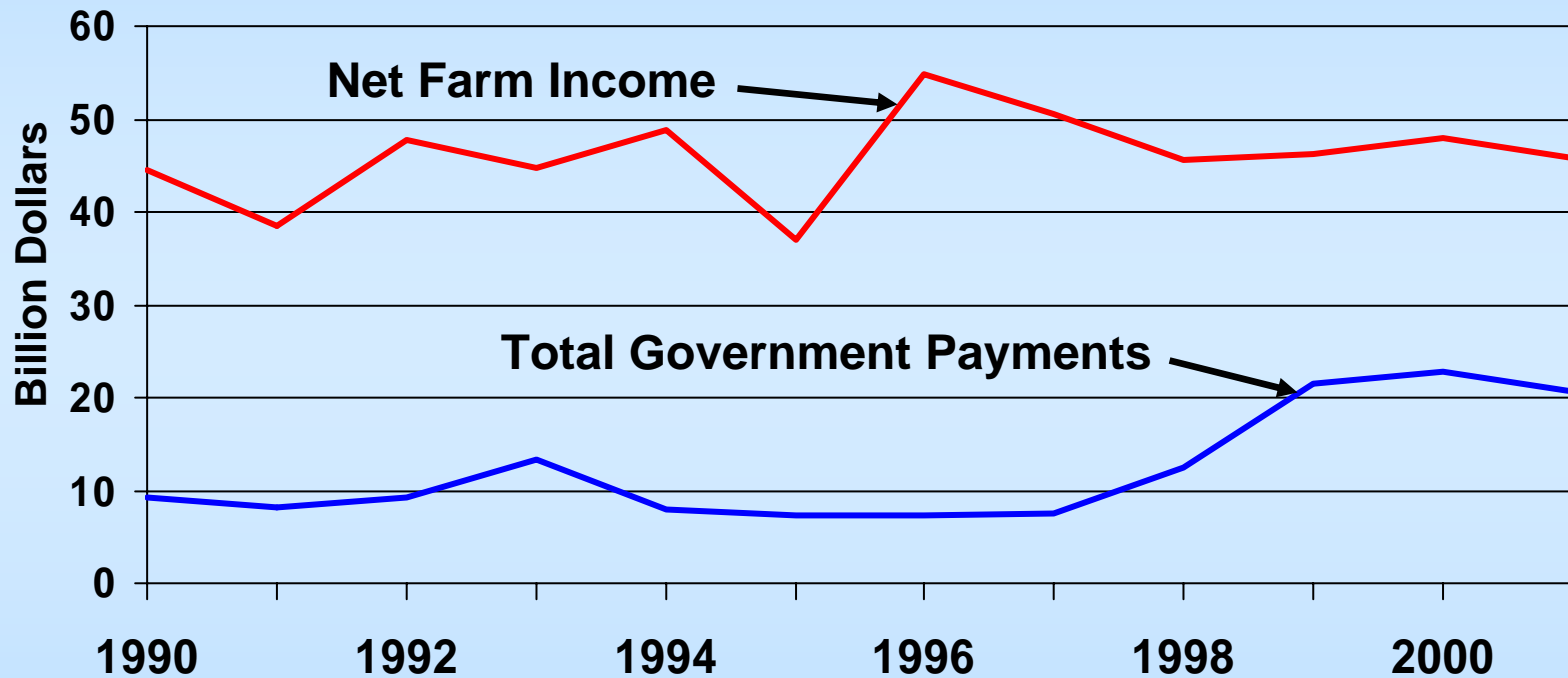
The current international consensus for food/agricultural policy:

- **Fails to provide adequate and stable market returns for farmers worldwide**
- **Favors concentration and benefits multinational agribusinesses**
- **Does not allow for distinctive national policies**
- **Increased public cost**
- **Still: Fails to help feed the hungry**

