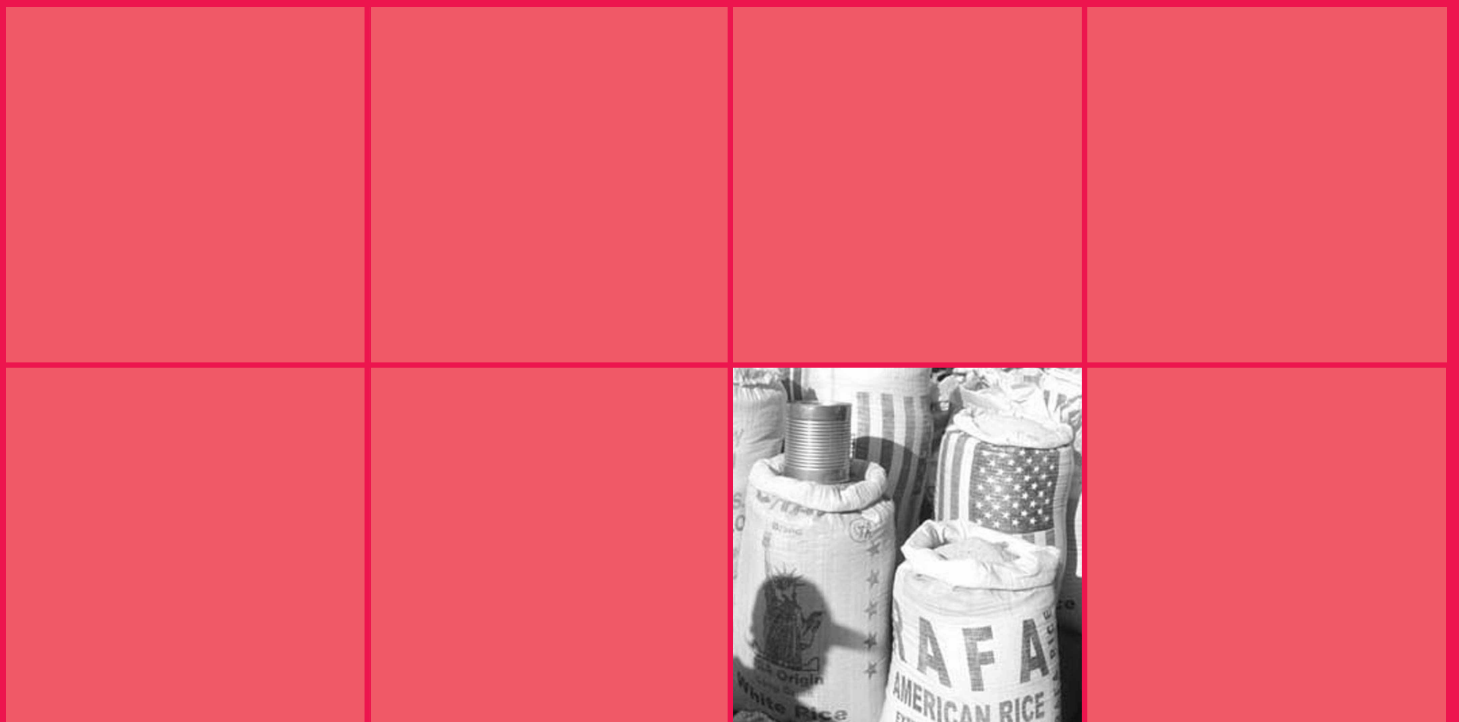


The Marrakesh Decision



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Summary

In signing the Marrakesh Decision, developed countries recognised that if trade liberalisation under the Uruguay Round Agreement on Agriculture led to an increase in world market price for food, the least developed countries (LDCs) and net food-importing developing countries (NFIDCs) would require assistance in order to maintain food security.

For years nothing was done to keep this promise but recently, thanks to constant pressure from the supposed beneficiaries of the Marrakesh Decision and a surge in world food prices, it seems that concrete steps to implement the Decision are underway.

ActionAid believes that if genuine reforms to the Agreement on Agriculture are made under the current Doha Round of negotiations, further increases in world food prices will occur and that the effective implementation of the Marrakesh Decision is essential to ensure that the food rights of poor people and poor countries are protected.

