

The Way Forward in Agriculture

“Scenario Paper for Session 3”

Luisa Bernal¹

Introduction

This “scenario” paper aims to identify the contours of a fair and sustainable arrangement in agriculture that could be proposed to G20 Leaders with an eye to helping break the current impasse in the agriculture negotiations at the multilateral level.

Before proceeding to the specifics of the task at hand, it is imperative to clarify some very important limitations of the proposed approach. First, although no agreement in any area could be reached without solving the impasse in agriculture, it is also true that the difficulties encountered for reforming the agricultural trading system will not be overcome in isolation. The G20 Leaders will need to consider a broader package of issues to be solved in tandem with agriculture taking into account the offensive and defensive interests of a broad range of countries both developed and developing alike. Issues such as non-agriculture market access (NAMA), services, commodities, special and differential treatment and implementation concerns constitute some of the topics to be explored.

Second, the proposed approach by focusing on suggesting options for establishing a fairer and sustainable framework for trade in agriculture at the multilateral level, leaves aside additional considerations related to the policy requirements for agriculture development in developing countries, which will involve a comprehensive package of measures related to infrastructure, technology, financing and a series of institutional arrangements necessary to increase agriculture production and productivity in these countries, and where the international community has an important role to play. Reforming the international trade regime is though a fundamental step in that direction. It will create a more enabling environment for unleashing the agriculture potential in the poorest developing countries. The recommendations made in this briefing note have been developed with that purpose in mind.

Having established the limitations of the present exercise, this briefing note is organized in the following manner: Section II establishes a set of principles on which a solution to the agriculture gridlock should be grounded to be sustainable. Section III assesses the margins for a negotiated solution in agriculture. Here, it is important to identify the policy objectives thought to underlie the position of the main country groupings in the negotiations. This approach is based on the assumption that there is space for manoeuvring between the stated position of countries and the actual policy objectives that informs such positions. Section IV concludes with a summary of the main policy recommendations for adoption by the G20 Leaders as extracted from the discussion in the previous section.

¹ The views expressed in this paper are those of the author and do not necessarily represent the view of the South Centre or its Members.

1. Principled Basis for a Deal in Agriculture

The following principles must guide the design of a negotiated arrangement in agriculture prioritised in this order: its moral standing, technical soundness and political acceptability.

1.1. Moral standing

There are several aspects to the issue of moral standing in the context of agriculture negotiations. The first relates to the potential of trade in agriculture to respond to the moral imperative of fighting poverty: The world's poor are highly concentrated in the rural areas of the developing countries and depend on agriculture production for their subsistence income and basic food needs. Any arrangement should highly value measures that can make a positive difference for the world's poor whereas heavily discounting those that may negatively affect them. The second aspect refers to the perception of the countries involved on the fairness of the deal, which will be assessed as a continuum of the current framework for agriculture trade and the experience in its implementation. It is clear that the positive expectations of many countries with respect to the Agreement on Agriculture of the Uruguay Round (AoA) adopted in 1994 have not been fulfilled. In fact, support and protection to agriculture increased over the implementation period against the stated purpose and spirit of the agreement to reduce both. This has created a general sense of imbalance—support to agriculture is highly concentrated on a few countries—which has a strong bearing on the current negotiations. Third, the great disparities amongst countries must be recognised. The same rules and commitments can lead to very unequal results depending on the starting conditions of different players both developed and developing.

1.2. Technical soundness

Any arrangement in agriculture should be enshrined in a sound technical basis. Loopholes in the rules and leeway in the implementation of commitments may be instrumental in settling an agreement but it could also contribute to upset the perceived balance of the deal afterwards. In that respect, the experience gained through the implementation of the AoA constitutes a useful reference for improving the rule elements within which trade according to new commitments will take place. Possibilities for abuse of the rules should be minimised through transparency requirements and enhanced monitoring mechanisms, including the capacity of all countries to command enforcement.

