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## Trade and market policy

The trade and domestic market policy options of the IAASTD Global Report were derived from a large review of economic and policy literature: e.g. “Agricultural policies in industrialized countries, including export subsidies, have reduced commodity prices and thus food import costs; however, this has undermined the development of the agricultural sector in developing countries, and thus agriculture’s significant potential growth multiplier for the whole economy (Diaz-Bonilla et al., 2003). Reducing industrialized countries’ trade distorting policies including subsidies is a priority, particularly for commodities such as sugar, groundnuts and cotton where developing countries compete” (Global Report, 453).

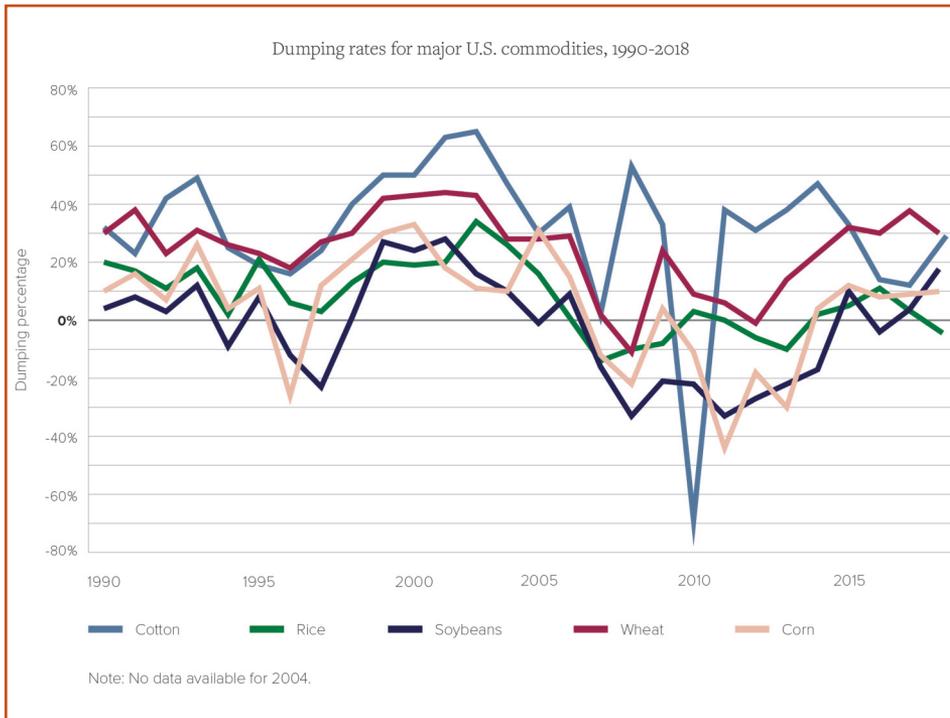
According to the South Centre’s analysis of World Trade Organization (WTO) negotiations on agriculture subsidies, not only has there been no reduction in industrial country trade-distorting policy and subsidies, but the United States is unilaterally attacking what it claims to be trade distorting policy and subsidies in developing countries (South Centre, 2017). The deadlock on which agricultural subsidies and policy to allow is part of the current “existential crisis” of the WTO, which extends well beyond the current deadlock over the implementation of dispute settlement rules (Schott and Jung, 2019). Remarkably, there are still no rules in the WTO Agreement on Agriculture (AoA) to enable mitigation of or adaptation to climate change (FAO, 2018), which is unarguably a much greater “existential threat” to WTO members.

**The deadlock on which agricultural subsidies to allow is part of the current WTO-crisis.**

There is not even a clear consensus about how to measure subsidies. According to the OECD, Producer Support Estimates (PSEs) for agriculture has have been falling in OECD countries since 2000 and increased for 12 emerging economies (OECD 2019, Figure 1.4, at 49). However, PSEs do not estimate market price responsive subsidies, but rather OECD-defined specific forms of government support to producers. Because of methodological flaws in that calculation, such as the assumption that world prices are undistorted by anti-competitive business practices, PSE figures can drop for OECD countries while the subsidy portion of their PSE’s rise. Conversely, PSE figures for developing countries can rise while their market price support drops (Wise, 2004).

The WTO adapted the PSE methodology and assumptions in the AoA Aggregate Measures of Support (AMS) to categorize government support that is decoupled from current product specific prices, and permitted “Green Box” support, e.g. pest and disease control. Product specific market price supporting

policies are put in an Amber Box of 'trade distorting' policies (WTO, 2003) while whole farm income insurance is deemed not trade distorting (Congressional Research Service, 2019). Indeed, because the AMS limits are so high for developed countries, it is possible for their agricultural exports to be AMS compliant even when they are sold at below the cost of production, an unfair and anti-competitive trading practice that the AoA does not discipline (Murphy and Hansen-Kuhn, 2019).



Calculations by Karen Hansen-Kuhn based on USDA Commodity Costs and Returns, OECD Producer Support Estimates and USDA Agricultural Marketing Services Grain Transportation Report Datasets.

There is a consistent trend of dumping of key U.S. agricultural goods, i.e., their sale at below the cost of production. In the chart above, the percentage of the price that is dumped is above the zero line. While this trend generally reversed when prices soared in 2008 and again in 2012, it has resumed for most crops since then, undermining farmers both in developing countries and the U.S.

There is no legal definition of "trade distortion" in the AoA, but an economic definition can be inferred from the OECD viewpoint that "a large part of support for producers come from measures that create a gap between the domestic and world market prices" (OECD, 2019 at 23). Trade theory asserts that

there should be no gap, i.e. no government policy induced domestic price distortion deviating from the world prices for the globally traded commodities. World prices should be determined by transactions on the most price influential commodity exchanges. The transactions should 'discover' the futures contracts prices that are benchmarks for the Free on Board (FoB) prices for agricultural commodities (Balasubramaniam, 2020).

However, in reality, as financial institutions have become dominant in physical commodity futures markets, the historic role of futures prices as benchmarks for setting domestic forward prices, e.g. at grain elevators, and subsequently FoB prices, has become less reliable (UNCTAD 2011). For example, the failure of wheat futures to converge with cash prices at the expiration of the futures contract meant that the futures price did not serve as a reliable benchmark for forward contracting. The Chicago Mercantile Exchange explains convergence failure as a problem of wheat contract design, rather than the dominance of the wheat contract by financial actors (Suppan, 2019).

Attempts to regulate the participation of financial actors with no or only highly attenuated connection to the processing, merchandising or use of physical commodities have been defeated by lobbying, litigation and defunding of regulatory agencies, e.g. in the proposed speculative position limits rule of the U.S. Commodity Futures Trading Commission. As a result, U.S. commodity futures markets and market participants, the most globally price influential for many commodities, are de facto or de jure largely "self-regulated" (Gibbon, 2013).

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In the World Bank's theory and research, "sustained deviation of domestic prices from world prices in either direction leads to substantially sub-optimal outcomes and slows the rate of economic growth; and (...) as international food prices reflect global scarcity or surplus, their transmission to domestic prices can help improve the global responsiveness of the food system to shocks" (Zorya, Townsend and Delgado, 2012). If world commodity prices were not themselves subject to price distortion by financial actors and anti-competitive business practices, then the World Bank loan and policy conditionalities might provide development country policy makers with useful advice. But to the extent that international food prices do not simply reflect global supply and scarcity, developing country policy makers may be better advised to guide domestic agricultural policy in accord with domestic price formation, rather than guide that policy according to international prices over which they have no influence in futures market trading.

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