A development-focused Agricultural Deal

"Scenario Paper for Session 3"

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OECD countries export at least a quarter of their production of most agricultural commodities, and the growth potential for their market share in the developed world is very limited. Low-income countries constitute the only real potential for expanding trade in agriculture. Trade expansion will, in turn, materialize only if demand in these countries also expands. The number of people moving out of poverty in low-income countries is thus the major determinant of the prospects of agricultural production and trade. There are interesting parallels between developed countries agriculture in the 1920s and the situation which prevails today in most low income countries. By drawing the proper lessons from the experiences of developed and developing countries agriculture it is possible to find an outcome for the Doha Development Agenda that benefits all WTO Members.

In developed countries, trade distorting support measures for the agricultural sector were introduced at difficult times for domestic agriculture in those countries and made economic sense at that juncture. Support to farmers in the USA was mostly introduced during the Great Depression when world agricultural markets had collapsed and farmers were numerous and impoverished. Several of the policies used to spur the transformation of the agricultural sector (price guarantees, acreage restrictions, export subsidies) were not, unfortunately, progressively phased out. Today the American labor force in agriculture is negligible and farmers are wealthier on average than their fellow citizens. The key challenge today is to terminate programs that have lost their original justification or have become obsolete.

The agricultural sector in low-income countries presents a totally different picture. The contrast is most clear in respect of employment, production and revenue. Agriculture is the main employer representing over 70 per cent of the labor force in low-income countries, compared to 30 per cent in middle-income countries and only 4 per cent in high-income countries. At the entry into force of the Agreement on Agriculture and the contribution of agriculture as a proportion of GDP was on an average 34 per cent for low income countries as compared to 8 per cent for upper middle income countries, and 1.5 per cent for the high income countries of the OECD. Agriculture is also an important source of foreign exchange and revenue for developing countries.

Other important features that need to be factored in and where there is stark contrast between developed and developing countries are macroeconomic stability, infrastructure development, research and technology, access to credit, urban bias and; access to land. A stable macroeconomic framework with fiscal and monetary discipline and appropriate exchange rates is the precondition for any sustainable trade

1 Opinions expressed here are mostly inspired by our association with African countries in their struggle with the agricultural negotiations. Some of these ideas have been articulated in advisory notes prepared as part of the work program of International Lawyers and Economists Against Poverty (ILEAP) on a Special Product mechanism, market access pillar proposals, Special Safeguard mechanism, compensation mechanism, and a review of "boxes".

liberalization. Inadequate infrastructures (road, waterways, ports, telecommunications, power generation and distribution) significantly reduce export competitiveness and render many trade policies ineffective. Adequate infrastructure provision depends in turn on supportive investment climate that will attract the needed investment but also enable increases in productivity of labor and capital. Investment in research and innovation, as well as the adoption of relevant technology play a major role in increasing total factor productivity.

In addition to the high dependence on agriculture, low-income countries are particularly vulnerable to agricultural distortions and fluctuations in the global market because of low productivity, volatile prices and over-exposure to shocks. Low productivity in developing countries agriculture can be attributed to low level of commercialization of agriculture, missing or grossly deficient markets, preponderance of small landholdings, poor infrastructure, and overexposure to natural calamities. Volatility is partly due to the trade policy measures used by developed countries, while the overexposure is due to the large share of food expenditure in total household income. Trade and non-trade measures are required for economic reasons in developing countries; most trade distorting and non-trade related measures of support in developed countries are justified on domestic political grounds.

That low-income countries attach the greatest importance to market access for their agricultural products, particularly in developed country markets cannot be over emphasized; and has been re-iterated since the mandated negotiations started in the Committee on Agriculture prior to the Fourth Session of the Ministerial Conference held in Doha. Reform has to take political realities into consideration. As such, what is needed is not necessarily immediate elimination of all trade distorting measures but time-bound support and correctly packaged measures—in the sense that such support should not undermine progress, particularly with regard to developing country comparative advantage. Low-income countries have the right to request assistance to their farmers, including with respect to policy space. The design of the measures should also draw the proper lessons of historical experience of both developed and developing countries.

The agriculture negotiations have three major components: market access, domestic support and export competition. Developing countries including Africa have additionally put due emphasis on the need to go beyond market-access driven agenda to bring the focus on development including the alleviation of supply constraints, special and differential treatment, and erosion of preferences.

Proposals for a Leaders' G20

1. Market access

The overall goal of the DDA is to secure significant improvements in market access. Developed and developing countries have very different tariff profiles and hence will need to be treated differently. In particular, market access negotiations must result in bound duty free and quota free access for products from low-income countries to the markets of developed countries. This would represent a short step forward on the EC's Everything-But-Arms Initiative adopted in February 2001 and endorsed with enthusiasm by the international community at the Brussels Third UN Conference on LDCs of May 2001.