1.3. Political acceptability

Finally, it is clear that agriculture constitutes a very sensitive topic for most countries whether or not the underlying causes of those sensitivities are considered legitimate by others. For an agreement to be politically acceptable, the main policy objectives of all players involved – beyond their stated positions, need to be adequately addressed. This implies that a degree of flexibility will be required to make an agreement possible. Notwithstanding this, the nature and

extent of such flexibility must not upset the moral standing of the deal as explained above, which should be prioritised.

2. Contours of an Agreement in Agriculture

To narrow down the scope of the discussion for defining the actual content of an agreement in agriculture, it is important to review the five key policy objectives used by countries in the context of the negotiations to justify their stated positions in the different areas or pillars of the agreement.² The Annex to this briefing note represents an attempt to portray in a very simplified – and imperfect way the position of a number of country groupings reflecting the wide spectrum of views in the negotiations, with respect to each of those policy objectives.³ Drawing from the Annex, this section will focus on each of the policy objectives to assess the margin for a negotiated arrangement amongst the different country groupings.

2.1. Increase and/or maintain market share in international market

Overall, the large majority of countries will consider improved market access a priority in any agreement in agriculture. This will be particularly important for the developing countries in general given the prominence of this sector for their economies as reflected in the share of agriculture in their GDP, employment and export earnings.⁴ Given the principled bases discussed above, export opportunities from which the poorest countries can benefit should be highly valued. However, the multifunctionality group will be more at the defensive given the uncompetitive condition of its agricultural production. It is clear that unrestrictive market access will be seen by this group as too large and painful a concession to make hence politically unacceptable. Nevertheless, this group of countries have the resources and institutional capacity to manage the transition towards a more open trade regime in agriculture and a broadly diversified economic structure to provide income opportunities to the population currently involved in agriculture. Therefore, progress towards trade liberalization in general should be possible but introducing some degree of flexibility to accommodate the concerns of these countries, considering for example transitional periods, especially on sectors considered particularly sensitive.

Another aspect to highlight at this point is that in order to capture market share, some countries use export financing support, but the capacity to provide such support varies across country groupings. Therefore, those that do not have the financial resources to match those of competitors feel the opportunities they expect to derive from the system are being unfairly taken away from them. Furthermore, the dumping effect exerted by export support financing on the domestic markets of developing countries is particularly damaging. Farmers are displaced from the local markets, losing livelihood alternatives where no other safety net or institutional

² The Agreement on Agriculture of the Uruguay Round included disciplines and commitments in three basic areas: market access (i.e. border control measures); export competition (i.e. mainly support to exports); and domestic support (i.e. production subsidies).

³ The country groupings identified in the Annex are the following: Multifunctionality group, Developed exporting countries, Developed exporting and subsidising countries, Developing exporting countries and Developing countries subsistence farming.

⁴ FAO (2000) *Agriculture, Trade and Food Security. Issues and options in the WTO negotiations from the perspective of developing countries*, Vol. 1, Case studies, Rome: FAO.

arrangement may exist to assist them. Consequently, the food security of the poorest segments of the population may be compromised. Overall, there seems to be a broad agreement on the negative effects of export subsidisation but there is also a shared concern amongst those countries providing such support on unilaterally dismantling their specific programmes. Indeed, unilateral removal of subsidies will create difficulties regarding political acceptability. Therefore, a commitment to eliminate export financing support is possible and will be welcomed by the large majority of countries. However, it will be necessary to devise disciplines, including on transparency and monitoring mechanisms that will give assurances to all involved that the export financing programmes of various countries are being treated equally although considerations regarding the relative impact of different programmes will have to be taken into account.

2.2 Guarantee food availability at the national level and access to food by the poor

Turning to what could broadly be referred to as food security concerns, the Annex to this briefing note illustrates that there are quite different views regarding this issue. Overall, those country groupings that consider access to export markets a priority tend to emphasise the significant role of imports for guaranteeing food availability. On the other extreme of the spectrum we find the multifunctionality group which tends to emphasise self-reliance justifying protection and support to agriculture, even if highly uncompetitive, on those grounds. As mentioned above, this group is made of high income countries with a very small fraction of the population involved in agriculture and a diversified production and export base. It is difficult to imagine, given the characteristics of these countries, that the food security situation of the population will be put in danger by opening more to trade. In fact, reducing protection and support to agriculture will in fact benefit the most the majority of the population in these countries by reducing consumer prices of agricultural goods and reducing the tax burden reflected in transfers to the agriculture sector.

