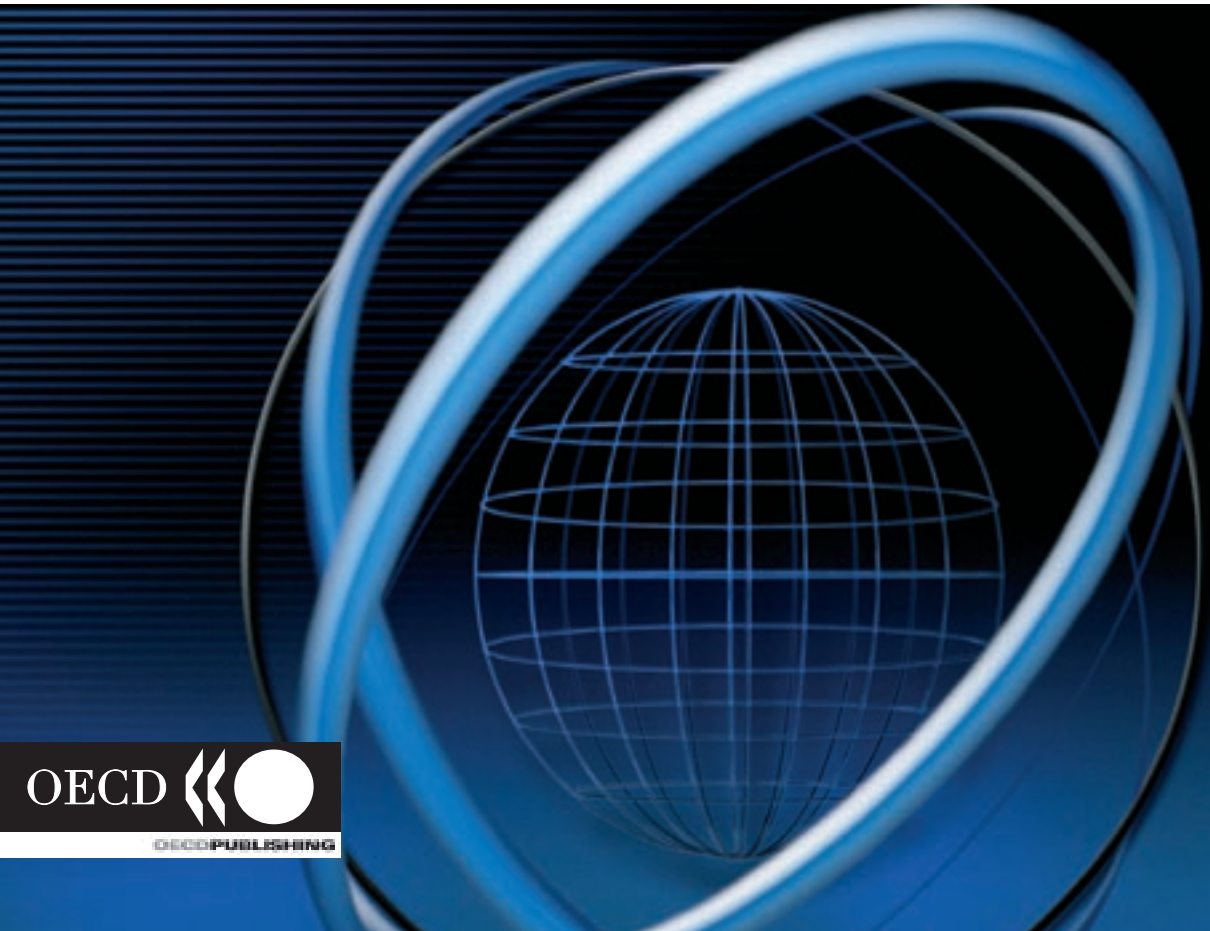
The Development Dimension

Agriculture and Development

THE CASE FOR POLICY COHERENCE



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The Development Dimension

Agriculture and Development

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FOREWORD

Agriculture has a key role to play in reducing poverty and hunger in many developing countries. About 75% of the world's poor live in rural areas and most are dependent on agriculture and related activities in the rural economy. For this reason the benefits for developing countries' farmers have been shown to be substantial if OECD member countries reformed their agricultural policies. The issue of how OECD members' agricultural policies join-up with their development commitments and policies requires decision makers' undivided attention as the UN General Assembly meets to review progress in meeting the Millennium Development Goals and as trade negotiations progress under the Doha Development Round.

For over two decades the OECD has provided the analysis and tools to enable policy makers to understand the high costs of agricultural protection to their economies. It has designed alternative policies that enable them to meet stated objectives in the least trade-distorting fashion. The accent has been on the benefits of change to OECD members themselves, while recognising the wider benefits to the global economy. OECD's calculations of support to agriculture receive headline attention around the world and are used by international and non-governmental organisations to make the case for a reduction in agricultural protection.

Despite these consistent efforts, the incoherence between some of the OECD countries' agricultural policies and their declared development goals remains blatant and seriously undermines the credibility of political commitment to these goals. Business as usual is no longer acceptable. In order to break the vicious cycle of broken promises about agricultural policy reforms, those who make decisions on domestic, trade and regulatory policies in OECD countries need an analytical framework that makes the choices and trade-offs clear. This report, *Agriculture and Development: Towards Greater Policy Coherence*, responds to their need.

This publication surveys the most important issues that arise with respect to the coherence of OECD agricultural policies with the Millennium Development Goals' objectives of reducing poverty and overcoming hunger in developing countries. The primary focus is on the impact of OECD country agricultural policies. The report also raises issues that arise as to the coherence of developing countries' own policy

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measures as they affect their agriculture and rural sectors. It has been discussed by the OECD's Committee on Agriculture, and even though the Committee's endorsement was not sought, its members' comments are reflected here.

The main report is complemented by an essay that examines the political economy reasons for intractable agricultural policies in OECD countries: "Why is agricultural policy *still* so difficult to reform?" Annexed to the report are the latest available calculations of OECD country support to agriculture, as well as the Ministerial mandate that pledges that OECD will build upon its strengths to advance the shared development agenda by encouraging policy coherence for development.

Acknowledgements

The main report in this publication has been written by Alan Matthews, Consultant, Jean Monnet Professor of European Agricultural Policy in the Department of Economics and Head of the Department of Economics, Trinity College, Dublin, based on terms of reference prepared by Wayne Jones. Annex A was contributed by Jonathan Brooks. Both contributions were prepared as part of the OECD's project on policy coherence for development, co-ordinated by Alexandra Trzeciak-Duval. Financing for the main report by the Government of the Netherlands is gratefully acknowledged.

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PREFACE

The vested interests that defend the *status quo* for OECD country agricultural policies have much political clout. Until recently the 'development lobby' has been no match for them. Developmental concerns have played a limited role in the face of pressures to support domestic farm household incomes and an array of other societal concerns. Even though it is empirically proven that most farm support benefits the wealthiest farmers, the agrarian myth persists.

An opportunity for change has come with the political commitments taken by heads of state and ministers through the Millennium Development Goals, the Doha Development Agenda and the Monterrey Consensus. The year 2005 brings several moments of reckoning where progress in meeting internationally agreed development commitments is being tracked and examined. The OECD seeks to inform discussions in Gleneagles, New York, Hong Kong and elsewhere by its analysis of policy consequences and options in the agriculture and development sectors.

The complexities of making agricultural and development policies more coherent should not be minimised. The issues are context, commodity and country specific. Different policy instruments have differing effects. Policy makers need to be aware of all of these specificities, otherwise promises couched in vague, general terms remain empty. The analysis by Professor Alan Matthews featured in this report takes us a long way in meeting these needs.

The report clearly defines the objectives against which coherence is being examined. It reviews and assesses the many studies that attempt to quantify the benefits of agricultural policy reforms by OECD countries. It then systematically classifies the policy instruments that need to be examined for impact on developing countries. For each type of policy instrument, the "coherence perspective" is clearly articulated, offering a solid analytical framework and tool for policy-makers to make informed decisions. The report does not attempt to provide all the answers, but rather offers, in an organised and systematic framework, the questions that policy makers need to ask in an agricultural policy context to ensure that developmental concerns and commitments are taken into account.

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As the agricultural and development communities increase their policy interactions, this report will provide the analytical underpinning needed for substantive discussion with issues and choices clearly laid out. I am grateful to Professor Matthews, as well as to those OECD Member countries who took a particular interest in these issues, for their contributions to the knowledge base that will help us move towards greater coherence between agricultural and development policies.



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EXECUTIVE SUMMARY

This paper discusses the extent to which agricultural and agricultural trade policies in OECD countries are coherent with, and supportive of, the achievement of the Millennium Development Goals (MDGs), and particularly the elimination of extreme poverty and hunger. Policy coherence for development implies that OECD countries, in pursuing domestic objectives, should, at a minimum, avoid negative spillovers which would adversely affect the development prospects of poor countries and, more positively, should seek to exploit the potential for positive spillovers in the way they pursue these domestic objectives.

