

Tackling Trade in Agriculture

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Introduction

Opening up agricultural markets to international trade has been one of the thorniest issues in successive rounds of global trade talks.

Protection in agricultural trade is still high in both the developed and developing world, so agreement in agriculture is crucial to the success of the Doha Development Agenda talks in the World Trade Organization (WTO), particularly for developing countries who stand to make significant gains.

One problem is that agriculture is a relative newcomer to multilateral trade agreements, having been left out of multilateral trade negotiations until the mid-1990s. As a result, tariffs on agricultural imports were uncapped, and import bans and export subsidies went unchecked.

The turning point came in 1994, when countries agreed to reduce agricultural support and protection by establishing disciplines and rules on market access, export subsidies and trade distorting domestic support as part of the Uruguay Round of global trade talks.

They also agreed to resume negotiations on agricultural trade by 2000. These talks are taking place as part of the Doha Development Agenda, a commitment by WTO members to ensure that developing countries reap the benefit of further market opening in all areas of trade.

The current negotiations are aimed at improving access to agricultural markets for all WTO members, developed and developing alike, by reducing tariffs as well as by eliminating or minimising other sources of trade distortion such as subsidies to production and exports.

The OECD supports the negotiations through its work on measuring support and protection, analysing the effects of past market opening measures and the likely outcome of future changes. New issues affecting agricultural trade are taken up and explored. This Policy Brief looks at the issues at stake in the Doha Development Agenda negotiations and who is likely to benefit from further market opening in agriculture. ■

What has happened since the Uruguay Round?

The Uruguay Round Agreement on Agriculture (URAA), part of a wider agreement on world trade that established the World Trade Organization (WTO), was hailed as a significant achievement. In agriculture, border measures and all trade distorting domestic measures were categorised and disciplined – i.e. subject to reduction or elimination. The framework of rules and commitments established by the URAA quickly became the basis for the current negotiations. But it is not clear how successful the Uruguay Round was in increasing agricultural trade flows or in reducing the levels of support and protection for agriculture in developed countries.

Trade liberalisation should, all other things being equal, lead to increased trade flows and to changes in market shares that reflect different countries' comparative advantages. Agricultural trade has continued to grow since the Uruguay Round Agreement, but more slowly than in earlier years, and more slowly than non-agricultural trade. Furthermore, developed countries continue to dominate global agricultural trade. Agricultural imports and exports of the least developed economies have both grown rapidly, but imports have grown faster. These countries' share in world agricultural trade remains very small. Meanwhile, agricultural trade among developing countries has been growing quickly and accounts for an increasing share of agricultural exports. Table 1 summarises these developments.

Many complex factors have affected trade flows and shares, since the mid-1990s but they cannot be attributed exclusively to the URAA. Domestic issues such as lack of infrastructure and poor competitiveness may partly explain why some developing countries have not been able to capture larger market shares, but it is nonetheless clear that expected improvements in the trade position of developing countries, in agriculture in particular, have not fully materialised. This is at the root of current dissatisfaction on the part of many developing countries. The DDA aims to redress this situation and to give developing countries an opportunity to share in the increased prosperity and growth that is associated with increased trade openness. ■

Table 1.
WORLD TRADE IN AGRICULTURE¹
% Shares

	Exports		Imports	
	1990-1994	2001-2004	1990-1994	2001-2004
OECD	71.4	71.0	77.1	75.0
LDCs	0.4	0.8	0.4	1.1
All others	28.2	28.1	22.5	23.8
Growth by region in agricultural exports ²				
	1990-1994		1994-2004	
Developed to developed	3.1		4.3	
Developed to developing	8.6		5.3	
Developing to developed	8.0		2.0	
Developing to developing	16.3		7.5	

1. Totals may not add to 100 due to rounding.
2. Annual compound growth over the period.

Source: UN Comtrade database, September 2005.

Have support and protection decreased?

One of the achievements of the Uruguay Round Agreement on Agriculture was the recognition that domestic policies are often at the root of trade problems. Governments may, for example, try to maintain artificially high prices for agricultural products that can only be sustained behind high tariff walls or with import bans.

