

# RESTATE THE CASE

## Food liberalisation

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### Why is this important?

In recent decades, global food trade has liberalised substantially. Britain imports 47 per cent of its food, 19 per cent coming from outside the European Union.<sup>1</sup> This means that, no matter the time of year, most products can be sourced from somewhere in the world.

### What is it?

Following the Second World War, the Allies agreed the 1947 General Agreement on Tariffs and Trade (GATT) after negotiations for an International Trade Organisation failed to reach agreement. The GATT was an agreement which aimed to lower global trade barriers by discouraging discrimination between states, such as with tariffs. GATT did not initially fully cover agriculture.

Eventually, after gradual rule changes over several decades, resulting in the establishment of the World Trade Organization in 1994, agriculture was fully covered by global trading rules. This allowed for a significant liberalisation of the global food market. Crucially, this resulted in significant tariff reductions. It was agreed that developed countries would reduce agricultural tariffs by 36 per cent within six years, and developing countries would reduce theirs by an average of 24 per cent over ten years. Least developed countries were excluded from this and allowed to retain tariffs in order to protect their maturing markets.<sup>2</sup>

Since then, world trade in agriculture has grown substantially. It has more than tripled in cash terms between 1995 and 2014. When accounting for inflation, the value has roughly doubled.<sup>3</sup> This far outstrips the simultaneous 27 per cent increase in the global population over the same period.<sup>4</sup>

### Why has it been a good thing?

This liberalisation has benefited both rich and poor across the globe. Between 2005 and 2017, for example, the number of undernourished people in the world declined by 136 million people, twice the current UK population. Furthermore, the proportion of the global population who are undernourished has fallen from 14.5 per cent to 10.8 per cent over the same period.<sup>5</sup>

It has also benefitted British shoppers. The variety of goods available at a typical British supermarket has increased substantially. In terms of food and drink products alone, the amount of product lines at a typical large supermarket has increased tenfold since the late 1950s, from around 2,500<sup>6</sup> to 25,000.<sup>7</sup> Simultaneously, food prices have dramatically fallen. Food in Britain is amongst some of the cheapest in the world, and the amount that people spend on food has more than halved over the past 60 years.<sup>8</sup>

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<sup>1</sup> Department for Environment Food & Rural Affairs, *Food Statistics in your pocket: Global and UK supply*, 2019, 9 December 2019, [www.gov.uk/government/publications/food-statistics-pocketbook/food-statistics-in-your-pocket-global-and-uk-supply](http://www.gov.uk/government/publications/food-statistics-pocketbook/food-statistics-in-your-pocket-global-and-uk-supply), (accessed 3 February 2020).

<sup>2</sup> World Trade Organization, *Agriculture: fairer markets for farmers*, 2020, [www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm3\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm), (accessed 7 November 2019).

<sup>3</sup> USDA, *Exploring Global Agricultural Trade Information from USDA's Economic Research Service*, 9 May 2018, [www.usda.gov/media/blog/2018/05/09/exploring-global-agricultural-trade-information-usdas-economic-research](http://www.usda.gov/media/blog/2018/05/09/exploring-global-agricultural-trade-information-usdas-economic-research), (accessed 7 November 2019).

<sup>4</sup> World Bank, *Population Total*, 2020, <https://data.worldbank.org/indicator/SP.POP.TOTL>, (accessed 5 February 2020).

<sup>5</sup> Food and Agriculture Organization of the United Nations, *Hunger and food insecurity*, 2020, [www.fao.org/hunger/en/](http://www.fao.org/hunger/en/), (accessed 7 November 2019).

<sup>6</sup> Foster, R. & Lunn, J., *40<sup>th</sup> Anniversary Briefing Paper: Food availability and our changing diet*, British Nutrition Foundation, 2007, p.234.

<sup>7</sup> USDA Foreign Agricultural Service, *UK Supermarket Chain Profiles 2016*, December 2016, p.3.

<sup>8</sup> Chakraborty, R. & Dobson, P., *Why the UK has such cheap food*, BBC, 1 October 2018, [www.bbc.co.uk/news/business-45559594](http://www.bbc.co.uk/news/business-45559594) (accessed 7 November 2019).

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### **What's wrong with food tariffs?**

The very existence of tariffs means that food prices are artificially inflated because food coming from countries where it is cheaper to produce is taxed upon entry to the country. European Union tariffs on dairy products, for example, are 35 per cent on average, but can rise as high as 96 per cent.<sup>9</sup> When tariffs are especially high, consumers have to pay higher food prices than necessary because cheaper imports become more expensive. The main beneficiaries of this are the biggest domestic food producers.

Tariffs can be tailored to a country's own needs. The European Union, for example, allows some countries to have tariff-free access to the single market on some goods. Developing countries can export raw goods, like unroasted coffee beans, to the EU without paying import tariffs. This particularly benefits the European countries where these products may not be widely grown. However, it is also a significant disadvantage for developing countries because the tariffs on processed goods are high. As such it is not viable for the product to be processed in-country. As the processed product is worth much more than the raw goods, this means the value-grossing stage of production takes place in Europe, minimising the economic gains of the developing country and increasing the cost of the product to customers. Thus, both sides lose out.

### **What should be done?**

Food liberalisation has been one of the great successes of the last 70 years and has improved people's living standards globally. Since 2008, however, the Doha round of World Trade Organisation negotiations has been stalled. Although there were many reasons for the negotiations failing, the greatest stumbling block was in agricultural subsidies and tariffs. By the time the talks collapsed, an agreement was there to be made. All that remained was for the United States, European Union and larger developing countries (such as Brazil, China and India) to agree a reduction in agricultural subsidies and tariffs. But none were willing to take that step.<sup>10</sup>

This has limited further liberalisation and held up further advances in multilateral international trade.

Having left the European Union, the United Kingdom should take advantage of its new seat at the World Trade Organisation to champion the values of free trade and push for a new round of multilateral trade negotiations. At the same time, the UK should prove how beneficial free trade can be, by negotiating bilateral free trade agreements with likeminded nations like Canada, Australia, South Korea and New Zealand.

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<sup>9</sup> Institute for Fiscal Studies, *The exposure of households' food spending to tariff changes and exchange rate movements*, 27 July 2017, pg. 7.

<sup>10</sup> Charlton, A., *The collapse of the Doha trade round*, London School of Economics, Autumn 2006.