The paper adopts a broad interpretation of OECD country agricultural policy interventions with the potential to influence agricultural development in developing countries, grouping them into four categories. Domestic agricultural policies refer to the traditional instruments used by OECD countries to provide income and price support to agriculture and to help farmers manage risk. Agricultural trade policy usually supports these domestic market interventions, through border tariffs or export subsidies. But many OECD countries also pursue a range of independent agricultural trade policy objectives, such as promoting regional integration, providing preferences to developing countries as a development policy as well as designing the rules for the agricultural trading system. Domestic regulatory policies affecting agricultural trade are a third category of policies. Prominent examples include measures to address food safety, environmental protection, consumer protection and the protection of intellectual property rights particularly with respect to plant genetic resources. Finally, OECD country development cooperation policies, including agricultural assistance programmes and food aid, also have a potentially important role in pursuing policy coherence. The paper focuses on OECD measures to promote policy coherence for development in agricultural policy. However, the importance of developing countries ensuring that they have the domestic policies in place to promote agricultural production and to take advantage of market access opportunities that will arise as OECD countries improve the developmental coherence of their policies is also addressed.

Domestic agricultural policy

Despite differences in methodologies and data, empirical studies show that trade-distorting OECD agricultural policies lower world prices and reduce exports

and welfare in developing countries. The paper reports a consensus estimate of the magnitude of the welfare effect at between USD 5-10 billion, although there is considerable variation around this figure arising from differences in model type and specification and the database and time period used. The figure may appear low relative to prior expectations. Indeed, the potential global gains from agricultural trade liberalisation are much more significant, but most of the costs of agricultural policies are borne by the countries which implement them, and thus most of the gains accrue to the developed countries which are assumed to undertake the reforms. The distributional effects within countries are orders of magnitude greater than the net welfare effects. In particular, given that poverty in developing countries is concentrated in rural areas, OECD agricultural trade liberalisation is likely to be pro-poor on average. In exploring these impacts, empirical research examines the policy coherence consequences of agricultural policy reform along four dimensions. These might be labelled the where, how, which, and who dimensions.

The 'where' dimension identifies the country impact of OECD agricultural policies. Studies suggest that the main gainers in absolute terms from agricultural trade liberalisation among developing countries will be the Latin American exporters and some of the Asian countries. On the other hand, it is troubling that Sub-Saharan Africa and the least developed countries are potential losers. Very few of them are net exporters of temperate zone or competing products, and higher world prices for their imports imply a terms of trade loss. Agricultural exports from these countries are often supported by preferential market access arrangements, and liberalisation reduces the value of these preferences. Studies which include more broadly-based liberalisation including manufacturing or which take account of dynamic effects are more likely to show positive gains for developing countries including the least developed countries. However, where the possible losers from trade reform are among the poorest countries, measures to safeguard their interests in the reform process are very necessary. The global gains from liberalisation always allow compensation to be paid while leaving the reforming countries better off.

The 'how' dimension examines the most damaging forms of agricultural support to developing countries. Developing countries have most to gain from reductions in tariff barriers, although this can be at the expense of developing countries whose exports currently benefit from preferences. Certain types of domestic subsidies can also have a significant trade-distorting effect. However, the impact on developing countries of disciplining domestic subsidies is likely to be smaller than for tariffs. Many are exempted from reduction commitments because they are not deemed to be trade-distorting, or have eligibility conditions which reduce their trade-distorting effects in the first place. Export subsidies can be very disruptive for particular commodities and in particular markets, although their scale

now is such that even their total elimination would have limited macro-level effects for food markets.

The 'which' dimension addresses the extent of policy incoherence by commodity. World markets for livestock and livestock products are generally perceived to be more distorted than for crops, although the most recent generation of empirical models show surprisingly strong world price effects of OECD support for some crops. Policy reform would generate significant world price increases for wheat, rice and sugar, while oilseed prices would be comparatively unaffected. The adverse impact of OECD country policies on developing country cotton producers has been recognised by the cotton sectoral initiative now being discussed in the framework of the Doha Development Agenda.

The 'who' dimension investigates the household-level impacts of OECD agricultural policy reform in developing countries. While the effects are expected to be pro-poor on average, the impacts for specific countries will depend on the extent and nature of price transmission (influenced both by government policies in developing countries and market structures) and the structure of poverty. OECD country agricultural policy reform is more likely to lower overall poverty in low income than in middle income countries because poor households are predominantly food producers in these countries.

Agricultural policy reform will mitigate but not eliminate price instability, and producers in both developed and developing countries will continue to have to manage price and income risk. The policy coherence perspective requires that the burdens of managing these risks are carried by those best able to bear them. This implies that developed countries should avoid interventions to stabilise prices and concentrate on market-based mechanisms to help producers manage risk. Developing countries, however, will need access to mechanisms, including border measures, which help to stabilise market prices as well as international assistance mechanisms to cope with price volatility.

Agricultural trade policy

A feature of OECD country trade policies since the mid-1980s has been the proliferation of regional trade agreements (RTAs). The consequences for policy coherence must distinguish between those developing countries which join an RTA with an OECD country (where this is relevant) and those which are on the outside. Developing country insiders will experience trade creation and benefit from trade diversion from less favoured suppliers, but could themselves suffer from trade diversion if their partner OECD country is not the most efficient supplier. For

developing countries outside the RTA, the danger is also trade diversion. But they could benefit from any regulatory harmonisation as well as from any boost to growth rates arising from the integration process. Whether the overall impact of an RTA is coherent with a poverty reduction strategy will depend on the income status of the insiders and outsiders and the structure of poverty in these respective countries.

Many OECD countries offer non-reciprocal trade preferences to developing countries as a way of contributing to their development. Duty-free and quota-free access for least developed countries, in particular, is justified by the need to provide additional assistance to integrate these vulnerable economies into the global economy. Such preferential access for LDCs should be supported, provided it is recognised that it is a transitional measure and not a long-term support. But because preferences for LDCs fail to focus on those countries where rural poverty is most extensive, preferential agricultural liberalisation cannot be a substitute for multilateral liberalisation in bringing about greater policy coherence for development.

The value of trade preferences depends on the preferential margin, or the extent to which the terms of access awarded to beneficiaries improves on MFN access. Multilateral liberalisation reduces the value of the preferential margin, a phenomenon known as preference erosion. Preference erosion can also result from unilateral agricultural policy reform leading to a reduction in support prices, or the conclusion of preferential agreements with competitor countries. It has been argued that losses from preference erosion may not be that significant and that there may be relatively few countries which would be adversely affected. For the countries directly affected, however, these general arguments are of little comfort. Particularly where the beneficiaries are among the most vulnerable economies in the world, specific measures should be taken to address preference erosion in the context of unilateral or multilateral trade reforms.

The share of developing countries in world exports of processed agricultural products has been declining. Among the factors responsible for this is tariff escalation in both developed and developing country markets. Tariff escalation refers to a situation where tariffs rise along processing chains. There would be significant benefits to developing countries from liberalisation of processed products compared to primary products, although again there is a need to guard against the possibility of perverse effects for preference-receiving countries. Proposals to reduce tariff escalation in the Doha Round negotiations should be supported from a policy coherence perspective.

As tariff measures are disciplined, there are fears that countries may increasingly resort to trade remedy measures to block import access. Trade remedies traditionally have been little used in agriculture, but this may be changing. There are two questions raised by trade remedies from a policy coherence perspective. The first is whether the use of trade remedies by developed countries against agricultural products is abused or discriminates unfairly against developing countries and, if so, what might be done about this. Developing countries are certainly the target of a high proportion of anti-dumping actions which they believe are initiated with protectionist intent. Proposals are available to modify the trade remedy system to make it less vulnerable to abuse. A second issue is whether the trade remedies available are appropriately designed for, and accessible by, developing countries. Few developing countries have resorted to the use of general safeguards and few have reserved the right to make use of the special agricultural safeguard. Discussions are continuing in the Doha Round on whether developing countries might be given the right to a special safeguard measure.

An important area for policy coherence in OECD countries' agricultural trade policy is the attitude taken to developing country demands in the international trading system. Two areas are highlighted for discussion in the paper: special and differential treatment (SDT) with respect to trade in agricultural products, and the regulation of international commodity markets.

Many developing countries argue that WTO rule changes are necessary to give them the flexibility to implement policies to address their food security, rural development and poverty alleviation concerns. The Doha Declaration launching the Doha Development Round of multilateral trade negotiations reaffirmed that "special and differential treatment for developing countries shall be an integral part of all elements of the negotiations on agriculture". SDT proposals feature in the negotiating proposals of OECD country Members and in the framework drafts of the modalities which have been prepared to date. Nonetheless, SDT elements remain a contentious part of the Doha Round negotiations, and not only as an OECD country – developing country issue. Without agreeing rules which would encourage developing countries to opt out of integration, there is scope to address some legitimate developing country concerns that agricultural trade rules should reflect their particular needs. Research and analysis are clearly important in helping to define SDT rules which contribute to the MDG goals in individual countries without making their achievement in other developing countries more difficult.