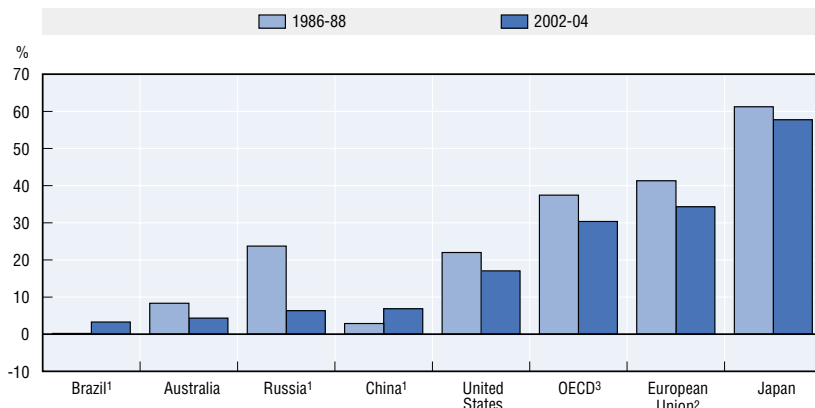
But since the Uruguay Round, governments in OECD countries have continued to maintain relatively high levels of support and protection to agriculture – a full 30% of farmers’ receipts come from a combination of government interventions in markets and budgetary payments. While this is down from 37% in the mid-eighties when the Uruguay Round was launched, little has changed since the Uruguay Round ended. A large share of this support is delivered via the most trade-distorting types of policy instruments – for example, two-thirds of support directly raises the prices that farmers get for their products.

The OECD regularly measures producer support for member countries and in recent years has extended this to major non-member economies. Brazil, China, Russia and Ukraine have much lower levels of support and protection than most OECD countries (see Figure 1). ■

Why is market access important?

Under the Uruguay Round Agreement on Agriculture, almost all agricultural tariffs were bound (i.e. countries pledged not to increase tariffs beyond a specified rate) and non-tariff barriers, such as import quotas, were converted into tariffs. The Agreement also created tariff rate quotas (TRQ) which allow imports up to a specified quantity to enter at a lower tariff. This ensured that at least some market opening would occur following the Agreement. Developed countries agreed to reduce their tariffs over a five-year period by 36% on average, with a minimum of 15%, while developing countries agreed to smaller cuts over a longer period or set a maximum tariff level, which could be higher than the rate prevailing at the time.

Figure 1.
PRODUCER SUPPORT ESTIMATE BY COUNTRY
Transfers to farmers as a per cent of value of gross farm receipts



Countries are ranked according to 2002-04 levels.

1. The first period for Brazil, China and Russia corresponds to 1995-97 and end period corresponds to 2001-03.
2. EU-12 for 1986-94 including ex-GDR from 1990; EU-15 for 1995-2003; EU-25 in 2004.
3. Austria, Finland and Sweden are included in the OECD total for all years and in the EU from 1995. The OECD total does not include the six non-OECD EU member states.

Source: OECD, PSE/CSE database, 2005.

The tariffs that resulted from this process were very high in many instances. Tariffs of more than 100% of the value of the goods were common and tariff escalation (tariffs that rise as the commodity is further processed) was also prevalent. By targeting the use of the minimum tariff reduction allowed to sensitive products that had traditionally been heavily supported, countries were able to preserve their high level of protection (see Table 2). Indeed, many of these tariffs are so high as to prevent any trade from occurring.

Analysis suggests that improved market access will have a greater impact on trade flows than any other element in the current negotiations. This reflects the continuing prevalence of high market access barriers in both developing and developed countries and the fact that these policies are very distorting. But market access barriers have also been shown to be singularly inefficient and ineffective in meeting domestic policy objectives. Significant progress in the opening of agricultural markets is essential to ensure that substantial economic gains flow from the Doha Development Agenda. OECD countries stand to gain by opening their own markets while developing countries will gain from liberalisation of both their own and others' markets.