On the other hand, developing countries with subsistence agriculture have expressed strong views with regard to food security and trade liberalisation in agriculture, but their concerns are rooted in different considerations to those of the multifunctionality group. The experience of many of these countries with trade liberalisation in agriculture – not necessarily as the result of multilateral negotiations – have led to increased dependence on food imports while export earnings have not kept pace due to the collapse of commodity prices on which they depend. This raises questions regarding the sustainability of a food security strategy focused mainly on imports as envisaged by the export-oriented country groupings. Obviously, one way to address these concerns would be improving market access opportunities not only for commodities but also for processed products exported by these countries that command a higher price in international markets. Availability of food aid in emergency situations and handy access to resources to finance commercial imports when necessary (i.e. situation of price spikes), would contribute to allay fears regarding the impact of reform on those dependent on imports.

However, developing countries with subsistence farming further argue that in order to protect the livelihood and food security of the large majority of the population involved in agriculture, they need to maintain control under border measures such as tariffs. Imports are basically destined to the urban areas where the relatively better off can afford it but the large majority of the rural poor may be worse off by increased imports by virtue of losing their livelihood without alternative sources of income being available. The fact that high levels of

support to agriculture, including for exports, produce a general downward pressure on prices further adds to the general sense that protection is necessary for preserving the livelihood of the poor.

Based on the discussion above, and having addressed the problem of export subsidisation and dumping, it should be possible and desirable in the light of the food security needs of export-oriented and subsistence developing countries to improve market access conditions. It will also respond to the priority interest of developed export-oriented countries. However, while making progress in that direction, it seems that unrestricted market access could be counterproductive in some cases for large segments of the rural population of developing countries, especially if the sequence of reform (i.e. trade liberalization vs. establishment of safety net mechanisms and general support to agriculture) is not properly handled. Such possibility should be highly discounted on the basis of the principles discussed in previous sections. In that respect, adequate flexibility in terms of the overall level of commitments, as well as exceptions for some agricultural products from tariff reductions on the basis of food security and livelihood conservation will be necessary. To avoid abuse and unwarranted blockage of trade, countries may be asked to justify their choices for special protection in the context of a peer review where the bases for the exceptions are discussed, in the light of the food and livelihood security needs of the countries concerned. Finally, as mentioned before, unrestricted market access will be politically unacceptable for the multifunctionality group, therefore some form of flexibility to address their own concerns should be contemplated without preventing reform in any sector.

2.3 Guarantee a minimum and stable stream of income to farmers

The Annex to this briefing note indicates that there is a dividing feature between developed and developing countries with regard to the instruments they use to support farmers' income. Developed countries combine border protection with direct payments to farmers to guarantee a minimum income aiming at keeping farming income levels around the overall average. However, developing countries cannot afford direct payments to farmers considering they lack a diversified production and export base from which to transfer resources to farmers and that a large percentage of their population is involved in agriculture. Consequently, farmers' income in developing countries will depend on the price they are able to command from their agricultural products either in the domestic or international markets. For these reasons, many developing countries are seen as relying more often than not, on border measures in an attempt to keep a remunerative price for the farmers.

On the other hand, the experience with subsidies in developed countries seem to indicate that payments are rather regressive with the larger farms – and better off farmers and landowners, getting most of the subsidies. Family and small farms are actually being lost due to concentration in the sector, promoted in a way by the manner in which subsidies have been structured. Therefore, there seems to be a gap between the stated policy objective of subsidies and the actual result of their implementation.

An additional problem is that either by design or as a consequence of implementation flaws, a large share of subsidies is concentrated on a group of commodities that are oriented towards export markets. The way subsidies have been structured creates incentive to maintain or increase production of products that not having an outlet in the domestic market are then

exported, sometimes with the assistance of export financing mechanism. It is also worth noticing that production subsidies in agriculture are highly concentrated in a few high-income countries⁵.