International commodity market interventions are another area where policy coherence issues arise. It is sobering to note that the halving of the commodity terms of trade of developing country exporters between 1997 and 2001 cost them far more

than the impact of OECD country protection. The view that the greater part of the deterioration in the commodity terms of trade is due to market forces and therefore something to which developing country exporters must adjust, in contrast to the deterioration due to OECD country protection which is policy-induced, can be challenged. The increasing disconnection between the prices paid by final consumers and those received by producers may reflect the growing market power of intermediaries in the marketing chain and emphasises the importance of competition rules to discipline the abuse of this market power. Promoting corporate social responsibility including through the use of codes of conduct, helping to develop new market opportunities, encouraging diversification, and helping to raise quality and encouraging increased value-added processing are among the areas where OECD countries could assist to help promote the MDG goals in these sectors.

Regulatory measures and agricultural trade

While policy reform has contributed to a gradual deregulation of the agricultural sector in some countries, the desire to address growing consumer concerns about food safety, animal welfare, food quality and protection of the environment has led to increased regulation in other areas. All regulatory measures are likely to have trade effects – they may reduce export opportunities relative to what they otherwise would have been, divert trade to those suppliers which have the fewest difficulties in meeting compliance requirements or, more positively, create market opportunities for countries in the best position to meet the new market demands.

Food standards are a necessary part of international trade. However, SPS regulations are likely to bear heaviest on developing countries, both because the 'regulatory gap' between measures in place in export and domestic markets is likely to be greatest for these countries, and because of the more limited availability of compliance resources at the country and firm level. The growing importance of SPS regulations raises a number of concerns for policy coherence. OECD countries should consciously investigate alternative options to achieve their desired levels of food safety in order to minimise adverse impacts on developing countries. The involvement of developing countries in the bodies which set international standards should be encouraged. The lack of acceptance of testing and certification regimes in developing countries should be addressed, where necessary through providing additional resources to build up these capacities.

Whether the adoption of environmental standards could constitute a further market access barrier to the exports of developing countries raises a further policy coherence concern. Farmers in OECD countries face increasing environmental

regulation which increases their costs of production. If the environmental costs of producing food are higher in OECD countries and governments require producers to internalise these costs, then higher environmental standards could displace domestic production to the benefit of third country exporters, including developing countries. However, developing countries fear that higher standards will be used to raise additional market access barriers, particularly through 'process and production method' requirements, or to justify additional budget transfers to OECD farmers to offset the impact of higher standards on their competitive position. Payments to farmers to reflect their provision of public goods are allowed under WTO rules provided they respect certain conditions. The distinction between what is the avoidance of a negative externality and what is the provision of a public good is the outcome of a political process about the distribution of property rights in each country. When making this choice in specific cases, the policy coherence perspective argues for outcomes which minimise the adverse trade effects on developing countries.

IPR is another example of a domestic objective which can have significant trade effects. IPR rules on plant variety protection will influence the generation and transfer of useful technologies for farmers in developing countries. They are also necessary to protect and ensure an equitable distribution of the benefits from traditional knowledge. The protection of geographical indications under IPR rules is a further issue with an important development dimension. Discussion of these issues in the context of the TRIPS Agreement should be influenced by a policy coherence perspective which takes into account the impact on poverty alleviation in developing countries..

Development co-operation policies

It is widely recognised that more open markets, on their own, are not the whole answer. There is a need to help developing countries, and particularly the least developed among them, to take advantage of new market opportunities. The earlier discussion also emphasised that there are winners and losers in any policy reform, both between and within countries. The case for accompanying reform by targeted safety net and compensation measures is particularly strong if the losers from OECD agricultural policy reform are found among the most vulnerable countries and communities,. This gives development assistance an important role to play in the policy coherence agenda for OECD agricultural policy reform.

To promote domestic food production and the capacity to respond to improved market access opportunities, investment and support for agricultural production is required, as well as investment in a wide range of complementary services and

activities. While developing countries themselves must take primary responsibility for this, aid donors can help in various ways. Guaranteeing that sufficient funds will be available as part of the partnership to meet the Millennium Development Goals is clearly important. Donors can give more support to agricultural projects in their aid budgets, particularly those geared towards the provision of global public goods such as agricultural research, disease control, and water and land management, as well as providing more trade-related aid. Donors can also do more to coordinate their aid efforts through harmonised operational and reporting procedures aligned to recipient country priorities.

Food aid remains an important element in donor countries' assistance programmes, and raises a number of issues from a policy coherence perspective. Historically, food aid emerged in response to donor countries' food surpluses. Much of the history of food aid policy has been an attempt to fashion it into an instrument of development policy. Some of this debate revolves around technical matters such as the terms of food aid donations and the adequacy of food aid volumes in the light of potential recipients' needs. But the more important issues are around the design of food aid programmes so that they avoid negative impacts on developing country interests as regards food security and the alleviation of poverty. The integration of food aid donations into overall food security strategies, and instruments such as providing cash for food purchases in the framework of triangular transactions, are increasingly pursued by donors to maximise the development impact of food aid.

Developing country policies and coherence

While the policy coherence agenda is largely about promoting positive changes in the conditions that poor countries face in the world, developing countries too have a responsibility to ensure that their domestic policies are consistent with the Millennium Development Goal objectives and facilitate adequate supply responses. Specifically, in the case of agriculture, this requires developing countries to make the public investment in infrastructure, technical development, and credit which is necessary for modernizing production and improving competitiveness; to follow consistent and credible economic policies which encourage private investment; and to adopt trade policies that are not biased against primary production and exports. While much progress has been made in reducing the negative bias against agriculture in macroeconomic and trade policies, any remaining implicit taxation should be eliminated. Developing countries should plan to increase the share of agriculture in public expenditure to facilitate the necessary complementary investment in improving supply response, as well as reforming policies to promote an enabling environment for agricultural and rural development.

Proposals for further work

This paper provides a survey of the policy coherence dimension in OECD country agricultural policy-making. It highlights the way in which decisions on domestic agricultural policies, agricultural trade policies, regulatory measures affecting agricultural trade and development cooperation policies in agriculture can impact on developing countries and influence their ability to meet the Millennium Development Goal of halving poverty and hunger by 2015. A substantial amount of research now exists which highlights instances of policy incoherence and recommends ways in which such incoherence can be reduced.

Nonetheless, further areas can be identified where research would help to strengthen policy coherence for development in the design of agricultural policy and related policy areas. These include:

- Work on model specification and testing and parameter estimation and investing in databases to bring about a greater consensus on the appropriate features to be included in empirical models to help increase confidence in their predictions.
- Work on predicting the household level impacts of agricultural trade liberalisation, using both model-based and case study approaches.
- Work on estimating the potential magnitude of losses which some developing countries might experience from OECD country agricultural policy reform, and on ways to help them to overcome such losses.
- Case studies on how the welfare gains to developing countries from regional trade arrangements compare with those from multilateral liberalisation.
- Work on the impact of regulatory measures, including food safety, animal health, environment and consumer protection measures, with a view to identifying and promoting potentially positive market access opportunities as well as highlighting adverse effects for developing countries.
- Further work to identify the steps which developing countries need to take in order to take advantage of improved market access opportunities while avoiding unacceptable shifts in income distribution between producers and consumers.
- Work on detailed studies, particularly for the least developed countries, on poverty reduction strategies to help identify their most important policy priorities and the role which trade liberalisation should play in helping them to meet the Millennium Development Goals.

CHAPTER 1. INTRODUCTION

Agriculture and development goals

The international community committed to a series of specific development objectives (the Millennium Development Goals) at the UN Millennium Summit in 2000. At the International Conference on Financing for Development in Monterrey, Mexico, in March 2002, it dedicated itself to achieving these goals on the basis of a new global partnership. Developing countries committed to good governance and sound policies, while developed countries acknowledged that they must provide additional aid and ensure that their various policies work together to support development objectives in a mutually reinforcing way. Against this background, the OECD Ministerial Council in 2002 called on the OECD "to enhance the understanding of the development dimensions of member country policies and their impacts on developing countries. Analysis should consider trade-offs and potential synergies across such areas as trade, investment, agriculture, health, education, the environment and development co-operation, to encourage greater policy coherence in support of the internationally agreed development goals" (OECD, 2003a).

The first Millennium Development Goal – to eradicate extreme poverty and hunger – has two specific targets. It calls for reducing the proportion of people living on less than USD 1 a day to half the 1990 level by 2015. It also calls for halving the proportion of people who suffer from hunger between 1990 and 2015. Agriculture-based development strategies will play a key role in helping developing countries, and particularly the least developed countries, to achieve these targets. Statistics show that undernourishment has fallen when food production has risen, at least in the early stages of growth. Between 1990-92 and 1999-2001 per capita food production grew by only 1.4% per annum in countries where the number of undernourished increased substantially. But it grew by 3.3% per annum in countries where there was a significant fall in the number of undernourished (FAO 2003a). There is substantial cross-country evidence that agricultural growth is important in reducing poverty, for three reasons (Wiggins, 2003).