ActionAid calls for:

- The immediate establishment of a revolving fund to support commercial food imports in LDCs and NFIDCs during periods of increased world food prices.
- Significant reforms to the international governance of food aid to ensure that only humanitarian food aid is used under the management of the World Food Programme.
- Increased technical assistance to be provided to LDCs and NFIDCs to increase agricultural productivity for small-scale farmers.

The Marrakesh Decision: an introduction

The Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on least developed and net food-importing developing countries was signed in 1994, during the conclusion of the World Trade Organisation Uruguay Round GATT negotiations.

The Decision recognised that increased world food prices resulting from the Uruguay Round's agricultural trade liberalisation programme might cause difficulties for LDCs and NFIDCs, including short-term difficulties in financing normal levels of commercial imports of basic foodstuffs.

These concerns stemmed partly from the dependence of LDCs and NFIDCs on the world market for a large share of their food consumption. In the case of cereals, NFIDCs imported 35% of total consumption in 1998-2000. For the LDCs, the dependence on cereal imports was 14% compared to 11% for developing countries.

In order to minimise the negative impact on NFIDCs and LDCs, the Marrakesh Decision requires developed countries to:

- ensure special treatment is given to LDCs and NFIDCs in any agreement on export credits
- ensure that the international financial institutions (IMF, World Bank) give special consideration to the financial difficulties that LDCs and NFIDCs may

experience in financing commercial imports of food as a result of the Uruguay Round

- establish a sufficient level of food aid while agricultural trade liberalisation takes place
- give full consideration to requests for technical assistance to improve agricultural productivity and infrastructure by LDCs and NFIDCs in the context of their aid programmes

For many years, nothing was done in any of these areas. Ambiguities in the text of the Decision allowed developed countries to procrastinate and much time was devoted to debating whether changing world food prices were linked to Uruguay Round impacts or other factors. It was only persistent pressure from NFIDCs and LDCs that kept the Decision on the agenda. Finally, in the pre-Doha negotiations in the Committee on Agriculture (CoA), consensus was reached that an inter-agency panel of experts be established to explore ways of improving access by LDCs and WTO NFIDCs to multilateral programmes and facilities to assist with short-term difficulties in financing normal levels of commercial imports of basic foodstuffs, as well as the feasibility of establishing a revolving fund.¹ This recommendation was ratified at the Doha Ministerial in November 2001.²

The inter-agency panel reported to the CoA in June 2002. In October and December 2002,³ the WTO's General Council approved the recommendation of the CoA to pursue the question of feasibility of an ex-ante financing mechanism aimed at food importers, as outlined in paragraph 168(b) of the report of the inter-agency panel. These consultations are still underway.

Key issues in making the Marrakesh Decision operational

Price trends for basic foodstuffs on international markets

The rising costs of food imports by LDCs and NFIDCs are a central element of the rationale for measures under the Decision. In the past, developed countries and the international financial institutions have argued that it is impossible to conclusively link changes in food prices to the implementation of the Agreement on Agriculture (AoA). Furthermore, until recently they were able to claim that, apart from a price spike in 1995-7, cereal prices had been falling. This view was echoed in the report of the inter-agency panel in 2002⁴, which provided figures to demonstrate this trend. (Figure 1)

Developed countries have argued that the 1995-1997 price spike was probably an isolated occurrence and the fact that markets returned quickly to lower levels revealed a resilience in the world food system which may have been enhanced by the Uruguay Round.⁵ This claim looks weak in the light of the sharp rises in food prices in 2002. Overall cereal prices rose by 41%, with a 54% rise for wheat and an above-average rate for maize, reflecting the extensive droughts in the cereal-producing regions of the US, Canada and Australia. However, palm oil prices also increased by 43% and coconut oil and soybean oil by 38%.⁶ For 2003, the IMF projects food prices to increase by 9.3%. Within that category, cereal prices would rise by 14%.⁷

¹ See G/AG/11, dated 28 September 2001, Section B, paragraph III(b).

² Decision of 14 November 2001 concerning Implementation-Related Issues and Concerns (see WT/MIN(01)/17, dated 20 November 2001, paragraph 2.2).