Interaction of Today's World Agricultural Policies

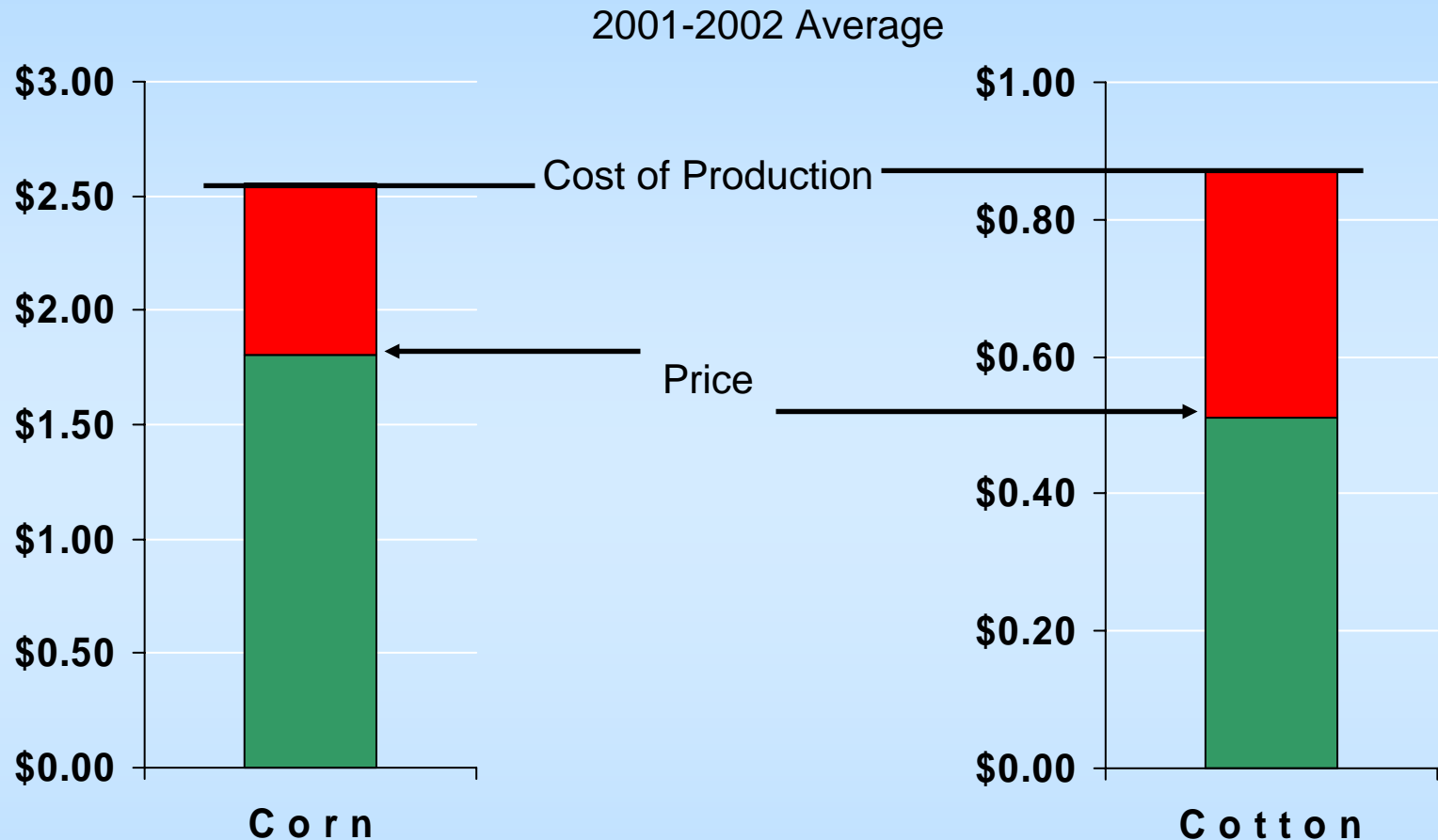
- **Commodity prices plummeted Worldwide**
- **Accusations of dumping**
- **Many countries unable to neutralize impacts of low prices**

US Net Farm Income and Government Payments



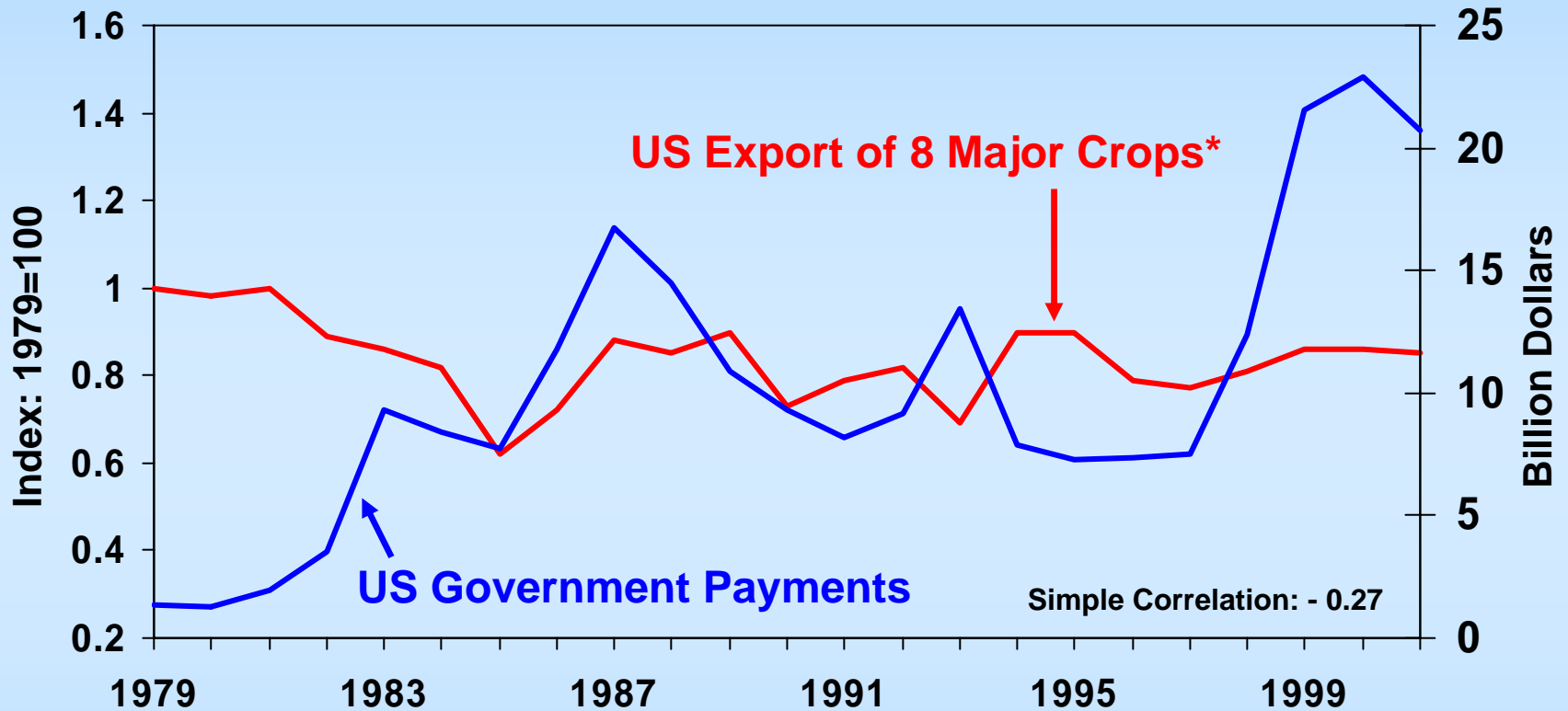
- US Government payments are at historic highs at \$20+ billion per year
- Worldwide government subsidies total a staggering \$360 billion per year

