

# Agriculture

## I. Agriculture and the Millennium Development Goals

According to recent estimations around 75% of the world's poor live in rural areas and most are dependent on agriculture<sup>1</sup> and/or related activities in the rural economy. Agriculture can be important for developing countries in several ways; where food security is weak it can be a vital source of nutrition, it provides income for farmers and farm workers and thus revenues for rural areas, job opportunities in related areas such as processing and in some cases export revenue and thus foreign exchange for governments. Moreover, many developing countries have a comparative advantage in agriculture, because of low labour costs, natural endowments and in some cases advantage in the quality/price ratio. However, the benefits from agriculture for developing countries could be increased substantially if many OECD member countries reformed their agricultural policies. Currently, agriculture is the area on which OECD countries are creating most trade distortions, by subsidising production and exports and by imposing tariffs and non-tariff barriers on trade. It is, nevertheless, important to keep in mind that agricultural policy reform in OECD countries is only one ingredient in a necessary policy mix to facilitate growth, development and poverty reduction in developing countries; domestic policy reform in developing countries is arguably as important.

OECD countries, by making agricultural policy reforms, can contribute to the Millennium Development Goals (MDG). In signing the Millennium Declaration in 2000, most OECD countries committed themselves, among other things, to opening up the trade system in favour of the poor, to deal comprehensively with developing countries' debt problems, and to provide more aid. These commitments are set out in "Develop a Global Partnership for Development", which contains eight MDG. In relation to **agriculture, trade and poverty**, that developed countries should strive towards "*further developing an open trading and financial system that includes a commitment to good governance, development and poverty reduction – nationally and internationally*". To emphasise the importance of this commitment, OECD ministers made a statement in 2002 (Action for a Shared Development Agenda) in which they encouraged policy coherence for development. It was recognised that successful poverty reduction requires mutually supportive policies across a wide range of economic, social and environmental issues. The ministers also confirmed that, through its programme on policy coherence for development, the OECD will enhance understanding of the development dimensions of Member country policies and their impacts on developing countries. It was their hope that, by increasing understanding of the development benefits of rules-based trade and investment, such work would help to reinforce the efforts, to achieve more open markets both between developed and developing countries and among developing countries themselves to allow for export-led growth, and further the aim to improve market access to the goods of developing countries, and particularly LDCs.

This briefing note outlines some potential links between OECD member countries' policies on agriculture and their objectives for development assistance. The note also highlights areas of actual policy incoherence, which differ according to region and commodity.+ It ends with questions for Peer Reviews.<sup>2</sup>

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<sup>1</sup> Agriculture includes farming, herding, livestock production, and fishing/aquaculture. Cultivating and harvesting of food resources from waters and cultivating trees and shrubs and harvesting non-timber forest products are also included. It also concerns processors, (small-scale) traders, managers, extension specialists, researchers, policymakers, and others engaged in the food, feed and fibre system and its relationships with natural resources.

<sup>2</sup> The paper is one of a series of internal briefing papers dealing with the impacts of OECD country policies on developing countries. It has been prepared by Sara Dahlsten in DCD/PEER to inform the DAC Peer Reviews.

## **II. Links between OECD agricultural policies and developing countries**

### ***Subsidies***

Many OECD countries provide substantial subsidies to farmers, for production and exports. These subsidies promote increased production, and distort markets. Especially different kinds of export subsidies lower world market prices, in some cases by 10% or more. For developing countries this means increased competition which results in a lower market share in certain commodities, reduced income from agricultural exports and thus less incentive for investments and lower economic growth than would be the case without these subsidies. With the Uruguay Round Agreement on Agriculture 1986-94 the WTO started to address the problem. For the first time agricultural policies were subject to multilateral rules and agreements, in terms of three pillars: market access, export competition and domestic support. It later led to the currently on-going Doha round, which aims to liberalise agricultural trade in favour of developing countries. However, net food importing countries, including developing countries, may lose from a reduction of subsidies, in particular in the short term.