³ Report of the Inter-Agency Panel to the Committee on Agriculture on Short-Term Difficulties In Financing Normal Levels of Commercial Imports of Basic Foodstuffs (2002), World Trade Organisation, Geneva, WT/GC/62 G/AG/13, 28 June

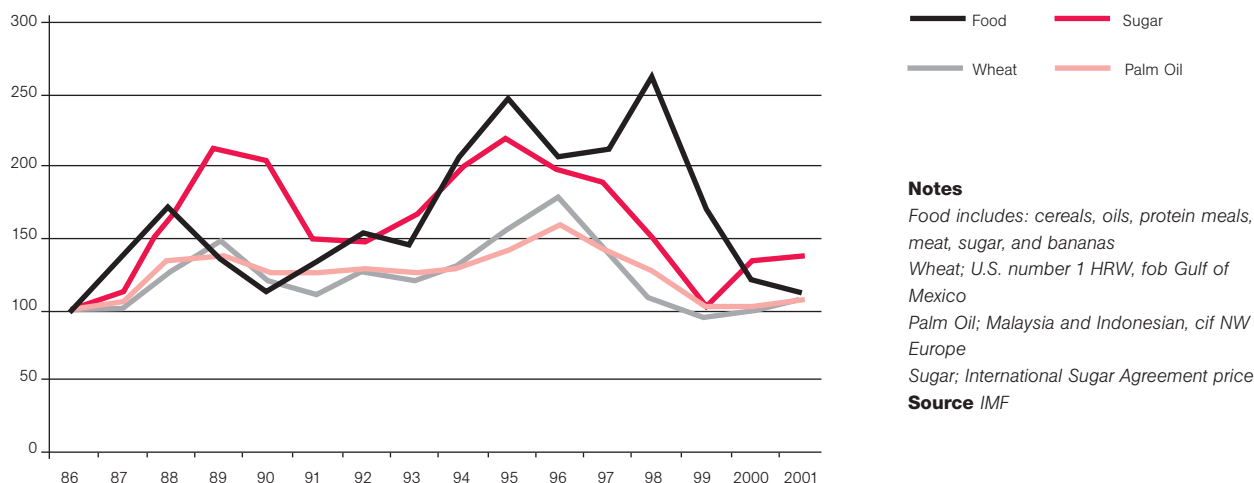
⁴ *ibid*

⁵ See G/AG/11 (dated 28 September 2001), pages 8-14.

⁶ Statement By The Representative of the International Monetary Fund to the Annual Monitoring Exercise In Respect Of The Follow-Up To The Ministerial Decision On Measures Concerning The Possible Negative Effects Of The Reform Programme On Least-Developed And Net Food-Importing Developing Countries, WTO Committee on Agriculture, 11 December 2002, G/AG/GEN/56

⁷ *ibid*

Figure 1 International food prices, 1986 - 2001 (1986 = 100)⁸



Furthermore, recent IMF research shows that “as a result of liberalization in trade in agriculture and the removal of agricultural support, world prices would rise for all agricultural commodities. As some NFDCs are large net exporters of cotton, rice, sugar, and beef, they would gain from liberalisation of trade in these commodities. However, liberalisation would also mean NFDCs having to pay more for imports of wheat, maize and milk.”⁹

For the World Bank, the fact that prices have not risen is not surprising given the Uruguay Round Agreement on Agriculture “did not achieve a great deal of agricultural liberalisation” and “the liberalization that it achieved was much less than the target cuts in protection included in the agreement”.¹⁰

ActionAid would agree. The failure of developed countries, particularly the EU and US, to cut agricultural subsidies in line with the spirit, if not the letter, of the AoA, means that the price impacts of

the Uruguay Round are minimal. However, if developing countries are able to negotiate the necessary reforms to achieve substantial reductions in agricultural subsidies under the Doha Round this would have a considerable impact on future world food prices.

It is worth noting that officially supported agricultural export credits increased from US\$11 billion in 1995 to US\$18 billion in 1998. For bulk cereals, export credits increased by US\$465 million or 22% over the same period.¹¹ However, despite the fact that the Decision urges developed countries give special treatment to LDCs and NFDICs when providing export credits, their share of these remains very low at 0.2% and 9%, respectively.¹² As the Food and Agriculture Organisation (FAO) points out, one implication of this is that the claims made to justify the use of export credits - that they assist countries facing liquidity constraints on the purchase of food in world markets - is unfounded.¹³

⁸ ibid

⁹ ibid

¹⁰ World Bank Submission, Annex 8, Report of the Inter-Agency Panel to the Committee on Agriculture on Short-Term Difficulties In Financing Normal Levels of Commercial Imports of Basic Foodstuffs (2002), World Trade Organisation, Geneva, WT/GC/62 G/AG/13, 28 June

¹¹ See OECD (2000), Agricultural Outlook 2000-2005, p. 51.