US Prices and Cost of Production



- Prices cover only 60 to 75% for cotton and corn, respectively
- Even less for other crops
- Corresponding graphs for other countries would look even worse

US Exports and Government Payments

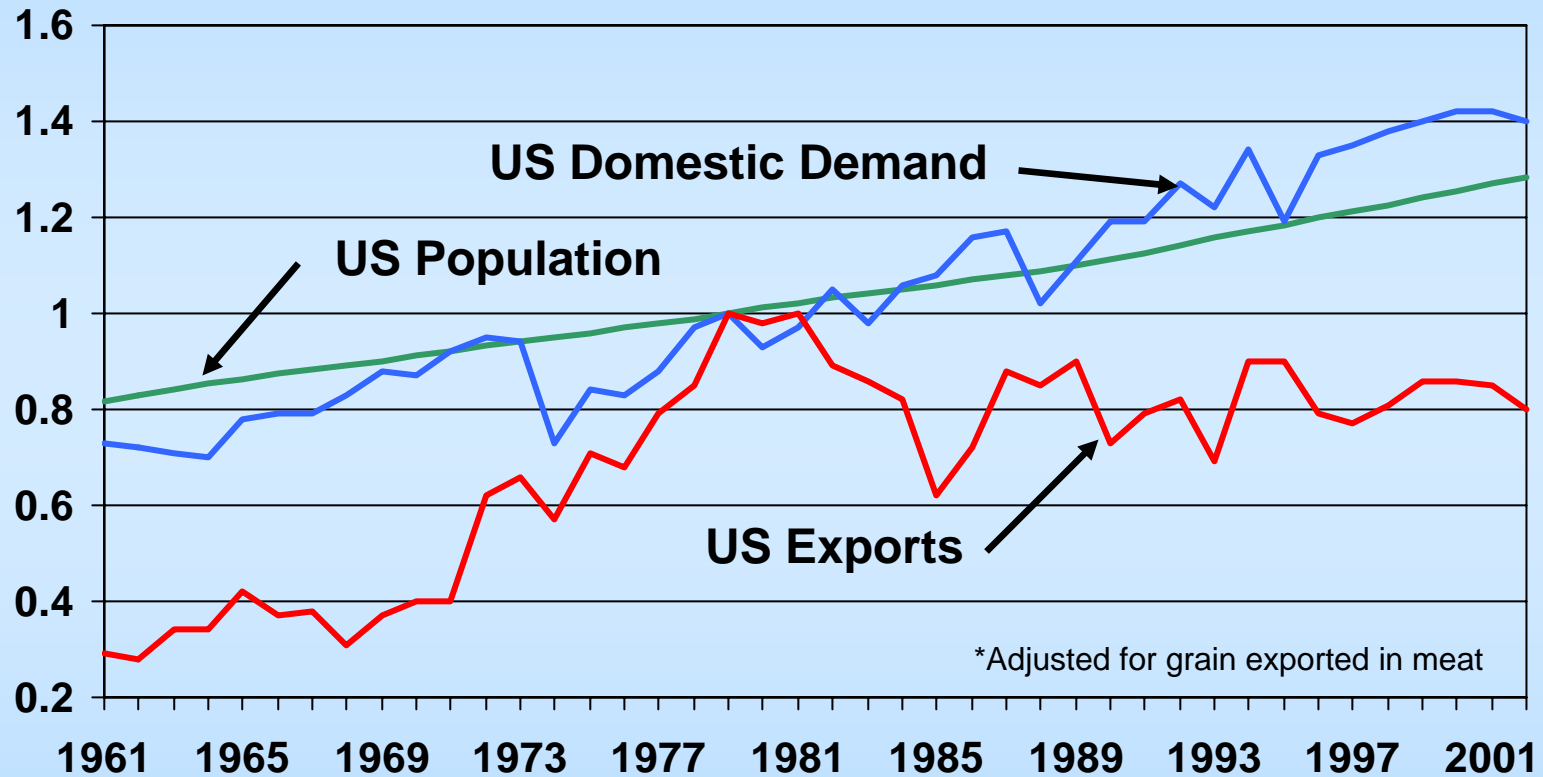


US government payments have not resulted in additional movement of US crops into world markets

