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 betw
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".

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

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 m 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. Deve

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.