

## AGRICULTURAL TRADE

The food and agriculture sector in many OECD countries continues to be characterised by high levels of support and protection. Ongoing monitoring and evaluation of agriculture policies by the OECD shows that support from consumers and taxpayers represents almost one-third of each dollar earned by producers, with just two-thirds coming from the marketplace. Much of this support is provided through high domestic prices that can only be maintained behind high tariffs and, when domestic production exceeds consumption, through the use of export subsidies. Over the past decade and a half, as measured by the OECD Producer Support Estimate (PSE), there has been some reduction in the level of support, a more significant but still modest improvement in the composition of support and some narrowing of differences in support levels between commodities.

### Policy reform

OECD work clearly shows that further domestic and trade policy reforms are desirable. Policy reform can improve the efficiency of domestic policies in achieving their stated objectives, improve equity in the way policies impact on various sizes and types of producers, improve environmental quality, lower associated costs to consumers and taxpayers, and reduce distortions on world markets and the related costs that must otherwise be borne by less developed countries outside the OECD area.

There is a growing awareness of the positive and negative effects of agricultural production, and governments are increasingly looking for ways to ensure that these effects correspond to society's expectations. OECD work on multifunctionality, and the related "non-trade concerns" expressed by some countries, attempts to guide policymakers to the best possible decisions on whether government intervention is required and, if so, what the nature of that intervention should be. Related work on decoupling helps to clarify further the conditions under which alternative policies can be expected to have only minimally trade-distorting effects.

The OECD is also examining whether stringent environmental regulations in one country can penalise the competitiveness of its farmers, compared to countries with less stringent regulations. Such a situation might lead to demands for trade restrictions. Studies of this issue in the pig, dairy and arable crops sectors have been completed or are under way. Available evidence suggests that any concern is exaggerated: the extra costs of such regulations are a small fraction of overall production costs and, in some cases, products meeting rigorous environmental standards can command a price premium in the market. Of course, societal preferences vary greatly across countries.

Less is known about the impact of OECD policies on non-OECD countries, and about the impact of non-OECD country agricultural policies on their own agricultural and overall economic growth and development. This is an increasing priority for the OECD, and a

major new initiative is under way to examine agricultural policies and their impacts in Brazil, China, South Africa, and possibly India (i.e. the four founding members of the G20 group of developing countries). These analyses will help inform further dialogue on desired future policy directions amongst these countries and with OECD members.

### **Market access and export competition**

Recent studies by the OECD have evaluated the results of implementing the Uruguay Round Agreement on Agriculture (URAA), and have also looked ahead to examine the likely impact of an extension of the market access and export subsidy commitments of the URAA. The URAA marked an historic point in the reform of the agricultural trade system, in that agriculture became part of a multilateral framework within which trade-distorting policies could be addressed and their (further) reform negotiated. The immediate quantitative effects of the agreement on trade and protection levels are modest, but ongoing negotiations provide an opportunity for further progress.

In the area of market access, even after full implementation of URAA commitments by developed countries, agricultural import tariffs for many products remain prohibitive and are, on average, 10 times higher than tariffs for industrial products. Tariff rate quotas, intended to facilitate market access for sensitive products, are often under-filled and, in general, have not been as effective as expected in opening markets. OECD analysis shows that simply reducing tariffs to the same degree as under the URAA, without addressing issues of tariff rate quota administration, tariff peaks and tariff escalation, would not result in significant additional trade flows.

Non-reciprocal preferential trading arrangements are intended to facilitate market access by developing countries, but there is uncertainty about the degree to which these agreements are effective. Nevertheless, many less developed countries are concerned that trade reform will reduce the preferential margins currently available to them, with negative consequences (at least in the short term) to their economies. Further empirical research and analysis is ongoing to clarify the size and distribution of the economic impact of existing preferences, and possible changes to the current systems.

Concerning export competition, the URAA bound the volume and expenditure of export subsidies, but did not discipline other export competition measures, such as export credits. OECD analysis confirms the importance of addressing all forms of export competition that could provide one country with government-sponsored advantages over another in export markets. At the same time, this analysis shows that the subsidy element in export credits is relatively small – less than 4% of the credit amount – compared with traditional export subsidies. Additional analysis is under way to allow the comparison of a wider set of measures that might distort export competition – export subsidies, officially supported export credits, elements of some food aid programmes, organisations with special authority in export markets (including state trading enterprises), domestic price discrimination and payments based on output – with respect to their relative subsidy elements and the impacts on markets.

### **Trade reform and adjustment**

Research by the OECD has also examined the impact of OECD trade liberalisation on poverty and on food security. A general observation is that trade liberalisation alone cannot deliver the desired outcomes, and that trade reform creates both winners and losers. Ongoing work is aimed at expanding our understanding of the effects of policy reform. In

this respect, a major effort is under way to analyse and trace the impact of trade policy reform from the global scale to the household level, so that adjustment policies can be designed to contribute most effectively to sustainable economic development and poverty reduction. In addition, an important collaborative activity is under way with the UN Food and Agriculture Organization (FAO) to improve our collective understanding of the impact of trade reform on a larger group of developing countries.