

The Way Forward in Agriculture

“Scenario Paper for Session 3”

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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

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

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.

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 unwar

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.

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

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.

<p>4. Delivery of environmental and other valued 'services' to society.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>	<p>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.</p>
<p>5. Guarantee 'quality' agriculture by providing general support services to producers (e.g. extension services, training, pest and disease control, etc.)</p>	<p>Justifies support to farmers on these bases. Devotes resources to provide such support to farmers although this represents a minor component as</p>				