¹² See EC negotiating proposal regarding export competition of 18 September 2000 (G/AG/W/34, dated 11 June 1998, paragraph 10). The EC notes that its observation is based on an OECD survey using confidential data.

¹³ Submissions by the Food and Agriculture Organization of the United Nations (FAO), Annex 4, Report of the Inter-Agency Panel to the Committee on Agriculture on Short-Term Difficulties In Financing Normal Levels of Commercial Imports of Basic Foodstuffs, op cit

Proposals for the establishment of a revolving fund

Currently, the main facility to deal with short term financing to cope with surges in import prices is the IMF Compensatory Financing Facility (CFF). Available to most LDCs and NFDICs, this provides financial assistance to countries that experience balance-of-payments difficulties arising from either a shortfall in aggregate export receipts or an excess in cereal import costs. However, in the view of many NFIDCs, the CFF is not a useful resource because it covers only cereals, not all foodstuffs, loans are made at non-concessional rates and are subject to the usual IMF conditionalities, and such loans are only made after the event.

Instead, proposals for the establishment of a revolving fund¹⁴ have been submitted by a group of seventeen NFIDCs.¹⁵ These have been elaborated by UNCTAD, which believes that an ex-ante fund would be far more effective than an ex-post fund.¹⁶

UNCTAD notes that governments have little involvement in food imports which are overwhelmingly in private hands. For this reason, a revolving fund needs to target the private sector. Furthermore, such a facility should aim to provide credit, probably through the involvement of banks at local level, as the need to assist imports arises, not many months after difficulties are experienced.

In order to achieve this aim, UNCTAD suggests that the revolving fund could rely on objective trigger mechanisms based on world market food prices and announced reductions in concessional exports to countries. UNCTAD believes that it should not be difficult to establish for each country, a baseline price index and a baseline index for food imports at commercial terms. The two could then be combined

into a "commercial food financing need index" for each country and a "say, 20% increase in a country's index could then trigger the availability of new funds."¹⁷ Since these factors are not influenced by the policies of LDCs or NFIDCs, no review of the food policies of prospective borrowers would be required.

According to UNCTAD, because the trigger mechanism and disbursement procedures build on existing information and the market's current contractual habits and financing mechanisms, and because it requires no policy review process, the administration of a revolving fund of this nature would require only a small secretariat. Furthermore, "The 'revolving fund' itself would not have to be paid-up; rather, donor countries can give "conditional guarantees" against which the fund could obtain financing when required. The overall cost ... is thus low. Moreover, it is a temporary cost. The secretariat of the 'revolving fund', by working with national counterparts to improve food financing mechanisms, would create a better functioning of the food sector and over time, will make itself superfluous."¹⁸

In a softening of its previous position, the IMF appears to accept that an ex-ante fund based on these principles could be appropriate to deal with disruptions to imports caused by increased prices and the subsequent increased need credit amongst a country's importers. "One way of dealing with this would be to establish a fund to make available to importers guarantees that would enable them to access the necessary financing. The availability of these guarantees would be triggered by objective criteria - agreed in advance - that are outside the control of the governments."¹⁹

¹⁴ G/AG/W/49 (dated 19 March 2001) and Add.1 (dated 23 May 2001) and Add.1/Corr.1 (dated 27 June 2001) (Annex 2). The proposals were further elaborated by the Cuba, Egypt and Tunisia in responses to the inter agency panel (Annex 3).

¹⁵ Côte d'Ivoire, Cuba, Dominican Republic, Egypt, Honduras, Jamaica, Kenya, Mauritius, Morocco, Pakistan, Peru, Senegal, Sri Lanka, St. Lucia, Trinidad and Tobago, Tunisia and Venezuela.