But market access is also widely regarded as the most difficult area of the negotiation. More open markets provide opportunities for competitive suppliers, but not all existing suppliers are competitive, and some may face considerable adjustment challenges. Making such policy choices is not always easy for governments. Furthermore, very deep cuts in tariffs will be needed in order to reduce current levels of protection enough to actually generate improved trade flows. Finally, much work will be required to ensure that the complex agreement that may emerge does not inadvertently create loopholes that allow things to essentially stay as they are.

It is increasingly acknowledged that trade liberalisation, although generally shown to be beneficial for most countries, does not benefit everyone involved, at least in the short-term. Where there are adverse effects, it will be important for governments to anticipate them and be ready to take measures that will help those affected to adjust or to alleviate hardship. How to pay for such measures and the ability to implement them fully are more important

Table 2.
AVERAGE BOUND MFN
TARIFFS, %
Selected countries,
commodities

	United States	European Union	Japan	Canada
Meat and edible meat offal	6.4	46.5	92.1	106.5
Dairy	31.9	44.3	113.9	122.6
Vegetables	7.3	14.6	50.4	9.7
Cereals, including rice	3.4	46.8	231.6	14.4
Sugar and confectionary	27.5	21.8	82.0	7.1
Beverages	50.9	9.6	69.8	8.1
Tobacco	91.9	17.8	29.1	29.4
Cotton	14.6	n.a.	NA	8.9
Oilseeds	57.9	6.6	86.9	6.9
Fruits	7.8	12.9	9.6	8.6

n.a.: not available; NA: not applicable.

Note: Simple averages across tariff lines (dutiable lines only) in commodity groups. Specific tariffs are converted into *ad valorem* equivalents using the unit value of world imports as representative world prices.

Source: AMAD (OECD).

issues for developing countries than for OECD economies. Research efforts that assess the impacts of reform on different types of households in different countries are beginning to bear fruit. These should help identify the incidence and extent of likely problems and point in the direction of targeted policy initiatives that can facilitate adjustment.

But for those developing countries that have enjoyed preferential low-tariff access to OECD economies, a multilateral dismantling of trade barriers can erode the price advantage that these preferences confer. This “preference erosion” will be inevitable if significant inroads are made to general protection levels. Here too, research undertaken by OECD and others has helped to clarify the likely extent and ramifications of preference erosion. In fact, analysis suggests that a fairly small number of countries would be likely to suffer significant adverse effects from preference erosion. Here too, a proactive approach to help affected countries to become more competitive or to diversify, will contribute to a successful market access outcome to the Doha Development Agenda. ■

Does domestic support matter?

Domestic support to agriculture can be highly production- and trade-distorting. It also interferes with asset values, as support is capitalised into land values, raising costs, impeding adjustment and slowing reform. Very often a high proportion of such support ends up going to recipients who do not need it or who were not the intended beneficiaries. There are therefore compelling arguments in favour of strong disciplines on all types of support deemed to be trade distorting. Measures to support prices are the domestic counterpart of the import protection provided by tariffs and TRQs. Border measures such as tariffs or quotas allow prices to be maintained at higher levels than would otherwise prevail and in this way generate support to producers. Effective disciplines in this area could complement or reinforce discipline on the market access side, provided that the cuts agreed on are sufficiently deep to stimulate real changes in actual support levels. To avoid creating loopholes, careful attention will need to be paid to specific provisions and conditions.

Decoupled and targeted measures are much less distorting than the production-linked measures that have dominated agricultural policy up to now. In the current round, it will be essential to ensure that the momentum in favour of switching to less and least distorting means of support is strengthened while also significantly reducing overall levels of trade distorting support. Harmonisation of support levels across countries through use of a tiered reduction formula, which cuts higher subsidy levels more than lower ones, would be fairer to countries whose support levels are already low. ■

How to deal with export competition policies?

The Doha Development Agenda seeks to eliminate all forms of export subsidies and to discipline all export measures with equivalent effect by a credible end date. This will be an extremely important step, ending disruption and distortion in some key markets where export measures remain significant. It will lock in reductions that have already taken place

as a result of domestic policy changes and make it much easier for countries that fear a flood of subsidised imports to make meaningful concessions on tariffs.