To achieve this result, a tariff reduction formula should not leave room for developed countries to pick and choose products on which to make reductions. Several categories of tariff reductions should be considered, taking into account the economic and political sensitivities. Hence some sort of "blended" formula is required with to deliver on the Doha mandate: overall reduction of protection both in its level and dispersion. Three categories could be considered.

"Sensitive" products. In Cancún, the Derbez text proposed the application of an average tariff. If a country is allowed to apply an average-cut this could lead to a substantial average-cut but with the average tariff unaffected. Without close monitoring, especially with respect to how sensitive products are dealt with, an average cut could simply sustain status quo in developed countries agriculture and in some cases lead to increased tariff escalation. In contrast, the application of the average cut to developing countries that have uniform bound tariffs would result in far more liberalization on their part. To deliver on the Doha mandate, use of the average cut approach for "sensitive" products must include the following elements:

- Restrict the identification of products to be included
- Introduce a minimum-cut condition for each tariff line
- Move to a line-by-line tariff-cutting rule.

Products already under low tariff. Industrial countries should be required to reduce such tariffs to zero. This could also include tropical products that do not have import substitutes in developed countries. Advanced developing countries will have to bring a comparable fraction of their tariff lines close to zero (e.g. five percent).

Products in the middle. These products could be subjected to a Swiss-formula approach. Special and differential treatment should be provided by allowing for different ceilings for a conventional Swiss coefficient. Alternatively, to achieve a given percentage reduction in tariffs, differentiated reduction targets could be used. Many of the products of interest to developing countries are subject to extremely high tariffs once the effects of specific, compound and mixed tariffs are taken into account. A maximum tariff element will be required to address peak tariffs.

Market access negotiations should fully result in precise, strengthened and operationalized special and differential treatment for low-income countries. In this regard,

- **Special Products Mechanism**. Developing but particularly low-income countries must be provided with special products mechanism to enable them address their food security and other development problems;
- **Special Safeguard Mechanism.** This should be developed for use by low-income countries exclusively; and
- **Prohibition of non-tariff barriers that effectively eliminate available market access.** Any non-tariff barrier that might apply should be conditional upon the ability of developing countries to comply. Non-tariff barriers such as complicated or clever rules of origin, heath and technical standards, complicated customs and other entry requirements, as well as unrealistic consumer demands purveyed by developed country retailer

associations, should not be binding on developing countries unless they receive the technological and financial capacity support from developed countries to meet and competitively comply with these standards. Many of these requirements are underpinned by pressures to keep developing country products out of developed country markets and are lent credence by populist and protectionist government departments in developed countries.

2. Domestic support

A key contributing factor to the un-competitiveness of developing country producers in both domestic and developed country markets is the comparably lower prices and higher quality of subsidized products from developed countries. The consequences of developed country domestic support in terms of increasing rural poverty have been widely documented. Statistics on costs of production in developed countries for primary products indicate that developing countries have a natural advantage that is defeated only by the subsidies granted by developed country governments to their farmers.

Views against the rapid elimination of domestic support ignore the horrifying consequences on developing countries. And so are the disruptive and un-useful proposals for equivalents of alternative "boxes" in which current wastage will be put.

A Leaders' Level G20 should agree to the following package of support reforms:

Amber Box – Domestic Support. Since 1995, only 34 countries have fulfilled their obligations to notify WTO Members of domestic support measures (representing just 23% of the WTO membership). Amber Box supports should be substantially reduced through a phased elimination. This could be made by bringing the allowable Aggregate Measure of Support (AMS) down to the existing "de minimis" limits (in article 6.4). The "de minimis" levels of developed countries would be significantly reduced and complemented by a product-specific AMS reduction allocation.

Blue Box. This box must only be seen as an interim arrangement that will become obsolete through reforms. Total elimination of Blue Box measures in the short term could be difficult to realize. An alternative would be to allow in the Blue Box only those measures currently included under the main AMS discipline of the Amber Box. This would mean that, as in the case of the Amber box, the current unlimited use of such measures would be capped.

Green Box. This box essentially includes so-called 'safe' subsidies. While countries allocate some support as Green Box measures (in order to minimise the perception of trade-distortion), most of this support is in fact trade-distorting. There is a need to tighten disciplines on elements such as provisions on direct payments to producers, decoupled income support and income insurance (AoA Annex 2 in paragraphs 5, 6 & 7). There is also a need to have a cap on the Green Box as part of an overall cap on all of the Boxes.

Adequate reform of these boxes will require advanced developing countries to compromise, with a quid pro quo that those OECD countries that have subsidized extensively and/or supported preference schemes overtime will take a large share of the transition cost.

Low-income countries should also be exempted from undertaking any subsidy reduction commitments on more than a voluntary basis (see AoA article 15.2). This approach would be consistent with current foundation of the Development Box in article 6(2) and expand it to reflect an operationalisation of special and differential treatment. Provisions on investment subsidies, input subsidies and payments to developing countries to diversify production away from illicit drugs should be continued, expanded and strengthened.