First, there is the *direct* impact of agricultural growth on farm incomes, which account for a large share of all incomes in poor economies. Second, there are numerous *rural economy* linkages. Agricultural growth spreads its benefits widely.

Growth in the incomes of farmers and farm labourers creates increased demand for basic non-farm products and services in rural areas. These are often provided locally, usually with labour-intensive methods, and so have great potential to create employment and alleviate poverty. Third, there will be positive impacts at the *national level* if rapid agricultural growth leads to reduced prices for food and raw materials and thus raises the real incomes of the urban poor. Agricultural growth may also generate savings that lead to greater farm and non-farm investment as well as generating the foreign exchange necessary to pay for increased imports.

Three quarters of the world's poor live in rural areas. In LDCs, 82% of rural households can be defined as poor. Although urbanisation is reducing the relative importance of the rural poor, their share in the global number of poor will not fall below 50% until 2035 (World Bank, 2003a). It is also the case that the majority of the poor in developing countries live outside the very poorest countries. Fifty-eight per cent of the developing world's poor live in middle-income countries, including China and India. This compares to 24% in the least developed countries and 18% in other low income countries (World Bank, 2003). Throughout the developing world, agriculture accounts for around 9% of GDP and more than half of total employment. But its relative importance is far greater in those countries where hunger is most widespread. In countries where more than 34% of the population are undernourished, agriculture represents 30% of GDP, and nearly 70% of the people rely on agriculture for their livelihoods (FAO, 2003a). Agricultural and rural development thus has a key role in helping to lift the poor out of poverty and to contribute to the eradication of hunger.

However, FAO's latest estimates of the number of undernourished people show that progress in reducing hunger has slowed to a crawl. In most regions the number of undernourished people is actually growing. Worldwide, FAO estimates that 840 million people were undernourished in 1998-2000, of which 799 million were in the developing world. This latter figure represents a decrease of just 20 million since 1990-92, the benchmark period used at the World Food Summit. This average annual decrease of 2.5 million persons lifted out of hunger is well below what is needed to meet the MDG target of halving the proportion of undernourished people by 2015. The underlying picture may be even bleaker than these figures suggest, as the marginal improvement is the result of rapid progress in a few large countries (China, Vietnam, Thailand, Nigeria, Ghana and Peru). Leaving these countries aside, the number of undernourished people in the rest of the developing world has increased by over 80 million since the World Food Summit benchmark period (FAO, 2003a).

The purpose of this paper is to discuss the extent to which agricultural and agricultural trade policies in OECD countries are coherent with, and supportive of, the achievement of the Millennium Development Goals, and particularly the elimination of extreme poverty and hunger. As is appropriate for an overview paper, it takes a broad-brush approach to identifying the issues to be explored in evaluating the extent of policy coherence. While the focus of the paper is on policy coherence across OECD policy instruments, including domestic agricultural support, related trade policy measures and non-tariff regulatory measures, policy coherence between OECD countries in the coordination of development assistance and policy coherence between the agricultural and trade policies of developing countries themselves is also addressed.

Policy coherence and agriculture – a framework

Policy coherence has been defined elsewhere by OECD as the systematic promotion of mutually reinforcing policy actions across government departments and agencies creating synergies towards achieving the agreed objectives (OECD, 2003a). Policy coherence for development (PCD) implies that OECD countries, in pursuing domestic objectives, should, at a minimum, avoid negative spillovers which would adversely affect the development prospects of poor countries and, more positively, should seek to exploit the potential for positive spillovers in the way they pursue these domestic objectives.

This paper is concerned with the range of policy interventions which affect agricultural development in developing countries. To structure the discussion, Table 1 sets out a typology of policy interventions. This typology identifies five policy areas, distinguished by policy actor (OECD or developing country) and policy domain. Four of the policy areas concern OECD policy domains, while the fifth concerns policies pursued by developing countries. Each policy domain targets a different objective or set of policy objectives.

Table 1. Policy coherence between agriculture and developing policies – a framework

Policy actor	Policy domain	Examples of policy instruments affecting agricultural development in developing countries
OECD countries	Domestic agricultural policy	Market price support, direct payments, export subsidies, income support, risk management measures, investment and structural adjustment assistance
OECD countries	Agricultural trade policy	Regional trade agreements, trade preferences, tariff escalation, attitudes to developing country demands in international trade negotiations, international commodity agreements
OECD countries	Regulatory policies affecting agricultural production and trade	Non-tariff measures addressing food safety, food quality, environmental protection and conservation, intellectual property protection, geographical indications
OECD countries	Development co-operation policy	Development aid to the agricultural sector, food aid, trade capacity-building, trade compensation measures
Developing countries	Developing country policies concerning trade and agriculture	Agricultural trade policies, institutional reform, exchange rate policies, investment and infrastructure policies

Domestic agricultural policy objectives in OECD countries distinguish between those concerned with equity or distributional issues, and those designed to correct market failures (OECD, 2003b). The former relate mainly to measures to support the incomes of farm households. Market failures occur in the case of externalities or public goods and where the market alone does not bring about the socially desired level of agricultural production or food consumption. Support for domestic agricultural production is also justified as a way of achieving social objectives such as the protection of family farming, the maintenance of a dispersed rural population or support for the cultural heritage of farming areas. These non-food outputs reflect the multifunctionality of agriculture. Social and income objectives in the agricultural sector in OECD countries have been addressed largely through market price support and, to a lesser extent, income transfers. Market price support policies require that the domestic market is insulated from the world market. A country which seeks to maintain a domestic market price above the world market price will find it necessary to impose a trade barrier, as otherwise cheaper imports would undermine the domestic policy. Thus both trade and domestic policies designed to support agricultural output and incomes in OECD countries are considered together under the first policy domain.

Agricultural trade policy is the second policy domain where policy coherence issues arise. While agricultural trade policy designed to support domestic agricultural policy objectives is discussed under that heading, agricultural trade policy may also be used to pursue other objectives. Trade policy may be used to promote regional integration objectives, as a development instrument through the award of trade preferences, or to protect the domestic food processing sector through tariff escalation. Trade policy is also concerned with the international architecture of trade rules. Policy coherence questions arise in examining the stance which OECD countries take in international trade negotiations on agricultural trade issues of relevance to developing countries, or with respect to problems in international commodity markets and the difficulties these cause for commodity-dependent developing countries. This is the 'foreign policy' aspect of agricultural trade policy, as distinct from its use as an adjunct to domestic agricultural policy which is discussed in the first domain.

A characteristic of OECD country food systems is the growing importance of regulatory interventions aimed at ensuring food safety, consumer protection, environmental protection and intellectual property protection. The requirement to meet specific regulatory standards before a product can be sold on the domestic market is not usually aimed specifically at imported products, but even where this is not the case, standards have an indirect influence on agricultural output and trade. Policy coherence initiatives must take account of the growing importance of these non-tariff measures in OECD countries and this the third domain of analysis included in the paper.

The fourth OECD policy domain discussed is development cooperation policy and the extent to which it provides support for the agricultural sector of developing countries and its integration into global markets. PCD issues here include the magnitude of aid flows to promote agriculture in developing countries, aid coordination and the role of specific types of aid flows such as food aid and trade capacity-building. Another relevant issue under this heading is potential compensation measures to address problems of preference erosion arising from agricultural policy reform.

Finally, policy coherence issues in agriculture can be discussed from the perspective of developing country policies. To what extent are developing countries pursuing policies to take advantage of the opportunities that arise as OECD countries improve the developmental coherence of their own policies? The impact of structural adjustment programmes, institutional reforms and developing countries' own agricultural and agricultural trade policies are relevant issues to consider in this context.

CHAPTER 2. POLICY COHERENCE BETWEEN OECD DOMESTIC AGRICULTURAL POLICIES AND DEVELOPMENT OBJECTIVES

Three major types of instruments are used to support agricultural incomes and promote domestic agricultural production in OECD countries. Administered support prices and trade protection ensure that domestic prices exceed international price prices resulting in a transfer from consumers to producers (market price support). Budgetary transfers to farmers, consisting both of direct production-related subsidies as well as more decoupled forms of income support, are a second form of support. The remainder is accounted for by general support not directly linked to production, for example, research, training, marketing support and infrastructure. In 1986-88, total transfers to OECD country agriculture were estimated to be USD 298 billion, representing 2.3% of GDP. In 2002, the corresponding estimate was USD 318 billion, or 1.2% of GDP. Three quarters of these transfers are provided as support to farmers, accounting for one-third of their gross receipts, with general expenditures on items such as research, marketing and infrastructure accounting for the rest (OECD, 2003b).

There are significant differences in the levels of support, as measured by the Producer Support Estimate (PSE), across countries and commodities. The European Union, Japan and the United States together account for around four-fifths of all support, although as a percentage of gross farm receipts, support is highest in Switzerland, Norway, Korea, Iceland and Japan in that order. Rice, sugar and milk are the most supported commodities, with transfers to producers exceeding 50% of gross receipts for these products. Although there has been some shift away from market price support and payments based on output or input use towards budgetary payments that are less linked to production, overall, output and input-related measures still account for three-quarters of all support (OECD, 2003b).