The Doha talks also aim to put measures in place to deal with the trade distorting aspects of export credits and export credit guarantees, which cover credit risks connected with exports. The round also seeks to end the trade-distorting practices of state trading enterprises and ensure that food aid does not displace commercial trade. Regardless of whether these practices have had significant impacts on trade, or were merely irritants, effective disciplines will help remove related distortions and create the environment for a successful conclusion to the round. Progress in these areas will also increase transparency and ensure that, as export subsidies are eliminated, countries do not resort to alternative measures. In this way, there can be no re-emergence of the levels of distortion caused by unfair export competition in the past.

While export subsidies have distorted agricultural production, consumers in countries dependent on food imports have benefited from the resulting low prices. This calls for proactive measures, especially for the poorest and most vulnerable of the developing countries, to help them to adjust. Similarly, new provisions governing export credits or food aid that may negatively impact poorer countries will require measures to offset those effects. ■

What are the other outstanding issues?

The principle that developing countries be accorded special privileges, exempting them from some requirements made of developed countries, is known as Special and Differential Treatment (SDT). This will be an integral component of any agreement eventually entered into. Developing countries will be able to undertake reform at a pace and level that is appropriate to their capacities and their development needs. SDT should also allow them sufficient latitude to implement appropriate and beneficial domestic policies favouring agricultural growth, poverty alleviation and food security. Conditions vary widely across developing countries. Developing country governments will need to consider their options carefully, to avoid overly defensive positions where opening up their markets would actually lead to significant growth and welfare enhancement.

The Uruguay Round included a new agreement to protect the health of humans, plants and animals (the Agreement on Sanitary and Phytosanitary Measures or SPS). It reiterated the primacy of scientific principles and encouraged countries to rely on relevant international standards. The agreement aimed to prevent SPS measures from being used as disguised protection when traditional trade barriers came down. Nevertheless, there is increasing concern among developing countries about their ability to meet the standards required by more developed WTO member countries. Although the SPS Agreement is not formally up for discussion in the Doha Agenda, care needs to be taken to ensure that SPS does not effectively become a binding market access barrier. Technical assistance measures should be stepped up in order to help countries meet required standards.

A number of other issues are under consideration, including geographical indications (location-specific brands such as “Champagne” or “Parma” ham). Export taxes are an issue affecting domestic producers in some developing countries. Provision for sectoral initiatives that allow countries who see potential benefits of going further faster in some areas is also under discussion. Particular emphasis has been given to cotton, which is a key sector in a number of developing countries. ■

Can domestic needs and trade liberalisation be reconciled?

OECD research shows that agricultural trade liberalisation can improve economic welfare significantly. While agricultural trade liberalisation stimulates the global economy overall, an important finding is that the largest benefits accrue to the domestic economies of the liberalising countries. Another crucial finding indicates that eliminating tariffs and export subsidies adds most to global welfare and to value added of agriculture in exporting countries, while impacts on farm incomes in reforming countries are relatively limited. Macroeconomic stability and efficient institutions will create the conditions in which countries can actually reap the available benefits.

Some countries, and some sectors or households within countries, will be adversely affected by liberalisation. In these cases compensation or adjustment assistance is necessary. Anticipating these problems and adopting appropriate measures to deal with them in a timely way will be crucial, particularly for developing countries.

The case for reform is strengthened by the fact that broad production-based policies, reinforced by border measures, are inefficient in meeting domestic objectives and fail to deliver support to those who really need it. Like the Uruguay Round Agricultural Agreement, the current negotiations try to provide countries with the necessary latitude to implement minimally trade-distorting policies in pursuit of domestic objectives. Ideally, such policies would be clearly decoupled from production and carefully targeted to well-defined objectives and beneficiaries. There is, therefore, huge potential for a strong link between domestic goals and on-going efforts to liberalise trade which, if exploited, will generate significant welfare gains for both developed and developing countries. ■

For further information

For more information on the OECD's work on agriculture and WTO issues, contact Carmel Cahill, Tel: 33 1 4524 9505, or email Carmel.Cahill@oecd.org.



For further reading

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