3. Export competition

An export subsidy is a direct transfer from the consumer in the granting country to the consumer in the recipient country. These measures are used by a minority of the WTO membership—most extensively by developed countries. These subsidies directly impede the prospects for developing country producers to take up market access opportunities arising under the multilateral trade system.

G20 Leaders should agree to terminate the use of export subsidies by adopting a strong and narrow reading of the Doha Declaration where paragraph 13 seeks "reductions of, with a view to phasing out, all forms of export subsidies". The primary objective of negotiations must be "phasing out", with "reduction" as a swift means to this end, preferably over a shorter period than is agreed for the overall Doha implementation period.

4. Assistance to agricultural development

The reform of agricultural subsidies must also be coupled with adequate adjustment and development elements to address the weakness of the agricultural sector in developing countries should be addressed. Following are several proposals that G20 Leaders could be called upon to consider:

Net Food Importers. Many developing countries are net importers of food and some thus draw some benefits from subsidized exports. Those countries for which a reduction or end of subsidies would pose a serious food security concern should be assisted via directly targeted monetary or food aid.

Developing Country Beneficiaries of Subsidies. Although subsidies primarily benefit developed countries, some developing countries farmers also benefit from these subsidies via trade preference schemes and as such reform of agricultural subsidies will have adjustment costs. Those developing countries, particularly the least developed among them that are likely losers in the adjustment period, should not be made to bear the cost. In this vein adjustment aid, made directly or via special and differential treatment, is an imperative.

Preference Erosion. Countries currently enjoying preferential market access to most developed country markets will face huge losses brought about by preference erosion through further liberalization. In the WTO, a solution to preference erosion should be a market access solution. A response to preference erosion should also include: a correction factor to address the erosion; a time frame for gradually phasing out the preferences (similar to the gradual approach from which developed countries have benefited in the textiles and clothing sectors); and financial support to facilitate the adjustment and maturing of the preference receiving sectors in Africa and other developing countries. Developed countries, the IMF and World Bank should be called upon to contribute toward to such a financial solution. Coherence among these organizations and a recognition of the multi-faceted nature of problems and the required solutions are vital.

The IMF's recently announced Trade Integration Mechanism (TIM) is a new instrument oriented to enhance the predictability of access to financing by member countries experiencing difficulties as a result of changes in trade policy of third countries. The launching of the TIM implies a recognition that there are some downsides to trade liberalization that need to be addressed, in some cases, by non trade-related (e.g., financial) measures. The scheme should be enhanced in collaboration with the World Bank to include attention to balance of payments problems arising from: a) trade liberalization measures introduced by other countries which result in more open market access for goods and services; b) implementation of a WTO agreement; c) a country's unilateral trade liberalization measures; d) commodity price volatility

Building Supply Capacity. Given the situation of severe resource shortages (including inadequate credit facilities) under which developing country producers operate, mechanisms for improving and strengthening the production capacity in developing countries will have to include a significant degree of governmental support. Developed countries have a self-interest in ensuring they have enough supplies of agricultural products from developing countries. The Bretton Woods Institutions and other development partners need to earmark funds to assist developing countries rapidly develop domestic capacity to meaningfully benefit from liberalized agriculture trade and meet the world demand for agricultural products including food and raw material requirements.

Commodity price fluctuations. Low-income agricultural products are primary commodities that are extremely vulnerable to price shocks that in turn undermine their overall development programs. A development element of agriculture agreement should also include a multilateral solution to factors behind commodity price fluctuations.

5. Final Remarks and Summary of a Deal

Given the importance of agriculture in Africa and other developing countries, market access solutions should preferably not be linked to or conditioned upon concessions from Africa and other developing countries in other areas.

As developing countries proactively participate in international trade negotiations the overall WTO governance will need to be adjusted, trade remedies will need to be adjusted to account for the asymmetric structure of their agricultural sector compared to that of developed countries. This has been illustrated by the sectoral initiative on cotton as it relates to the need for financial compensation for countries that cannot use the traditional trade instrument to retaliate. Greater coordination will be required with

Bretton wood institutions and other development partners to ensure that there is a complete set of policy instruments for all members.

Low-income countries are clear "demandeurs" in the AoA and the recommendations made here will go along way in addressing their concerns. In return, these countries should show more flexibilities in such areas as industrial tariffs, trade facilitation and trade in services.

In sum, main elements of the deal which a Leaders' Level G20 could consider are as follows:

1. Improved market access for agricultural products
2. Restraint, in view of future elimination of trade distorting domestic support measures
3. Rational timeframe for ending export subsidies
4. Specific assistance to low-income countries, including elimination of supply constraints, management of external trade shocks and the consequence on trade liberalization
5. Flexibility on the part of developing countries in areas of interest to developed countries.