



## TRADE POLICY BRIEFS

FAO SUPPORT TO THE WTO NEGOTIATIONS AT THE 12TH MINISTERIAL CONFERENCE

### TRADE AND SUSTAINABLE AGRIFOOD SYSTEMS: PATHWAYS OF INTERACTION

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#### KEY MESSAGES

- Trade can play a role in contributing to the three dimensions of sustainability (economic, social and environmental) in the context of agrifood system transformation; however, like any economic activity, it is also associated with risks and negative externalities that can undermine the sustainability objectives.
- It is important that trade policies be accompanied by complementary policies targeting specific aspects of sustainability in order to achieve multiple objectives.
- Voluntary sustainability certification schemes are gaining importance in global markets, with growing demand for sustainability certified products. They have the potential to add positive environmental and social outcomes to the economic benefits brought by trade, but participation rates are low, requirements can be stringent, and compliance costs are high.

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#### Trade and the three dimensions of sustainability

The United Nations defines sustainability as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (UN, 1987). FAO’s definition of sustainable agrifood systems refers to agrifood systems that deliver food security and nutrition for all in such a way that the economic, social, and environmental dimensions to generate food security and nutrition for future generations are not compromised (FAO, 2018a). All three dimensions of sustainability can be influenced by trade. Trade connects the agrifood systems of countries, thus playing a crucial role in providing consumers worldwide with sufficient, safe, diverse, and nutritious food. It can contribute to higher incomes and employment for farmers, workers and traders in agriculture and the food industry. It can play a role in both adjusting to the effects of climate change and reducing greenhouse gas (GHG) emissions from agriculture (Zimmermann and Rapsomanikis, 2021). However, trade is also associated with risks and negative externalities that can undermine the sustainability objectives.

**Trade and economic sustainability.** Since 1995, international trade in food and agriculture has more than doubled in real value terms, with developing countries increasingly participating in international markets at various stages of the global value chains. It is estimated that one third of all agrifood exports are traded within global value chains that encompass at least three countries (FAO, 2020). This expansion has played an important role in promoting knowledge and technology transfer, thus raising productivity, strengthening competitiveness, and promoting economic growth and poverty reduction. Nevertheless, trade expansion could also result in negative outcomes. For instance, it could lead to increasing inequality, both between and within countries. This could be the case of some net food-importing

countries, where producers in import-competing sectors characterized by low efficiency and productivity constraints - including those with limited access to assets, inputs and credit markets - may be unable to compete in markets and thus be negatively affected (Zimmermann and Rapsomanikis, 2021).

**Trade and social sustainability.** Through its impacts on economic growth and productivity, trade can be a mechanism for the achievement of social sustainability outcomes, with improvements in adequate wages and inclusive growth, which can enhance child welfare and gender equity. By strengthening participation in global value chains that aim to improve social equity, trade can promote the quality of work, including adherence to better labour standards, and occupational safety and health measures. Yet, in the absence of appropriate regulations, trade can lead to negative social outcomes; it can be associated with violations of core labour standards, such as use of child labour, forced labour and gender discrimination.

**Trade and environmental sustainability.** Since international trade flows are shaped by comparative advantage, trade should enable the optimal and efficient allocation of resources globally. This helps countries to address production disruptions related to short-term shocks, such as natural hazards, pests and diseases, and extreme weather events. Agrifood trade could also expand markets for products that are produced in a more sustainable way, contributing to a better management of natural resources and to climate change adaptation and mitigation (Zimmermann and Rapsomanikis, 2021). However, as production expands to meet the growing global import demand, this may add to GHG emissions and further contribute to increased deforestation and biodiversity losses. This is particularly the case when imports are sourced from agrifood systems that are not sustainable (FAO, 2018b).

## Trade and complementary policies to achieve sustainability outcomes

Trade policies may not be the best and most efficient instruments to achieve multiple objectives. In fact, changes in trade policies need to be accompanied by complementary measures targeting specific aspects of sustainability. Such measures would, for instance, ensure that those producers and workers who are adversely affected by trade competition could be compensated by social protection. Likewise, policies to upgrade the skills of farmers and workers in developing countries would need to ensure that smaller-scale actors can meet the requirements of international markets and participate in global value chains. On the other hand, policies to support climate change adaptation and mitigation need to be complemented by appropriate trade policies that ensure that trade takes place in line with both economic efficiency and lowering emissions per unit of product, to minimize carbon leakage.

## Addressing sustainability through certification schemes

Voluntary sustainability certification schemes specify the requirements of a product or a process that producers, traders and/or retailers need to meet in relation to sustainability indicators. These can relate to the economic, environmental and/or social dimensions of sustainability and can include, for instance, human rights standards, better land use, workers' health and safety, paying farmers a fair price for their produce, or farm practices that can better manage natural resources and reduce the negative environmental impacts of production. Such schemes are gaining importance in terms of global markets and trade, and can facilitate market access and expand export opportunities. However, such schemes can also imply stringent requirements and high compliance costs that cannot be easily met by smallholder farmers, SMEs, and workers (FAO, 2017).

By themselves, such schemes are insufficient to challenge prevalent market structures and inequalities and ensure food systems' sustainability at scale (Meemken *et al.*, 2021). Policy measures and actions that could harness the full benefits of voluntary sustainability certification schemes include: well-informed multi-stakeholder dialogues at national and/or regional level to raise awareness of the role of these schemes in achieving sustainability; harmonization and/or mutual recognition at the global level, which is crucial to reduce compliance costs (i.e. to reduce duplication in production processes, packaging, certification etc.); and improvement of capacities and skillsets of producers, small and medium-sized enterprises (SMEs), traders and retailers, in particular the small and most vulnerable (FAO, 2020).

## Actions to address key challenges:

- ▶ Ensure that trade liberalization is accompanied by appropriate complementary social protection measures for those adversely affected by import competition;
- ▶ Strengthen environmental regulations to minimize the externalities from expanding production and transport in response to growing trade, such as deforestation, soil degradation and loss of biodiversity;
- ▶ Promote the harmonization of sustainability standards and certification across countries to facilitate their application and reduce transaction costs;
- ▶ Boost public investments in rural infrastructure, research and development and extension services to lower the structural barriers affecting productivity and market access;
- ▶ Formulate and implement land tenure and labour policies that target greater equality, with special attention given to gender considerations;
- ▶ Strengthen the role of trade in climate change adaptation and mitigation.

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