*Adjusted for grain exported in meat

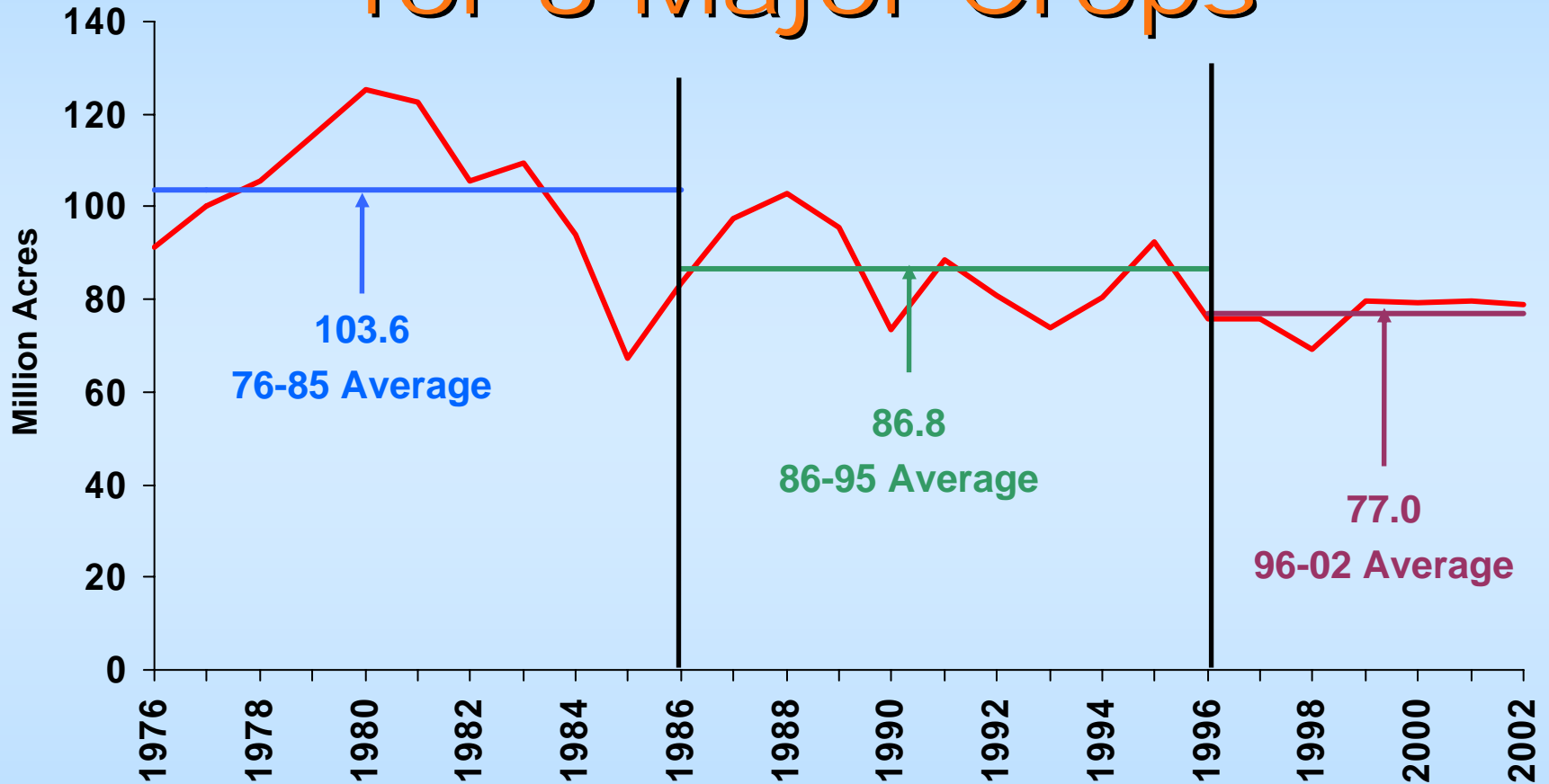
Exports Did Not Deliver

Index of US Population, US Demand* for 8 Crops and US Exports* of 8 Crops 1979=100



- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have NOT been the driving force in US crop markets

US Net Export Acreage for 8 Major Crops



27 million fewer acres are currently used for eight major crop exports than in the 1976-1985 period

Hunger Eradication Goals Unmet

- 1974 World Food Conference
 - **Eradication of hunger within a decade**
 - **Instead 800 million hungry after two decades**
- 1996 World Food Summit
 - **Halve number of hungry within two decades**
 - **Instead—to date—no improvement in reducing the rate of malnutrition**
 - **In fact, if China is excluded, malnutrition has increased since 1996**

The Problem is...

- **Not that the world lacks the productive capacity to feed the hungry**
- **Not that ample productive capacity requires low prices**

Policy at a Crossroads

With the decreased rate of improvement in social measures and the collapse in farm prices:

- **The current policy trio of de-regulation, trade liberalization and privatization is ineffective, contentious and uncooperative**
- **Alternative: Desperately need to identify elements of a stable, sustainable and cooperative world policy for food and agriculture**

Food/Ag Policy Should Address:

- **Reasonable returns for the producers**
- **Food and Nutrition Security**
- **Multifunction of Agriculture**

Other Considerations of a New Ag/Food Policy

- **Autonomy**
 - **Can individuals/nations make their own decisions?**
- **Availability/Accessibility/Sufficiency**
 - **Do resources/food exist in sufficient quantities and are they reasonably convenient to obtain**
- **Equitability**
 - **Are resources/food fairly distributed?**

Other Considerations of a New Ag/Food Policy

Food production and distribution systems

- **Reliability/Sustainability**
 - **Is the system dependable and can it continue indefinitely or does it depend upon resource depletion/depredation?**
- **Stability**
 - **Does the system reduce/minimize variability?**

Such Ideas Are Part of Several Concepts/Terms

- **Food security**
- **Food/Ag policy self-determination**
- **Food sovereignty**

But whatever you call it, each country...