Exploring the impacts of OECD country agricultural policies on development

Developing countries have a comparative advantage in producing many of the agricultural products that are protected in OECD countries. The greater production stimulated in developed countries by their domestic agricultural policies depresses world market prices, and liberalisation would tend to raise them. Agricultural production in developing countries would expand following OECD agricultural

trade liberalisation, *ceteris paribus*, redistributing income between food producers and consumers and affecting overall welfare. In moving beyond broad generalisations, empirical research attempts to quantify the importance of these effects. Insights into the consequences of further agricultural policy reform are sought along four dimensions.

The country dimension. The impact of agricultural policy reform on individual developing countries is far from uniform. It depends on each country's net trade position, its overall dependence on agricultural trade and whether it benefits from preferential agreements or not. Assuming that world market prices are depressed by the agricultural policies of developed countries, a basic insight is that, in aggregate terms, net exporters will benefit from liberalisation while net importers will lose. There are a number of qualifications to this presumption. Tyers and Anderson (1992), for example, showed that a net importing country may still gain from higher world market prices if there was a bias against agriculture in its domestic policies, such that it could be a net exporter if this bias was removed. Furthermore, regardless of the trade position of the individual country, producers will benefit and consumers will lose from an increase in world prices, provided this is transmitted into corresponding changes in domestic market prices. Whether a country is better off as a result will depend on the relative weights it attaches to these changes in producer and consumer welfare.

The policy dimension. Various elements are important in disentangling the policy dimension of agricultural policy reform. OECD countries use a variety of different instruments in pursuing their domestic agricultural objectives, and some are more trade-distorting than others. It is important to know which instruments have the most important impacts and how these instruments interact with each other. Another policy dimension aspect concerns the groups of countries assumed to undertake policy reform. In particular, how do the impacts differ when developing countries also reduce barriers to agricultural trade as compared to scenarios in which only developed countries do so? A third policy dimension aspect is whether agricultural trade liberalisation is undertaken alone or in conjunction with liberalisation of manufactures and/or services.[1] For example, if agricultural tariffs in developed countries are lowered, developing countries would be expected to reallocate resources into agricultural production to take advantage of the improved market access. However, if remaining manufacturing tariffs in developed countries (which hit particularly labour-intensive goods) were simultaneously reduced,

1. This is a relevant scenario given that the Doha Development Round envisages the conclusion of the Round as a single undertaking.

developing countries might instead find it more advantageous to shift resources out of agricultural production.

The commodity dimension. The impact of agricultural trade liberalisation depends not only on which policy instruments are disciplined but also on which commodities are affected. There are significant differences in the support provided to different commodities in OECD countries. The market and net trade position of developing countries also vary across commodities. Commodities may be broadly classified into three groups: temperate zone commodities (wheat, coarse grains and livestock products) where the developed countries produce the bulk of world exportable surpluses; competing commodities produced in both North and South, even though they may originate in different primary products (sugar from beets or cane, oil from several oilcrops), and including fruits and vegetables, tobacco and cotton; and tropical commodities that are mainly produced in developing countries but primarily consumed in developed countries. Policy incoherence issues are most salient with respect to the second group of competing commodities, though they are also relevant for the first and third groups.

The household dimension. OECD agricultural policy reform is sound on policy coherence grounds because it would help to reduce rural poverty and thus overall poverty in developing countries. The presumption is that the way in which agricultural trade liberalisation affects relative product and factor prices would improve the income position of the poor. Further, the liberalisation of value added activities is important in terms of expanding employment and income opportunities beyond the farmgate. On the other hand, producer households in exporting countries which suffer preference erosion and consumers facing the consequences of higher world market prices may experience increases in poverty as a result of these changes. The overall impact on poverty will be mediated by changes in developing countries' own trade policies and by any structural changes induced by more favourable export market opportunities in OECD countries. Critics argue that export-oriented growth strategies are more likely to benefit larger, commercial producers, often with multinational ownership, and to marginalise smaller food producers. Others point to the danger that countries following a comparative advantage development path may get locked into production activities with diminishing returns, limited scope for technological spillovers and with poor long-term market prospects. Hence the importance of analytical work which attempts to measure directly the impact of OECD agricultural trade liberalisation on poverty rates in developing countries.

Evaluating the impact of OECD support to agriculture on the development prospects and poverty alleviation efforts of developing countries requires empirical

research based on both large-scale economic models (to determine the world market impacts), micro-level household studies (to trace through the impact on incomes and expenditures of households in poverty and suffering from hunger) and country case studies (to highlight the importance of country-specific factors). Given the existence of agricultural support and protection on a large scale for many decades, economic models are important in predicting what might be the effects on production, trade, incomes and prices in a world where this support is reduced or removed. Global trade models differ in their structure, specification and parameter values, in the policy scenarios they examine, as well as in the data base they employ. Despite these differences, some general conclusions on the likely impact of OECD country agricultural policies on developing countries have now been established.

Empirical estimates of policy incoherence

Overview of results. Several empirical studies of the costs of agricultural protectionism in OECD countries for developing countries (or, alternatively, the gains from agricultural trade liberalisation) are now available using both partial and general equilibrium models.[2] In this section, we focus on the estimated aggregate impacts on developing countries as a group, while the following section examines the estimated impacts on particular countries and groups of countries. These studies provide a range of estimates and are not directly comparable. Results differ across studies, first, due to differences in the baseline assumed and in the reporting period. More recent studies or studies which factor in the outcome of the Uruguay Round and China/Chinese Taipei accession to the WTO produce lower outcomes than earlier studies, while studies which report the projected impacts for some year in the future tend to produce larger outcomes simply because the world economy grows over time. Results also differ because of differences in the extent of liberalisation which is assumed, with some studies investigating the impact of full liberalisation of

2. Partial equilibrium models focus on the behaviour of agricultural commodity markets, using modelled as a set of supply and demand relationships. They often embody a great deal of disaggregated information on the commodity markets under investigation and can embody a detailed representation of policies. Applied general equilibrium (AGE) models, by contrasts, are more comprehensive in that they take account of all inter-sectoral interactions. The advantage of this approach is that important feedback effects between the agricultural and non-agricultural sectors and (in global models) between different countries and regions, are taken into account. The cost of this more complete coverage is the much more exhaustive data sets required, with the consequence that there is typically a greater level of aggregation both to keep the modelling task manageable and to focus on the effects that general equilibrium models are best placed to illuminate.

agricultural trade in both developed and developing countries, while others model scenarios intended to simulate likely outcomes of the Doha Round. Results are also sensitive to the model specification. Partial equilibrium studies tend to show lower gains from liberalisation as compared to AGE studies. Within the family of AGE studies, liberalisation gains are higher in models which assume increasing returns to scale and monopolistic competition in the manufacturing sector (although these differences are more important in scenarios which liberalise trade in manufactures or services, as there is general agreement that agriculture should be modelled as a constant returns to scale industry). Another reason for different results is that some models allow for dynamic effects of trade liberalisation, whether through trade-related changes in savings and investment or through incorporating trade-productivity linkages. Rather than attempt to systematically compare the results from individual studies, some broad generalisations are highlighted here (for a comparative review of recent studies on which some of these generalisations are based, see UNCTAD, 2003a, Chapter V and Anderson, 2004).

In the context of static, constant returns to scale AGE models, the global gains from (full) agricultural trade liberalisation are at least as great as those achievable from trade liberalisation in manufactures, with a number of studies suggesting that agriculture contributes two-thirds of the global gains from liberalising all merchandise trade. Given that agriculture accounts for less than 10% of global production and trade, these figures testify to the relatively much higher trade barriers and domestic subsidies prevalent in this sector.

The studies generally suggest that the distribution of the global gains are shared relatively equally between developed and developing countries, in the range of 40-65%. An important point is that the major source of the gains accruing to each group arises from its own liberalisation, rather than that of partner countries. Put another way, the studies suggest that the costs of OECD agricultural protectionism for developing countries may be less than the costs developing countries impose on themselves through their own trade-distorting policies.