Therefore, production subsidies are part and parcel of the dumping effect so damaging to the poorest countries and so unfair to all countries that expect to obtain a decent price for their exports in international markets. Seen this way, subsidies are a threat to the food and livelihood security of farmers in developing countries. On the basis of the above, it could be suggested that subsidies in the developed countries need to be modified towards a fairer and more progressive structure that would provide income support to the family farms and those more in need. This by itself should contribute to diminish surpluses for export addressing the negative spill over effects mentioned above. Overtime, developed countries should move towards supporting low farm household incomes through general social security programmes.

A final consideration on this heading is the effect of price volatility in farmers' income. To the extent that export subsidisation is addressed both through disciplines on export financing and production support, volatility in prices should diminish. However, this will not happen over night and there will always be some fluctuations in prices due to the characteristics of agriculture production. Developed countries use several instruments to address the problems caused by price volatility, from the direct payments mentioned above to border control measures such as safeguards, quantitative restrictions and others to stabilise the domestic market.

Unfortunately, developing countries with subsistence farming do not have at their disposal a wide range of instruments to achieve the same objectives. On the other hand, even temporary shocks such as import surges, may have permanent consequences in terms of lost livelihoods and agriculture production in these countries. Hence these concerns add to the considerations made above on the need for border control measures in developing countries on the basis of food and livelihood security concerns, which are tightly link to the possibility of farmers to earn a living from their agriculture production. These concessions to developing countries with subsistence agriculture in terms of adequate border protection need to be balanced with the interests on market access of developed and developing exporting countries without rendering the protecting devices useless.

2.4 Delivery of environmental and other valued 'services' to society

The Annex to the present briefing shows that the multifunctionality group sees the attainment of environmental and other societal objectives as directly dependent on the agriculture production. On the other hand, all other country groupings question the validity of this statement and assert that environmental and other societal objectives/ concerns need to be addressed by means of policies targeted to the issues at hand. Dismissing the arguments of the multifunctionality group would not be politically acceptable and sees a value to a general approach towards reform that takes into account the potential positive and negative impacts of agriculture production on the environment. On this basis, the experience in the implementation of the agreement indicates, as mentioned above, that a significant proportion of subsidies is concentrated on the larger and production-intensive farms that are oriented towards exports. Out of the total allocations to

⁵ OECD (2003) Agricultural Policies in OECD countries: Monitoring and Evaluation, Paris:OECD.

agriculture, only a small fraction is devoted to rewarding or assisting producers that meet environmental requirements, and the budgets for agriculture support are significant.

There is room for restructuring agriculture subsidies in the multifunctionality group (and other developed country groupings) in a way that minimises the production and export impact of those subsidies. This can be done by severing the link between production and subsidies therefore reorienting the policy package away from specific commodities, especially those destined to export markets and by reducing the total allocation of subsidies to agriculture. A restructuring of subsidies in the developed countries aimed at better achieving the stated policy objectives will go a long way in reducing the impact on production and exports and be significantly smaller than current levels.

2.5. Guaranteeing 'quality' agriculture by providing general support services to farmers

There is general agreement amongst all country groupings with respect to the need to provide general support services to producers in order to guarantee an adequate and safe supply of agricultural goods throughout the production chain. Recent food scares have highlighted the complexity of the issues at hand and created new challenges to the institutional arrangements established to guarantee consumers' safety while maintaining borders open to imports.

In this respect, the developing country groupings, particularly the poorest ones may be at a disadvantage to meeting the ever-stricter standards imposed in their exporting markets by lack of resources and technological capabilities. This is an area where there is a need for international co-operation to assist these countries to meet importing-country requirements and also to develop their own institutional and technical capabilities to design and implement their own food-safety policies.

Nevertheless, importing countries should make efforts to avoid unnecessary disruption of trade and assess the consequences of implementing new requirements by taking into account the costs incurred by exporters and consider alternative implementation options which could minimise the costs of compliance for the poorest countries.