- **defines its own agricultural and food policies and**
- **recognizes its interdependence with other countries and both protects itself from dumping and does not cause dumping**

Food IS Different

- **Food is a biological requirement; a matter of life and death**
- **Most everything else—but water and shelter—is optional**
- **The trade and market rules that work well for non-essential commodities give unacceptable results for food/agriculture**
- **The uniqueness of food and agriculture requires a unique set of domestic and trade policies**

Absolute Necessity Gave Rise to "Policy of Plenty"

- **Public policy of ensuring an ever-increasing food supply by cropland expansion and by investing in:**
 - **Research**
 - **Education**
 - **Extension/Technology transfer**
- **The development and maintenance of an excess capacity to provide food is a desirable, if not necessary, public policy goal**

But “Plenty” Must be Managed

- **Agricultural output generally increases faster than effective demand**
- **Low farm prices result**
- **Other industries self-correct when prices are low**
 - **Consumers buy more**
 - **Producers produce less—supply management occurs**
- **Not in agriculture**
 - **Cropland area changes too slowly in response to lower prices**
 - **Consumers do not go to 5 meals a day as food prices decline**

Managing Plenty and The Role of Farm Policy

In the past farm policies included

- **Floor price**
- **Supply management tools**
- **Price stabilization**

Recent international policy trends

- **Eliminated all three**
- **Set prices free to fall well below cost of production**
- **Provided revenue supplements to compensate when prices are low**

Predictable Consequences of Overcapacity

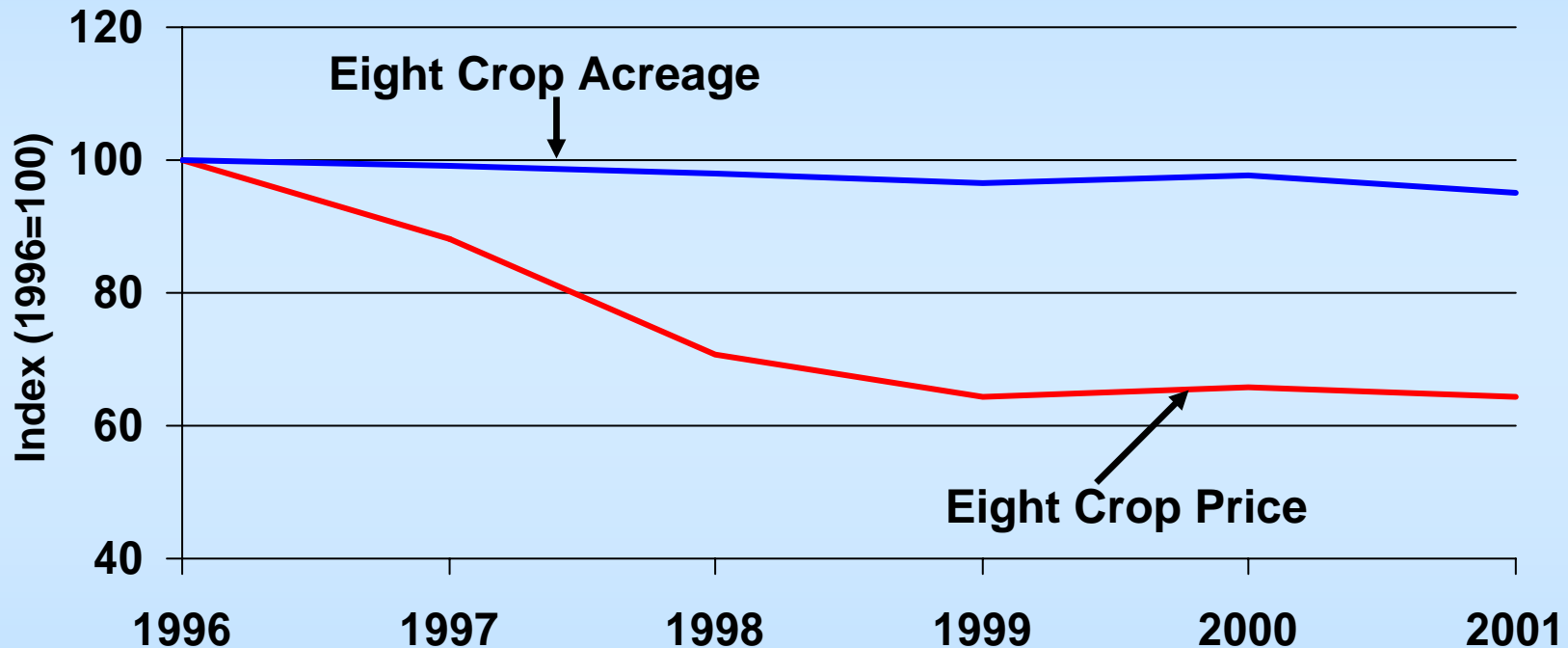
- **Millions of acres previously “set-aside” are brought back into production**
- **Prices fall in world markets**
- **Government payments increasingly support land values but have little impact on production/prices**

Current Trade Agenda Is Not the Answer

Farm prices and incomes are not self-correcting when prices drop because:

- **Supply does not respond enough to low prices (has not; does not; will not)**
- **Demand does not respond enough to low prices (has not; does not; will not)**