¹⁶ Current practices in the financing of international food trade and implications for the structure and operational modalities of an international "revolving fund" for the financing of food imports, Submission by UNCTAD, Annex 7, Report of the Inter-Agency Panel to the Committee on Agriculture on Short-Term Difficulties In Financing Normal Levels of Commercial Imports of Basic Foodstuffs (2002), World Trade Organisation, Geneva, WT/GC/62 G/AG/13, 28 June

¹⁷ ibid

¹⁸ ibid

¹⁹ Statement By The Representative of the International Monetary Fund to the Annual Monitoring Exercise In Respect Of The Follow-Up To The Ministerial Decision On Measures Concerning The Possible Negative Effects Of The Reform Programme Least-Developed And Net Food-Importing Developing Countries, WTO Committee on Agriculture, 11 December 2002, G/AG/GEN/56

Providing sufficient quantities of food aid

Access to food and the freedom from hunger is a universally recognised fundamental right. Food insecurity for a population occurs when domestically produced food is not accessible and imports are not available to fill the gap. At one level, food security can only be addressed by improving the livelihoods of poor people but, at another, it can be increased by ensuring that there are no substantial increases in the average price of food. Such increases may be beyond the purchasing capacity of poor people or may divert such large proportions of income into food purchases that there is little left to meet other basic needs.

When LDCs and NFDCs experience food security shocks, national policy makers are generally faced with two options: food aid and commercial imports. As noted by the World Food Programme, these fulfil different roles in addressing food security problems. "Commercial imports are put on domestic markets to stabilise fluctuations in both price and availability of basic foodstuffs. They can also be used to maintain political confidence and ensure political stability during a crisis. But commercial imports are not likely to be targeted towards the poorest, most food insecure populations. Instead, governments prefer to use grant food aid for "social" programmes targeted to the poorest groups."²⁰

However, ActionAid believes that there are serious problems with the use of food aid to deal with short term crises resulting from increased world food prices.

There are two types of food aid – humanitarian food aid (including project food aid) and programme food aid.²¹ In general, programme food aid has caused more problems than it has solved.²² Used by developed countries to dispose of large surpluses that would otherwise depress world prices it has

often been given at times when it is least needed and withheld when genuine crises exist. The Food Aid Convention, which aims to stabilise global food aid flows, has been powerless to counteract this trend. The US, one of the largest providers of food aid, still ties all such aid to exportable surpluses. A significant share of the aid is administered by the US Department for Agriculture (USDA) and explicitly aims to stabilise the domestic market and open new export markets for US producers.

As it is sold on the open market, programme food aid distorts domestic markets and depresses prices for local producers, thus lowering their incomes, reducing incentives for production, and increasing future reliance on food imports. Price reductions created by food aid also distort seasonal price movements and discourage the development of private storage facilities. Finally, food aid is in many cases distributed through governmental channels, thereby undermining private sector development in marketing infrastructure.²³

A case study on Sudan in the 1980s shows that food aid allowed the government to provide wheat at subsidised prices. Wheat displaced sorghum as the major staple crop and resulted in heavy increases in the dependence on imports.

Similar observations were made in Central America where increasing food aid supplies led to higher wheat consumption and allowed the governments to neglect the problems of small farmers producing traditional staple crops such as maize.

Source: Garst, Rachel and Barry, Tom (eds.) (1990): *Feeding the Crisis. US Food Aid and farm policy in Central America.* University of Nebraska Press. Lincoln and London

²⁰ How Food Aid Complements Commercial Imports in Response to External Shocks, Submission by the World Food Programme (WFP), Annex 9, Report of the Inter-Agency Panel to the Committee on Agriculture on Short-Term Difficulties In Financing Normal Levels of Commercial Imports of Basic Foodstuffs (2002), World Trade Organisation, Geneva, WT/GC/62 G/AG/13, 28 June

²¹ In brief, programme food aid involves commodities provided directly to recipient governments or their agents who sell it on local markets. The main and often only development effect is the creation of additional government revenue, usually controlled by the recipient government in agreement with the donor about their management and use. Humanitarian and project food aid is provided on a grant basis to target groups to deal with critical shortages or support specific development activities.

²² For a full discussion food aid see ActionAid (2003), *Towards Improved International Governance of Food Aid*, ActionAid, London (forthcoming)

²³ How Food Aid Complements Commercial Imports in Response to External Shocks, Submission by the World Food Programme (WFP), op cit

Targeted food aid also has its problems (see Box below) but if properly channelled and delivered in consultation with the people it is supposed to benefit, it can save both lives and livelihoods. Used in combination with other mechanisms, including commercial imports, targeted food aid can be a valuable tool in ensuring households food security.