3. Summary of Main Policy Recommendations for the G20 Leaders

Based on the discussion above, the following measures are proposed as a package of agricultural reform for consideration by G20 Leaders:

1. Substantial improvements in market access as a general rule nuanced with limited flexibilities (i.e. transitional periods) to address country specific needs. This would roughly imply tariff reductions beyond the levels committed during the Uruguay Round⁶ and provisions for the expansion of tariff rate quotas were country specific sensitivities may require longer implementation periods for the elimination of tariff peaks.

⁶ During the Uruguay Round the average tariff reduction required from developed countries was 36 per cent with a reduction per tariff line of 15 per cent. For developing countries the targets were 24 and 10 per cent, respectively.

2. Differentiated commitments in market access for developing countries by requiring only a fraction, not exceeding half, the reduction targets imposed on developed countries. Flexibilities will include exempting agricultural products from reduction commitments on the basis of food and livelihood security and rural development, as well as instruments to address price volatility and import surges (e.g. safeguard measures).
3. Elimination of dumping by prohibiting export financing support and significantly reducing support directed to commodities for exports, leading towards elimination. This would imply commodity-specific commitments to guarantee that support to specific products, especially those oriented towards exports will not increase over time beyond current levels and a timetable for their elimination in a relative short time (i.e. five years).
4. Restructuring and significant reduction of domestic subsidies with an aim to better target the stated policy objectives. This would imply a thorough revision of criteria of exempted subsidies, including by eliminating/changing the classification of some of those categories. An overall ceiling to expenditures in agriculture⁷ to be achieved over time will create incentives to reorient subsidies towards the objectives most valued by society.
5. Provide all flexibility necessary by developing countries to increase agriculture production and productivity.
6. Improved transparency and monitoring mechanisms to allow all countries to command enforcement of the disciplines agreed including through dispute settlement.
7. Financial and other commitments to assist developing countries in increasing agriculture production and productivity, and meeting standards in the importing countries.

An additional element to determine the overall balance of the reform package will be provided by the careful synchrony of the implementation of commitments. Provisions regarding the elimination of dumping and restructuring of domestic subsidies should be implemented over a relatively short timeframe (i.e. five years). Commitments regarding the reduction of tariffs by developing countries should be delayed until new disciplines and commitments directed towards the elimination of dumping have been implemented.

⁷ The ceiling on agriculture expenditures may be established as a reference to the value of agriculture production, for example, at 10 per cent.

ANNEX

MAIN POLICY ISSUES IN AGRICULTURE NEGOTIATIONS

Policy objectives	Multifunctionality group	Developed exporting countries	Developed exporting and subsidising countries	Developing exporting countries	Developing countries subsistence farming
1. Increasing and/or maintaining market share in international markets.	Access to foreign markets for exports is not a priority. Highly uncompetitive agriculture. Basic concern is preserving the domestic market for local production through protection. Some countries in this group also concerned about market access in processed and high value-added products (e.g. geographical indications). Concerns related to unilateral disarmament of support, including export promotion measures.	Access to foreign markets for exports constitutes a priority. Highly competitive and intensive agriculture production. Concerned about unfair competition of subsidised produce in third markets and the undercutting price effect of subsidies.	Access to foreign markets for exports constitutes a priority. Highly competitive and intensive agriculture production. Concerns related to unilateral disarmament of support, including export promotion measures.	Access to foreign markets for exports constitutes a priority. Highly competitive and intensive agriculture combined with small holders. Concerned about unfair competition of subsidised produce in third markets and the undercutting price effect of subsidies. Lack resources to match export promotion support provided by major countries.	Production oriented towards local markets and subsistence except for a few cash crops that constitute the main source of export earnings. Traditional agriculture methods and dominance of small holders. Lack of resources to provide export support. Concerns regarding the dumping of cheap subsidised produce in local markets. Clear need to increase investment in agriculture to improve production and productivity. There is a role for international cooperation and assistance in this area.
2. Guarantee food availability at the national level and access to food	Emphasis on self-reliance. Border control measures and production subsidies are used to protect and promote sensitive	Promotes a concept of food security based on availability of food through imports. Considers border measures to	Promotes a concept of food security based on availability of food through imports. Considers border measures to	Promotes a concept of food security based on availability of food through imports. Considers border	Insists on a concept of food security that emphasises access to food. The needs of the rural poor who depend on agriculture for meeting their basic food needs and as the source of subsistence