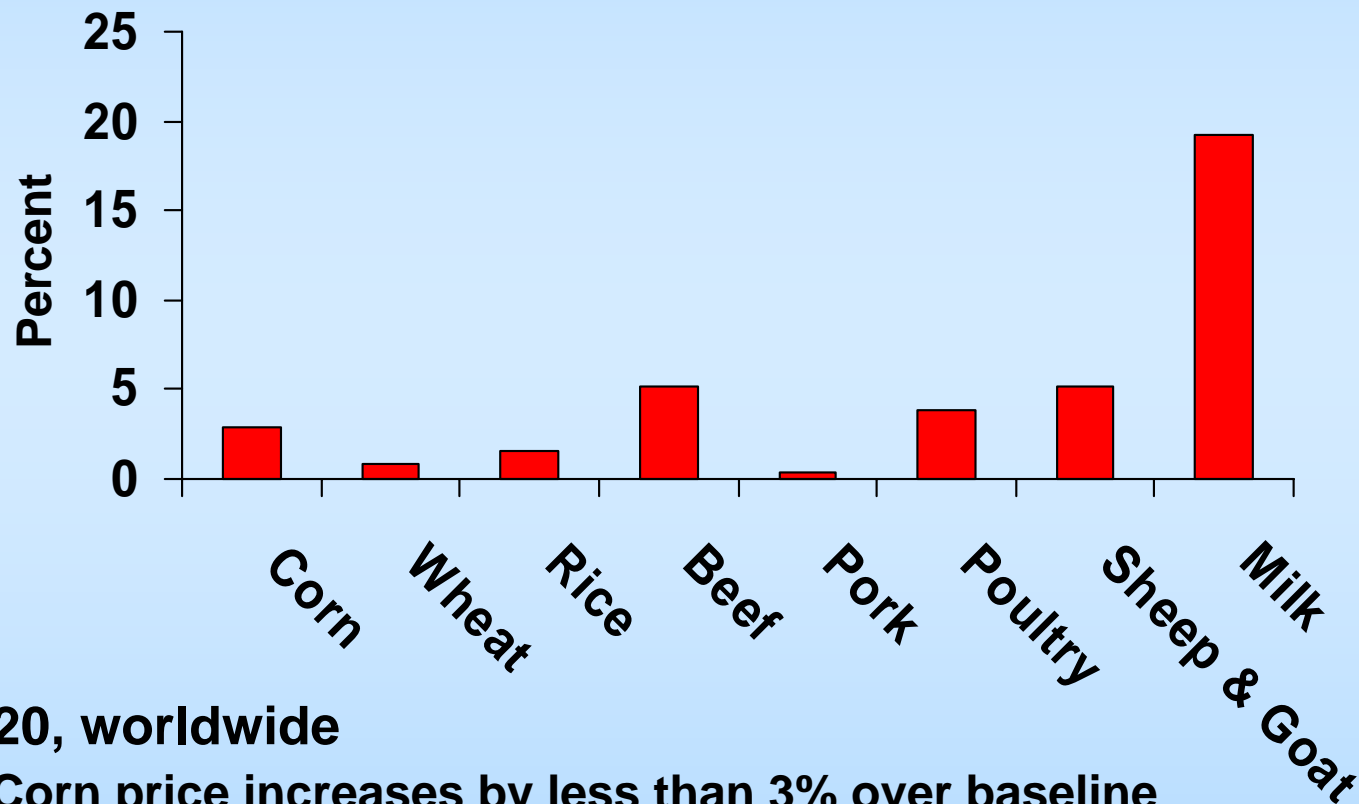
US Acreage Response to Lower Prices?



Since 1996

- Eight major crops maintain acreage
- Eight-crop price drops by 36%

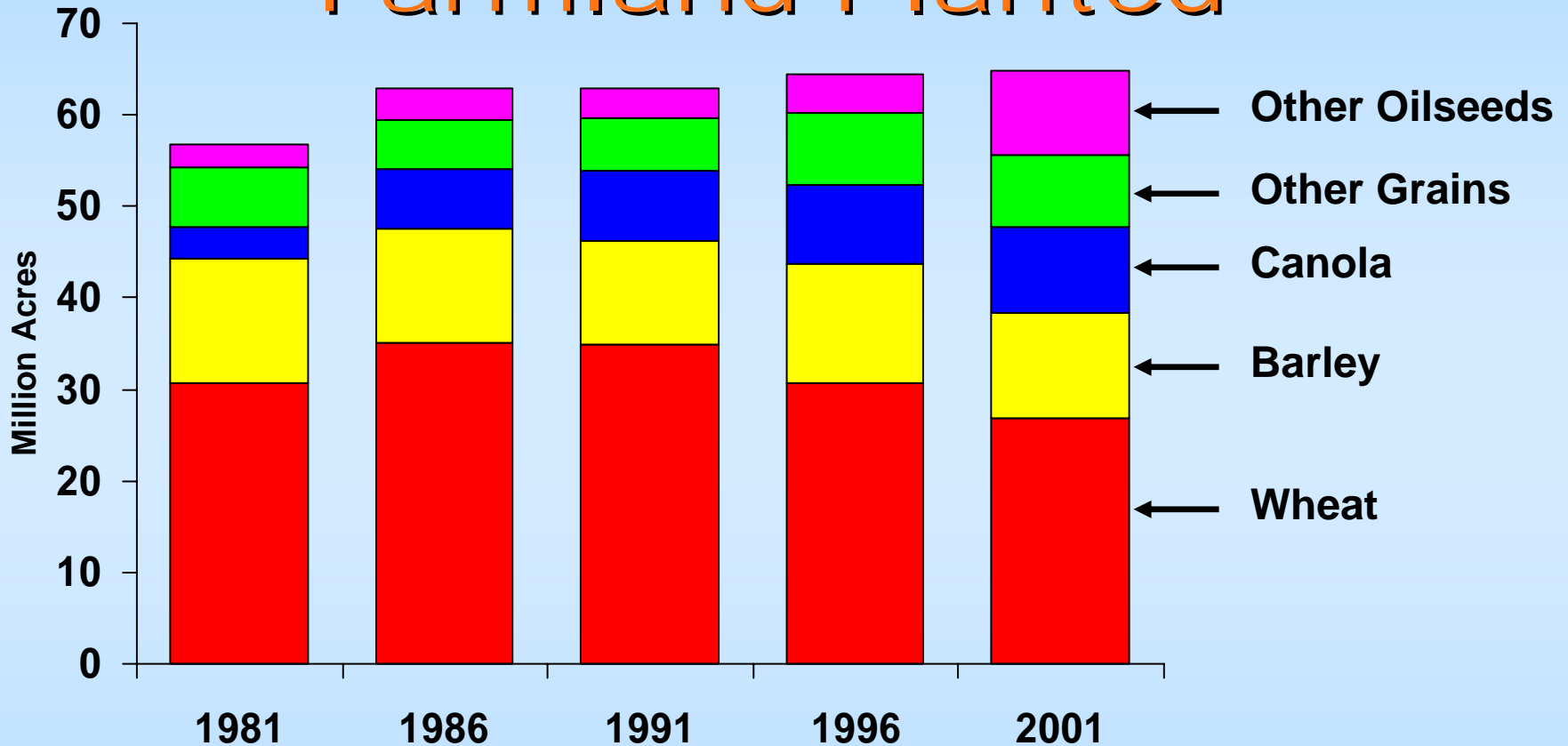
With No US Subsidies: Worldwide Price Impacts, 2020