Not all studies report the impact specifically of OECD country agricultural trade liberalisation on developing countries which is the measure of policy coherence or incoherence. The conclusions of some of those that do are shown in Table 2. Anderson *et al.* (2002) report gains of USD 12 billion in 2005 to developing countries from full OECD liberalisation of agricultural and food trade. This is 4.6% of the total global gain from full liberalisation of merchandise trade by both developed and developing countries. Tokarick (2003) in an IMF study calculates gains of USD 8.0 billion from developed country liberalisation for developing countries. A USDA study by Diao *et al.* (2001) estimates that the global

elimination of agricultural import barriers would confer benefits of USD 5.6 billion on developing countries. However, if domestic and export subsidies were also removed, the net gain would fall to USD 2.6 billion.[3] Francois *et al.* (2003), using a static, constant returns to scale model, suggest that a 50% cut in OECD agricultural tariffs would benefit developing countries by around USD 4.7 billion. UNCTAD (2003a) reports a gain of USD 2.6 billion to developing countries from a non-reciprocal cut of 50% in developed country agricultural tariffs. This study was the first using the GTAP database to take account of preferential tariffs and thus its estimate of the gains to developing countries is at the lower end of the scale.[4]

Table 2. The impact of OECD country agricultural protection on developing countries, selected AGE studies

Study	Type of model	Valuation date	Value of gains
Anderson *et al*. 2002	AGE GTAP 4	2005	USD 12 billion
Tokarick 2003	AGE GTAP 5	1997	USD 8 billion
Diao *et al.* 2001	AGE GTAP 5 with modified protection data	1997	USD 2.6 billion*(USD 5.6 billion)*
UNCTAD 2003	AGE GTAP 5 with modified protection data	1997	USD 5.2 billion**
Francois *et al.* 2003	AGE GTAP 5	2013	USD 9.4 billion **
Beghin *et al.* 2003	Dynamic AGE	2015	USD 26 billion

* Includes liberalisation by developing countries themselves. See text for explanation of figures.

** Result of 50% liberalisation based on their constant returns to scale model has been doubled.

3. Because these gains incorporate the impact of liberalisation by developing countries themselves which is usually seen as increasing welfare, it is tempting to conclude that the contribution of OECD liberalisation alone would be smaller than the USD 2.6 billion figure. This is not necessarily the case. Many developing countries continue to protect their manufacturing sectors. Liberalising agricultural trade while maintaining manufacturing protection could increase discrimination against agricultural growth and the level of distortions in these economies.

4. Most global AGE models make use of a global database put together by the Global Trade Analysis Project (GTAP) based at Purdue University which provides a high degree of both sectoral and country disaggregation. For more information, see the GTAP website www.gtap.org.

The aggregate gains to developing countries estimated from partial equilibrium studies are lower. Vanzetti and Peters (2004) and Poonyth and Sharma (2004), using versions of the ATPSM model, simulate the effect of specific negotiating proposals in the Doha Round. Examining the Harbinson proposal, Vanzetti and Peters estimate small net gains to developing countries of around USD 1 billion, while Poonyth and Sharma suggest that the outcome for developing countries in aggregate would be negative. The gains under the more ambitious initial US negotiating proposal would be greater (estimated at USD 6.5 billion and USD 2.5 billion in the two studies, respectively).[5] As these negotiating proposals assume that developing countries (except for the least developed countries) would also undertake some liberalisation, even if on a lesser scale than OECD countries, these figures are only indicative of the impact of OECD country liberalisation alone. Partial equilibrium models are likely to show more negative results for developing countries than AGE models as they fail to take account of some of the transmission mechanisms at work. For example, AGE models take into account the income effects ignored in partial equilibrium models where the higher income of OECD countries following reform translates into increased demand for developing country exports. Also, as resources in OECD countries move out of agriculture and into manufacturing and services, the increased supply of these products lowers world market prices and benefits those developing countries which import them.

These AGE results are all produced using static, constant returns to scale models although the base year for the experiments may differ. The results are sensitive to different model specifications. Dynamic models tend to produce higher estimates of the gains than static ones. Beghin *et al.* (2003) using the GTAP database and a dynamic CGE model find that developing countries would gain USD 26 billion per annum by the removal of both trade and domestic support distortions in OECD countries in 2015 (at 1997 prices) compared to their baseline. Diao *et al.* (2001) also run a dynamic version of their model. They incorporate the effect of reform on savings, investment and the growth of capital stock, as well as the technological-growth spillover effects of liberalisation. Again, their results are for global liberalisation and do not distinguish the impact of OECD liberalisation alone. Including these dynamic effects would boost the welfare gains to developing countries of global liberalisation from USD 2.6 billion to USD 21.3 billion after a period of 15 years. These dynamic effects are clearly potentially more important than the effects from static resource reallocation. Unfortunately, their size depends

5. The results of the Vanzetti and Peters (2004) study are very similar to those reported in an earlier paper by these authors, Vanzetti and Peters (2003).

on parameter estimates whose values are poorly understood, not least in an agricultural setting.

Of relevance to the policy coherence debate is that the estimated size of the transfer effects between producers and taxpayers/consumers is much larger than the aggregate welfare gains to a country from liberalisation. For example, in Japan following full trade liberalisation, the income of dairy farmers would decrease by 60% (or EUR 3.1 billion), consumers' welfare would increase by 18% (EUR 3.7 billion), and net welfare would increase by roughly 2% (USD 0.5 billion) (Beghin and Aksoy, 2003). In the Beghin *et al.* (2003) study, which finds that developing countries would benefit in aggregate from OECD liberalisation by USD 26 billion, the increase in rural value added in these countries would exceed USD 60 billion, while farmers in high-income countries would be worse off by up to USD 48 billion. These examples highlight the importance of going beyond the net effects at country level which are often highlighted in presentations of empirical results. Two conclusions follow from this. Given that poverty in developing countries is concentrated in rural areas, OECD agricultural trade liberalisation is likely to be pro-poor on average. Second, adjustment assistance measures for groups adversely affected by liberalisation is likely to be a necessary part of any reform package.

The country dimension. Studies suggest that the main gainers in absolute terms from agricultural trade liberalisation among developing countries will be the Latin American exporters and some of the Asian countries. Important countries such as China and India appear as winners in some studies but losers in others. What is particularly troubling is that a number of studies show that agricultural trade liberalisation by developed countries could lead to possible losses for sub-Saharan African and the least developed countries, markedly so in policy scenarios where export subsidies are eliminated (UNCTAD, 2003a; FAO, 2003b). Very few of them are net exporters of temperate zone or competing products, and higher world prices for their imports implies a terms of trade loss. Their agricultural exports may be supported by preferential market access arrangements, and liberalisation reduces the value of these preferences (this phenomenon of preference erosion is discussed further in Section 3.3 of the paper). Studies which include more broadly-based liberalisation or which take account of dynamic effects are more likely to show positive gains for developing countries including the least developed countries. However, where the possible losers from trade reform are among the poorest countries, measures to safeguard their interests in the reform process are essential. The global gains from liberalisation always allow compensation while leaving the reforming countries better off.

The policy dimension. Which are the most damaging forms of OECD agricultural support to developing countries? Many of the empirical studies include removal of both trade distortions and domestic subsidies and their relative importance can be evaluated. There is strong evidence that priority should be given to removing trade barriers (Beghin and Aksoy, 2003; Hoekman *et al.*, 2002). This is because trade barriers are much more widespread than domestic subsidies. Trade barriers are also important in that they underpin domestic market support policies and artificially high guaranteed prices to producers, so the reduction of import tariffs can be a way of putting pressure on market price support policies. Also, many domestic subsidy programmes have conditions attached which limit their trade-distorting effect on world markets. For particular commodities, for example cotton, however, the relative importance of domestic subsidies and tariffs may be reversed.

Export subsidies and other forms of export support, which are seen as a morally indefensible 'dumping on the poor', often attract the most popular criticism. However, export subsidies are now relatively small in absolute terms. Many countries have already reduced export subsidies well below the limits allowed under the URAA and, in the context of projected increases in world prices, future use of export subsidies is likely to decrease further (OECD, 2002a). Against this background, the impact of export subsidy elimination on world markets is fairly modest. There would be small changes to world crop and meat markets and more significant increases in world dairy product prices (OECD, 2002a).[6] The results are sensitive to the assumptions made about world market price trends and exchange rate movements. If world prices weakened or the exchange rate of those countries using export subsidies proved stronger, then the impacts of eliminating export subsidies would be correspondingly higher. Diao *et al.* (2001) calculate that removing all agricultural protection and support in developed countries would raise world prices by 9.11%; the corresponding figures for the removal of tariffs alone are 3.77%, removing domestic subsidies 3.55% and removing export subsidies 1.47%. Nonetheless, for particular products (sugar, livestock and dairy products) export subsidies do play a greater role, and their targeted nature also means that they have the potential to cause major disruption to countries with small domestic markets. Other forms of export support, such as export credits or certain types of food aid, may also have a disproportionately disruptive effect in particular markets depending on their targeting.

6. As export subsidies are eliminated, pressure is applied on domestic price support programmes. The OECD simulation assumes that internal policies are adjusted to allow domestic prices to fall as export subsidies are eliminated.

Tariff rate quotas (TRQs) were introduced in the Uruguay Round as a way of maintaining current market access and increasing minimum market access in the face of high bound tariffs following tariffication. A TRQ is characterised by three instruments: the quota ceiling, the in-quota tariff, and the out-of-quota or non-quota tariff, and only one of these instruments is binding at any one time. The usefulness of expanding TRQ ceilings has been explored in OECD (2002a). Given that many TRQs are under-filled, the OECD analysis shows that expanding quotas does not materially alter market access. This conclusion is accompanied by the caveat that the analysis cannot take into account the complicated nature of TRQ administration and allocation mechanisms, and this could lead to an under-estimation of the effects of TRQ expansion. The analysis finds that the effects of expanding quotas while also reducing in-quota tariffs are not greatly different. Reducing in-quota tariffs appears to have a greater role in allocating quota rents between the government and private traders. If these rents accrue to the exporting countries, then reducing out-of-quota tariffs has an effect analogous to preference erosion. Laroche Dupraz and Matthews (2004) estimate the size of TRQ rents accruing to developing country exporters in the EU market alone at around EUR 1 billion, which is not an insignificant figure compared to some of the estimates of the gains to developing countries from full agricultural liberalisation.