by the poor.	sectors (e.g. rice).	protect local production as counterproductive to food security.	protect local production as counterproductive to food security. Significant use of domestic food aid programmes for the poor provides incentive for local producers.	measures to protect local production as counterproductive to food security. Own food security depends on capacity to export agricultural goods.	income constitute the main concern. Border protection constitutes a means to preserve the livelihood of subsistence farmers, especially in the context of highly distorted agricultural markets (i.e. concerns about dumping). Market access for cash crops and processed products provides alternative livelihood options for the rural poor and export earnings for food purchases. Lack of institutional means to address issues related to the distribution of food.
3. Guarantee a minimum and stable stream of income to farmers.	Direct support to farmers' income to maintain parity with non-agriculture income levels. Were unrestricted market access be provided, subsidy payments will be unsustainable. Direct support to income is combined then with border protection and export subsidisation. High and variable tariffs, including safeguard measures, applied to provide for stable farm income.	Direct support to farmers' income to maintain parity with non-agriculture income levels. Use of border protection e.g. TRQs and Sanitary and Phytosanitary measures to protect sensitive/uncompetitive sectors. STEs for guaranteeing a price to producers.	Direct support to farmers' income to maintain parity with non-agriculture income levels. Use of border protection e.g. TRQs, Sanitary and Phytosanitary measures, tariff peaks and safeguards, to protect sensitive/uncompetitive sectors.	Lack resources to provide income support to an important proportion of the population. Farmer's income level and stability will depend on their ability to export to foreign markets at decent prices. Border protection may be necessary but by virtue of being competitive, these countries do not consider this a priority.	Lack resources and administrative capacity to provide income support to a large percentage of the total population. Farmer's income level and stability will depend on their capacity to export to foreign markets (cash crops) and sell in the domestic markets at decent prices. Border control measures considered fundamental for stabilizing income. Majority of countries in this group apply low tariffs and have no access to safeguard measures or other institutional means to stabilize markets.

4. Delivery of environmental and other valued 'services' to society.	Agriculture production is considered to have a direct bearing on the attainment of environmental services and other societal objectives. Therefore, support to agriculture is justified as an indirect means to provide for environmental and other benefits to society. It is argued that without support to agriculture highly valued societal services will not be provided at the levels required.	Questions that agriculture production is necessary to achieve an adequate provision of environmental and other societal objectives. Concerned about the impact of support on production and exports. Argues that environmental protection should be achieved through environmental policy directly targeted at the objectives at hand.	Questions that agriculture production is necessary to achieve an adequate provision of environmental and other societal objectives. Concerned about the impact of support on production and exports. Argues that environmental protection should be achieved through environmental policy targeted to the objectives at hand.	Questions that agriculture production is necessary to achieve an adequate provision of environmental and other societal objectives. Concerned about the impact of support on production and exports. Argues that environmental protection should be achieved through environmental policy targeted at the objectives at hand.	Questions that agriculture production is necessary to achieve an adequate provision of environmental and other societal objectives. Concerned about the impact of support to agriculture in the level of production and exports. Argues that environmental protection should be achieved through environmental policy targeted to the concerns or objectives at hand.
5. Guarantee 'quality' agriculture by providing general support services to producers (e.g. extension services, training, pest and disease control, etc.)	Justifies support to farmers on these bases. Devotes resources to provide such support to farmers although this represents a minor component as compared to support to specific commodities.	Justifies support to farmers on these bases. Devotes resources to provide such support to farmers.	Justifies support to farmers on these bases. Devotes resources to provide such support to farmers although this represents a minor component as compared to support to specific commodities.	Justifies support to farmers on these bases. Devotes some resources to provide such support to farmers but lack of adequate resources may be an issue.	Justifies support to farmers on these bases. Lack resources and administrative capacity to provide support of this type to farmers. Role for international cooperation and assistance. Concern about capacity to meet foreign market requirements.