### ***Trade barriers including tariffs***

Tariffs on agricultural products are among the highest in the world in comparison with other sectors, averaging 60% across the OECD area and with most OECD countries having peak tariffs of at least 200% for certain commodities. For OECD countries, tariffs are a way to protect OECD production from competitive imports. However, this practice limits developing countries' access to OECD markets, which has negative repercussions both for developing countries' government revenues and rural economies. The issue concerns both current and potential agricultural production (according to comparative advantage) in developing countries. The last twenty years has also seen an increasing use of non-tariff measures. Non-trade barriers include environmental and social demands on products. While these may be justified, they can also be used as a hidden mean to reduce imports. Tariffs are often prompted by politically influential producer lobbying groups. In many OECD countries there is a manipulation of public opinion to defend certain sub-sectors that are not economically competitive or to defend a minority of larger farmers. Consumer groups in developed countries are increasingly getting involved in the debate and demand, for example, higher environmental standards, improved food safety and quality while at the same time demanding low prices. These demands can lead to both interventions and support that can further distort markets. In addition to agricultural support and non-tariff measures, the increasing use of regional and bilateral trade agreements constitutes another significant aspect of OECD policies that need to be examined further.

### ***Food surpluses***

It has been a practice of several OECD countries to transfer food surpluses to developing countries.

(i) *Food aid* can provide direct help to hungry people, enhances market availability of food by lowering prices during food scarcity, and improves the balance of payments for countries with foreign exchange constraints. Food aid could also be an additional ODA source, since exportable commodity surpluses are available, and the public has a willingness to provide food to feed the hungry. However, serious concerns have been expressed about the effectiveness of food aid as an input for sustainable development. Food for development is cumbersome and carries risks of creating distortions on recipient and regional markets, enhancing food aid dependence and changing local food habits. Development food aid is also more expensive than commercial food imports. Hence, providing funds to purchase food on commercial terms is more effective than food aid. At the Rome meeting on February 2003, Heads of multilateral and bilateral development institutions recognised that these issues require urgent coordinated and sustained action to improve aid effectiveness.

(ii) Food surplus "*dumping*" on developing countries at lower price than the cost of production and distribution is a particularly damaging practice of OECD countries. This has dramatic effects on local food producers and sub-sectors that are no longer competitive on the domestic market, squeezing them out of certain types of production for local regional markets (see the examples of cotton, dairy and sugar below).

### ***Research***

OECD countries have come far in agricultural research and many new technologies are being used. Because of patents and other legislation or just lack of communication links, this research and advanced know-how is not being shared extensively with developing countries. One factor concerns the certification of local seed varieties by multinationals. Increased efforts are necessary to promote access of developing countries to such technological innovations, in particular where clear development benefits can be identified. However, one should keep in mind that much of the technology in OECD countries may not be suitable for agriculture in developing countries due to different climatic and environmental conditions and that it might be beneficial for developing countries first to exploit fully the existing/conventional agricultural technologies before moving to the next stage.

### **III. Differential Impacts**

The effect of OECD countries' agricultural policies on poverty differs among regions, commodities and mode of production. Therefore there could be reasons for having different trade policies for different regions and commodities. Cotton, sugar, dairy and rice are four examples of commodities that are of vital interest to some developing countries but where OECD countries' agricultural policies create considerable distortions.<sup>3</sup>

#### ***Cotton***

Agricultural subsidies in the US are the main cause of a significant drop in world cotton prices, which have fallen by half since the mid-1990s, with particularly devastating impacts on West and Central Africa, where more than 10 million farm households depend on cotton production. It is estimated that such subsidies have led to losses of more than \$300 million for the region as a whole. Costs of production in the US are three times those of Burkina Faso, yet the US has expanded production in the midst of a price slump. Total subsidies equal \$3.9 billion. Research estimates that removal of US subsidies would raise cotton prices by 26%. As with dairy and sugar payments in the EU discussed below, a large share of these subsidies goes to a small proportion of farmers and processors, with the ten largest cotton farmers in the US reaping three-quarters of all payments.