The commodity dimension. In which commodity markets is policy incoherence most evident? This is a function of the level of OECD support and protection, the share of OECD countries in global production and the net trade status of developing countries. OECD PSE data show that, for high-income countries on average, the greatest support is provided to rice, sugar and milk, followed by coarse grains and wheat. The impact of liberalisation on world market prices from a selection of recent studies is shown in Table 3. These studies differ in their model specification (partial versus general equilibrium) and in their liberalisation scenarios. The two general equilibrium studies model full liberalisation by all countries, whereas the partial equilibrium studies model partial liberalisation according to specific negotiating proposals put forward during the Doha Round. The price changes arising from full liberalisation are generally higher than for partial liberalisation. Price changes in scenarios in which only agriculture is liberalised will produce higher estimates of price effects than those in which the non-agricultural sectors are also liberalised. However, what is of interest is the relativities across commodities within each simulation.

Within the crops sector, wheat prices are generally expected to be affected more than rice or sugar, while livestock (particularly beef and dairy product) prices are generally expected to be affected more than crop prices. These differential world market price impacts, in turn, drive many of the results of liberalisation for

individual developing countries, depending on their net trade position in these commodities, their access to preferential arrangements, etc. These country-specific impacts can be easily explored in single-commodity partial equilibrium models, such as those for cotton, dairy, groundnuts, rice and sugar reported in Beghin and Askoy (2003).

Support to the cotton sector is not explicitly measured by OECD in its PSE work. But support to the cotton sector in OECD countries and elsewhere significantly undermines livelihoods and incomes in developing country cotton producers, as highlighted by the special attention given to the cotton initiative promoted by four West African countries (Benin, Burkina Faso, Chad and Mali) in the Doha Development Agenda. Prices received by producers in the US (with total production of 4.4 million tonnes) and the EU (with total production of 0.55 million tonnes) in the 2001/02 season were 91% and between 144 and 184% higher than the world price, respectively. Research suggests that the removal of all support to the cotton sector, in the context of full agricultural trade liberalisation, would raise cotton prices by 12.7% while increasing Africa's cotton exports by 12.6% (Baffes, 2004).

Table 3. Effects of different policy scenarios on world prices
(% changes)

Commodity	**Vanzetti and Peters**[a]			**Poonyth and Sharma**[a]			**Beghin *et al.*** [b]	**Diao *et al.*** [b]	
Simulation➔	US	EU	Harbinson	US	EU	Harbinson	Removal of all protection	Removal of border protection	Removal of all protection
Wheat	14	5	11	12	5	9	12	2	18
Rice	3	1	2	3	1	2	6	4	10
Sugar	10	3	5	9	3	5	9[1]	8[1]	16
Oilseeds	2	1	1	1	1	1	8	1	11
Dairy products	Na	Na	Na	20[2]	9	12	8	6	22[3]
Bovine meat	8	3	6	8	3	5	10	2	
Sheep meat	11	4	6	10	4	6	2[4]	-1[4]	
Pig meat	5	2	3	3	2	3			

Notes: [a] Partial equilibrium study. The US, EU and Harbinson simulations refer to proposals put forward in the first stage of the Doha Round negotiations. [b] General equilibrium study. [1] Price changes for refined sugar. [2] Average of butter and cheese. [3] Aggregate for all livestock products. [4] Other meat products. Results have been rounded to integer values.

Sources: Vanzetti and Peters (2003); Poonyth and Sharma (2004); Beghin *et al.* (2003); Diao *et al.* (2001).

The household dimension. To explore the impact of agricultural policy reform at the household level requires the use of national household surveys in order to encompass both the spending and earning effects of trade liberalisation. Two approaches can be used. One is to investigate the impact or incidence effects based on the existing structure of consumption and factor incomes. The other, more ambitious, approach is to assess the distributional effects of reform across households once household and market level adjustments are factored in.[7] OECD is currently coordinating a study aimed at quantifying the distributional effects of agriculture and trade policy reform based on five country case studies (OECD, 2004a). Hertel *et al.* (2003b) examine the short-run impact of the simultaneous removal of import barriers (and export subsidies in the case of agriculture, but not domestic subsidies) in both agriculture and manufacturing on poverty rates in 14 developing countries (building on an earlier study which covered seven developing countries, Hertel *et al.*, 2003a). The modelling approach adopted by Hertel *et al.* involves mapping the results of GTAP simulations on to household models constructed around these datasets. Their paper does not report the results of most interest for the policy coherence focus of this paper, which is the impact of specifically OECD agricultural reform on household poverty in developing countries. Nonetheless, it is possible to infer some conclusions from the mechanisms at work which they identify.

Their results highlight the complexity of the impacts at household level. Specifically, policy changes in the form of a removal of tariffs and quotas generate changes in country-level product and factor prices. While trade liberalisation generally lowers poverty rates in developing countries, there are substantial variations in poverty changes by household type and policy change. For example, in Brazil, full trade liberalisation at the global level (including removal of manufacturing as well as agricultural protection and including the removal of protection by developing countries, including Brazil itself) would reduce substantially the overall poverty headcount in agriculture and in the country as a whole. However, unilateral agricultural policy reform by Brazil alone would

7. An early example of an attempt to project the distributional effects of agricultural trade liberalisation mapped changes in the functional distribution of income reported from an AGE model on to the effects on agricultural and non-agricultural labour incomes. The experiment run was agricultural trade liberalisation by the APEC economies. The study found that, for the majority of APEC countries in which agriculture is to some degree protected, trade liberalisation would have a negative effect on agricultural incomes (Scollay and Gilbert, 2001).

increase agricultural poverty even though it would also lower the national rate (Hertel *et al.*, 2003a).

The analysis by Hertel *et al.* of the structure of poverty in each of these countries shows that the poor tend to be more specialised in their earnings sources than the non-poor, thus leaving them more vulnerable to trade policy changes which favour one sector at the expense of another. For the lowest income countries in their sample, households specialised in agriculture make up a large proportion of the population, and an even larger proportion of the poor. Because trade liberalisation tends to raise the profitability of agricultural production, poverty among these households generally falls, while rising among self-employed nonfarm households. Because agricultural households are over-represented among the poor in these countries, the national poverty rate tends to fall. Among middle-income developing countries, households entirely dependent on wage labour become more important and also make up a greater proportion of those below the poverty line. For these households, changes in the wage paid to unskilled labour are the key variable. In their simulations, they find that this wage falls, relative to average earnings, but rises relative to skilled wages. Therefore the impact on this group of households is mixed, and in some countries the national poverty rate increases as a result. In their sample of 14 countries, they find examples of countries where the poverty rate among agricultural households falls but the overall poverty rate rises (largely due to higher food prices), and conversely examples of countries where poverty rises among agricultural households even though the national poverty rate falls because relative farm earnings decline.

The specification used by Hertel *et al.* measures the incidence of reform rather than the medium to long term impact once behavioural responses are factored in. These second round effects may be important, and for these to be accommodated household responses need to be fully embedded within a general equilibrium model. This may be an important step in policy terms, because although the incidence of reform is important, it is also useful to be able to distinguish between those households which can adjust under the pressures of reform and those which cannot (or have greater difficulty) (Brooks and Melyukhina, 2003). Policy coherence implies that attempts must be made to mitigate any potentially adverse impact on households living in (or potentially exposed to) absolute poverty. Another important area for further work in this vein would be to explore the implicit assumptions being made about the pass-through of changes in import prices into domestic and particularly rural markets. If some domestic markets are more fragmented than others resulting in different degrees of price transmission, then even the incidence

effects of policy changes could be very different to those assumed.[8] Model-based approaches should also be complemented by detailed case studies of policy impacts, particularly to try to capture some of the dynamic structural changes which may accompany the opening of more profitable export markets. For example, if OECD agricultural policy reform increased the profitability of beef, soya and sugar production in Brazil and this led to the expansion of the commercial farm sector at the expense of smallholders, the poverty impacts could be very different to those estimated by model-based approaches which ignore these effects.

Price variability and food security

Given that the inevitable fluctuations in world production and consumption must be reflected in offsetting changes in either demand or supply, the insulation of some markets means that the burden of adjustment is thrown onto those markets which remain open. Domestic price stability is purchased at the expense of international price instability. This is an important issue for developing countries because of the greater vulnerability of very poor farm households to market price fluctuations transmitted from world markets. Hence one expected benefit of agricultural policy reform should be greater stability of world market prices. To the extent that world market prices remain subject to volatility, however, a policy coherence perspective would seek to ensure that there are mechanisms in place to help developing countries, and low-income farmers within these countries, to cope with this volatility.