In 2020, worldwide

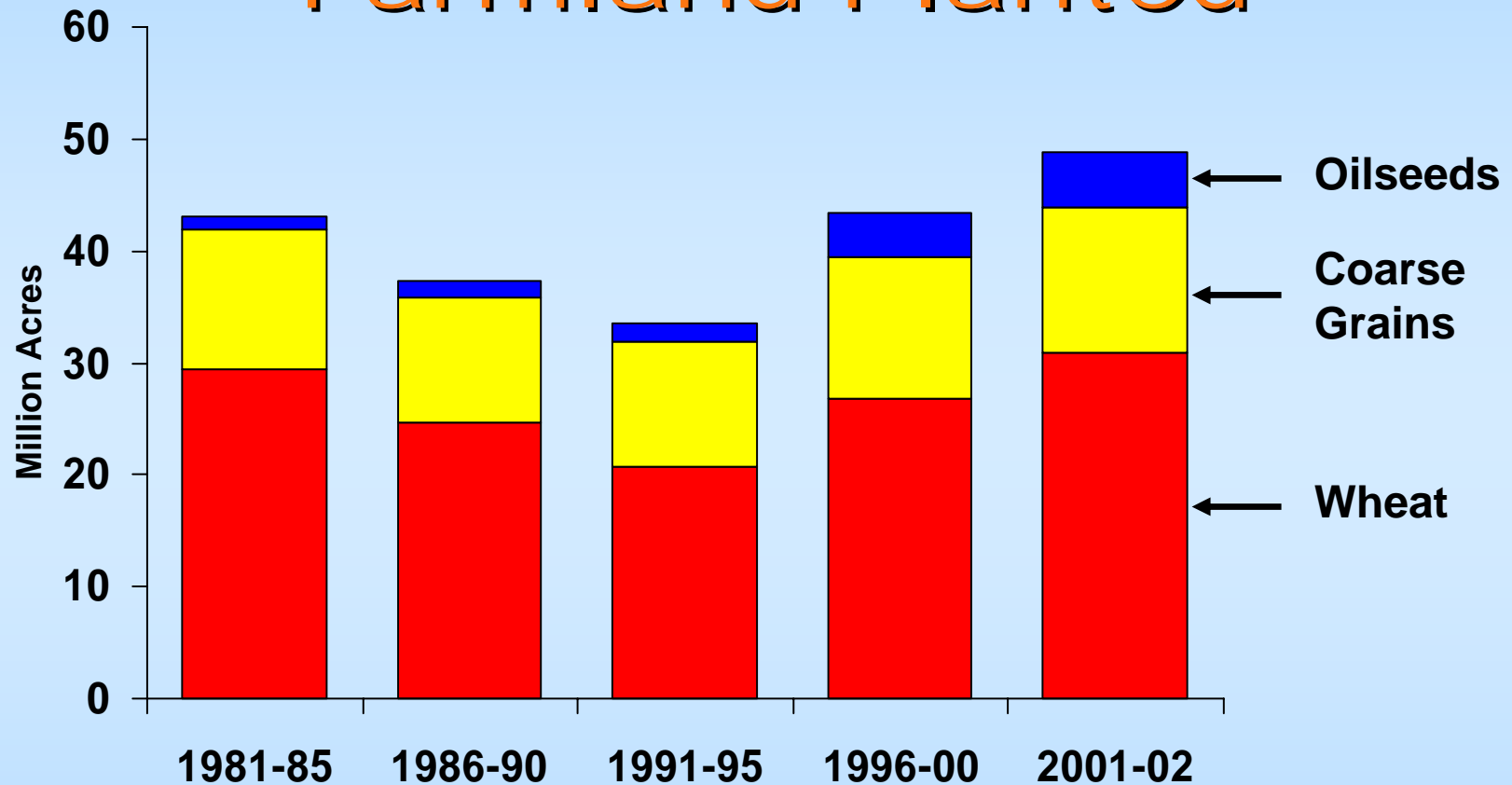
- Corn price increases by less than 3% over baseline
- Wheat price increases by less than 1% over baseline
- Rice price increases by less than 2% over baseline