#### ***Dairy***

The EU dairy policy currently costs 16 billion euros each year and representing 40% of the value of EU dairy production. The policy provides for a mix of price support, production quotas, import restrictions and export subsidies. Despite the imposition of quotas, production exceeds consumption, and the surplus must be disposed of in both domestic and foreign markets. The EU remains one of the largest exporters of milk and milk products globally, accounting for 40% of whole milk powder exports, a position which can only be maintained by continued subsidies. Export subsidies are used to enable dairy produce to be sold at prices well below cost, in many cases undercutting local producers. Thus, for example in Kenya, India and

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<sup>3</sup> The text on cotton, dairy and sugar is drawn from an Oxfam report quoted in the Club Sahel report "Transformations in West African Agriculture and the Role of Family Farms" by Camilla Toulmin and Bara Guèye, June 2003. The information on Japan was collected during the DAC Peer Review of Japan 2003.

Jamaica, while development aid has been spent encouraging more effective local dairy production, export subsidies are destroying markets for local producers.

## *Sugar*

The EU is one of the highest cost sugar producers in the world, yet is also the second largest exporter, due to the export subsidy system. Current world market sugar prices are low and unstable, given chronic over-supply. In 2000–01 the EU exported almost 7 million tons of sugar at prices far below the costs of production. Export refund systems and cross-subsidies allowed this sugar to be sold at prices far below production costs, depressing world market prices and pushing low cost developing country producers out of third markets. Taking Mozambique as an example, production costs are amongst the lowest in the world, and the sector provides incomes and employment to 23,000 people, with great additional potential if export markets could be further developed. A World Bank study estimates that EU subsidies have brought a fall of 17% in world market prices and made it impossible for Mozambique to compete in third markets. For example, in 2001, Europe exported 770,000 tons of sugar to Algeria and 150,000 tons to Nigeria – both natural markets for competitive producers like Mozambique. While the EU has a system of preferential access for African-Caribbean-Pacific (ACP) countries, this constitutes a small fraction (8%) of the EU consumer market and is counter-balanced by an equivalent volume of sugar re-exported with export refunds. The “Everything but Arms” (EBA) initiative is providing additional access to sugar-producing least developed countries, but this is being achieved by cutting back on other ACP countries, rather than by curbing domestic production within the EU.

## *Rice*

In Japan, agricultural support is provided predominantly through price support that is underscored by supply control through restrictions on imports and the use of administratively determined prices. Rice is Japan’s principal agricultural product, accounting for approximately 35% of the value of all agricultural output. The rice sector remains the most protected agricultural sector through a combination of import controls, subsidies and price support, a PSE of 88% in 1999 compared with the OECD average of 44%. For that reason, the market price in Japan is five times the world market price. Besides having an impact on Japanese consumers, protective measures on rice also affects a number of Japan’s developing partners negatively. Among the five top rice exporters to Japan are Thailand, Vietnam and China. Other developing countries for which rice is an essential part of the economy and that export smaller amounts to Japan, but could potentially increase their export if the market were liberalized include Pakistan, India and Bangladesh.

## **IV. Questions for DAC Peer Reviews**

In view of the issues outlined in this briefing note DAC Peer Reviews could consider asking the following questions for individual Peer Reviews.

1. To what extent do these incoherencies of agriculture policy and development policy **exist** in the reviewed country i.e. distorting subsidies, tariffs, non-tariff barriers, unnecessarily limited movement of knowledge, such as agricultural research, to developing countries?
2. What is done to increase **awareness** of the problems in the Ministry of Agriculture and the public?
3. To what extent does a **policy framework** indicate the government’s political commitment to tackle specific incoherencies in agricultural policy?
4. Has there been any **analysis** of these incoherencies by the government or by research institutes?
5. What **institutional arrangements** bring together the Ministry of Agriculture with the agencies dealing with ODA to discuss these issues?
6. Provide an example where policy coherence has been systematically taken into account in **decision-making processes** within the government?