Inappropriate food aid

The flood in Zambezia river in early 2001 provoked a localised food crisis and a one-off World Food Programme delivery was made. However, due to lack of consultation with the local communities, the content of the food aid proved inappropriate. According to a local farmer: "After a time we had a response by air which brought food like maize, sugar and beans. They not could not imagine what was needed to grind the maize – imagine, maize grains in a water logged place, without, a pestle or other utensils! But despite this, we managed to make flour from the maize".

Source: ActionAid, M, (2003) Towards Improved International Governance of Food Aid, ActionAid, London (forthcoming)

ActionAid believes that financial mechanisms to enable commercial imports, such as the proposed revolving fund, are likely to have fewer long-term negative effects. However, targeted humanitarian food aid may be necessary to ensure that the needs of the poorest communities are met. Such aid should be managed in conjunction with those most affected and delivered in a way that minimises the displacement of commercial imports and distortions on domestic markets. In addition, both food imports and food aid should be linked to national food security strategies to ensure that short-term measures do not undermine long-term goals.

The provision of technical assistance

The Decision asks developed countries to give full consideration to requests for the provision of technical and financial assistance to LDCs and NFDICs to improve their agricultural productivity and infrastructure. According to the WTO Secretariat,²⁴ no such requests have been made via the Secretariat.

Clearly, if the extent of technical assistance is to be monitored, it will be important for LDCs and NFDICs to ensure that requests to potential donors are registered with the WTO Secretariat as well as through bilateral channels.

²⁴ Information On The Utilisation Of Special And Differential Treatment Provisions, Note By The Secretariat, Addendum, Committee On Trade And Development, WTO, 7 February 2002, WT/COMTD/W/77/REV.1/ADD.4

ActionAid's recommendations

Making the Marrakesh decision work

To fulfil the spirit and intent of the Marrakesh Decision, ActionAid calls on:

- Developed countries to eliminate all forms of export subsidies – experience demonstrates that these are not used to assist the poorest countries, nor provide assistance to net food importing developing countries – and are therefore subsidising normal trade.
- Developed countries to work with developing countries and relevant agencies to establish without undue delay a revolving fund, in line with the proposals outlined by UNCTAD.
 - Provide guarantees and financial contributions to support the revolving fund – the US and EU should be major contributors using the funds they will save from the elimination of export subsidies.
 - Contributions to the revolving fund from donor countries – in cash or as guarantees – should be established in a WTO schedule and should continue for as long as it is necessary for the fund to exist.
- Developed countries in the WTO to respond positively to requests from LDCs and NFDICs for assistance in developing their agricultural sectors and improving national and individual food security.

Regarding food aid, ActionAid believes that:

- Reform of the international institutions and treaties governing food aid policy is necessary to ensure a change of focus, with the prime objective of untying food aid from export interests.
- Food aid provision to be avoided where food is readily available and local markets are functioning.
- Food aid policies should be structured so that they minimise impacts on local prices and local farmers.
- Emergency food aid must be appropriate, accessible and affordable to hungry people irrespective of class, gender or generation. Food aid should address people's needs without disturbing food production systems.
- The operational rules of the World Food Programme should put greater emphasis on monitoring the effects of its activities on local production, especially in the post-disaster rehabilitation phase, when food aid should be shifted as quickly as possible to the provision of financial aid including targeted cash for work programmes.

ActionAid and Azione Aiuto are members of the ActionAid Alliance, a network of non-governmental development organisations working together to promote structural changes to eradicate injustice and poverty in the world. ActionAid Alliance members are ActionAid (UK), ActionAid Hellas (Greece), ActionAid Ireland (Ireland), Aide et Action (France), Ayuda en Accion (Spain) and Azione Aiuto (Italy). ActionAid Alliance's members have the regular and active support of more than 600,000 EU citizens, and its programmes reach over 9 million people in more than 40 countries in Africa, Asia, Latin America and the Caribbean.

The Food Rights Campaign is an ActionAid initiative that works with women and men to secure their right to food at local, national, regional and international levels. The campaign works in sixteen countries across Asia, Africa, Latin America and Europe.

ActionAid is a unique partnership of people who are fighting for a better world – a world without poverty.

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