Canadian Experience with Farmland Planted



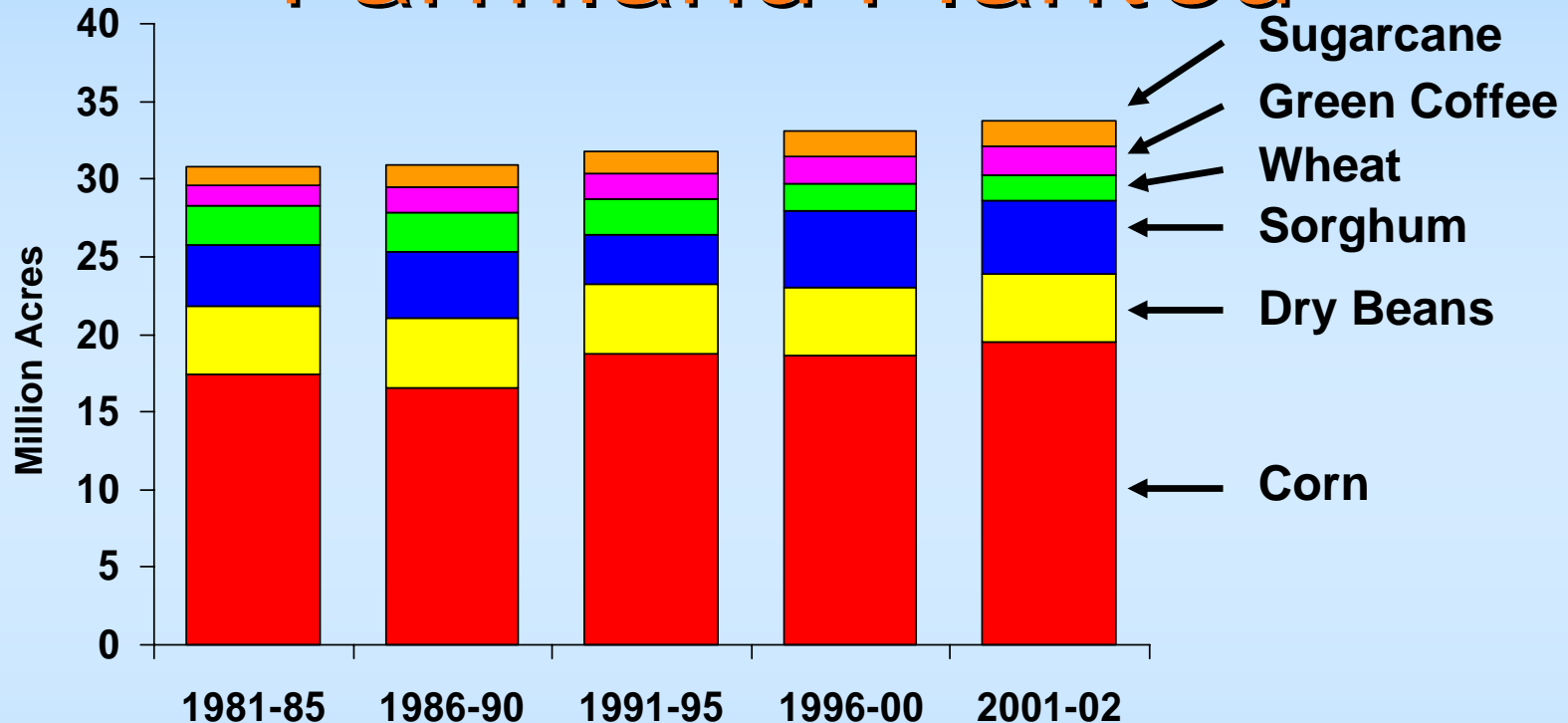
- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

Australian Experience with Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

Mexican Experience with Farmland Planted



- Mexico eliminated or reduced supports in the 1990s
- Phased out import quotas under NAFTA
- Increased acreage of above selected major crops
- Total crop acreage also increases – 256 million acres in 1991, 265 million acres in 2001

What Food and Agricultural Policies are Needed?

Policies that:

- **Improve economic sustainability for producers**
- **Recognize the need for cooperative solutions**
- **Preserve the autonomy of each country to determine its food and agricultural policies**
- **Address Food Security and global hunger issues**

Action Elements to Restore Farm Profitability

- **Demand Expansion**
 - **Attention to society priorities**
- **Reserves**
 - **Humanitarian relief**
 - **Food security/Buffer stocks**
- **Global capacity issues—Balancing supply and demand**

Why a Global Commitment to Balance Supply and Demand?

- **Significant additional productive capacity is being brought online in several countries around the world**
- **Technological advances now increase yields worldwide**
- **Politically impossible for a nation to do unilaterally**

Establish International Humanitarian Relief Reserve

- **Reserve should be available to meet food EMERGENCIES**
- **Release should be based on need NOT price or desire to clear storage**
- **Distinct from stock management programs to stabilize price**
- **Distribution should be in manner that does not penalize local producers**

Why Do We Need a New Food/Farm Policy?

- **Farmers must join together to stop the race to the bottom in commodity prices**
- **Structure of agricultural marketplace pits farmers against one another**
- **Government cost of policies**
- **800 million people lack adequate nutrition**

Advantages of a Food/Farm Policy based on Food Security and Sovereignty

- **Balance supply and demand to ensure profitable producer returns**
- **Establish conditions less conducive to market concentration**
- **Reflect national priorities including social objectives and sovereignty—Reduce intervention costs**
- **Reduce/eliminate global hunger**
- **Guarantee food security for all**
- **Eliminate dumping and trade distortions**
- **Enable cooperative management of excess capacity**