Allowing world market prices to be transmitted more directly to OECD domestic markets helps to stabilise world prices because it raises the responsiveness of global supply and demand to unforeseen shocks. The more widespread use of *ad valorem* rather than specific or complex tariffs would improve price transmission although at the cost of increasing the variance of domestic prices.[9] Disciplining or prohibiting the use of safeguard clauses would have the same effect. There are some potential countervailing factors arising from reform. For example, for cereals or other storable commodities, governments in a liberal market environment no longer

8. Wiggins notes: "It is possible for the rural poor to suffer simultaneously from product markets that function well and dysfunctional factor markets" (2003, p. 293).

9. Ad valorem tariffs have a further advantage for developing countries because they bear less heavily on lower-quality, and therefore lower value, imports compared to specific tariffs, and typically more developing country exports fall into this category.

have an incentive to hold large surplus stocks, which have often helped to stabilise world prices in the past. As against this, the private sector has an inducement to hold larger stocks if it knows that governments are no longer in the stock-holding business, and these privately-held stocks may be more responsive to world price fluctuations than government-owned stocks.[10] Reform would also lead to a reallocation of agricultural production from high-protection to low-protection countries. If this meant a reallocation of production from low-risk to high-risk production areas of the world, it could exacerbate the problem of supply variability in the first place. Exchange rate instability as well as possible increased risks of crop failure due to climate change or political instability must also be taken into account. Thus, reform may mitigate the problem of world price volatility but it will not remove it.

The PCD perspective must be to ensure that the burdens of managing these risks are carried by those best able to bear them. In OECD countries, the challenge is to better define the role of public policy versus market-based mechanisms to deal with price and income risk in agriculture (OECD, 2000). Recent years have seen the development of market-based instruments, and some governments have been developing various insurance and safety net-type programmes. However, market-based approaches are often underutilised and poorly developed. This is partly because of difficulties in designing risk management schemes which avoid problems of adverse selection and moral hazard, but also in part due to the protected environment in which farmers operate, which limits their demand for other risk management tools. Also, governments have found it difficult to resist pressures for emergency or *ad hoc* measures which have transferred significant funds to farmers during periods of low market prices. Emergency packages clearly undermine existing risk management systems to the extent that they encourage farmers to look to government bail-outs in the case of a crisis rather than to develop long term risk management strategies.

For many developing countries, and particularly the least developed countries, putting in place appropriate farm-level risk management instruments, such as insurance schemes or futures markets, will not be feasible. The choice will lie

10. A further side-effect of government stock-holding is that it may encourage greater provision of food aid because the resource costs of this kind of tied aid are lowered. This effect is also smaller now than in the past, not only because government stocks are smaller but also because of efforts, by the EU and others, to delink food aid deliveries from production surpluses (see further discussion below).

between national measures such as storage policies, border policies or compensatory finance schemes. For example, where developing countries maintain applied tariff rates considerably below bound rates, this margin in the tariff can be used to protect domestic farmers against unforeseen periods of low world prices.[11] Alternatively, developing countries might be allowed easier access to a special safeguard mechanism in these circumstances (although the more countries which can use a safeguard mechanism in a period of low world prices, the more depressed these prices become). While such mechanisms may help protect developing countries against unforeseen low world prices, they are less effective in assisting them to cope with price spikes. The Marrakesh *Decision on Measures Concerning the Possible Negative Effects of the Reform Programme* recognised that countries which faced short-term difficulties as a result of the Uruguay Round in financing normal levels of commercial imports could draw on existing or new compensatory finance facilities operated by the international financial institutions. In practice, this measure has not been effective but it is under review in the Doha Round negotiations.

11. The tariff 'price band' system used by some Latin American countries fulfils this function. Although a WTO panel found against a specific implementation of this scheme by Chile, the report of the Appellate Body in this case appeared to leave the door open for a system which is designed to moderate the effect of fluctuations in world market prices on a country's domestic market provided that the design of such a system is predictable and transparent. Sharma (2002) shows that developing countries would require a margin between their applied and bound tariff rates of 45-55% in order to be able to stabilise domestic prices at average world market levels faced with fluctuations in world markets.

CHAPTER 3. POLICY COHERENCE BETWEEN OECD COUNTRY AGRICULTURAL TRADE POLICIES AND DEVELOPMENT OBJECTIVES

The impact of regional or bilateral liberalisation

A feature of OECD country trade policies since the mid-1980s has been a proliferation of regional trade agreements. As of May 2003, OECD countries are party to 131 of the 184 regional trade agreements (RTAs) in force and notified to the WTO (Nielsen, 2003). Moreover, they are actively pursuing additional agreements such as the EU-Mercosur negotiations and US support for the Free Trade Area of the Americas agreement. From a policy coherence perspective, given the significant distortions to agricultural markets already in place, does extending regional preferences to agricultural trade help or hinder agricultural development and hunger alleviation in developing countries?

Article XXIV:8(b) of the GATT specifies that duties and other restrictive regulations of commerce, except as otherwise permitted under GATT rules, should be eliminated on substantially all the trade between the constituent territories of a regional trade arrangement. This is clearly an imprecise metric, but it has been interpreted to mean that no sector can be excluded *a priori*. Nonetheless, the way in which agricultural products are incorporated into RTAs varies considerably. Given the pervasive extent of government regulation of agricultural markets, what complicates the treatment of agriculture in RTAs is the attempt to provide for the co-existence of managed markets in one country and free access for the partner country. At one extreme, agricultural and agrifood products are treated as all other products and tariff barriers are fully removed. Even here, however, many RTAs provide for the use of anti-dumping duties and countervailing measures, as well as providing for safeguard measures in the event of emergency situations, balance of payments problems or market disruption. For supported commodities, integration may only be stable if a common set of market regulations are introduced across the RTA. At the other extreme, agricultural and agrifood products may be excluded from the preferential trade provisions altogether. Between these extremes there exist a wide variety of treatments of agricultural products, including long transition periods, tariff quota arrangements, lower preferential margins compared to other goods as well as calendar restrictions.

The key characteristic of RTAs is their discriminatory nature. Therefore the consequences for PCD must distinguish between those developing countries which are included in the RTA (where this is relevant) and those which are on the outside. Developing countries which are offered preferential access to an OECD country market will experience trade creation plus the positive impact of trade diversion from less-preferred suppliers. If market prices in the OECD country are maintained significantly above world market levels, they will also experience a favourable terms of trade effect. In many RTAs, these benefits may be limited by restrictions on the quantities of exports eligible for preferential treatment in order to avoid disrupting the high-priced market. In these cases, the benefits of preferential access are equivalent to a form of tied aid as the beneficiaries may potentially be able to extract economic rents, but with limited trade creation effects. As an RTA is a reciprocal arrangement, then the developing country will be expected to lower most of its agricultural trade barriers to the exports of its OECD partner.[12] This will give rise to the same need for, and expected benefits and costs of, adjustment in the developing country agricultural sector as when lowering trade barriers in the context of multilateral liberalisation. However, there is potentially an additional source of welfare loss in the case of RTAs. Depending on the global competitiveness of the OECD partner, and on the overall level of protection provided against third countries, there is a danger that the agreement could encourage trade diversion to a more costly import supplier and thus lead to a welfare loss for the developing country. This danger is less important for the OECD country because the developing country partner is unlikely to be a major supplier.

For developing countries outside the RTA, the danger is also trade diversion. Efficient suppliers may lose export markets in the OECD country because of the preferences granted to competitors. In the case of RTAs involving OECD countries only, this might appear to be the only potential effect (hence the concerns about 'Fortress Europe' expressed on the occasion of successive enlargements of the EU). However, many RTAs increasingly go beyond the removal of tariff barriers to deeper forms of integration, including regulatory harmonisation. If access to the RTA is simplified because there is now only one set of technical standards, food safety regulations and certification requirements to be met rather than multiple (and different) requirements for individual markets, then third country exporters can also benefit. There may be further benefits if the RTA provides a boost to growth, thus

12. There is ambiguity because Article XXIV only requires the elimination of duties on substantially all trade between the parties, thus leaving scope for the maintenance of restrictions on particularly sensitive products, for example, in the agricultural sector.

increasing the overall size of the export market for third country suppliers. In the case of agricultural policy, however, regulatory harmonisation can mean the upward harmonisation of market management rules and price support levels, thus increasing the likelihood of trade diversion for agricultural trade. Whether the overall impact of an RTA is coherent with a poverty reduction strategy will depend on the income status of the insiders and outsiders and the structure of poverty in these respective countries.

The empirical evidence on the trade, welfare and developmental impacts of RTAs is thoroughly reviewed in Nielsen (2003). As might be expected, the results are specific to the agreements studied, the scenarios assumed and the methodologies employed. She concludes that the overall impact of preferential trade arrangements on trade and welfare is generally positive, but also relatively small. While all studies find that there is some trade diversion, this is generally outweighed by the trade creation generated by an RTA. For reciprocal agreements including developing countries, the loss of tariff revenue emerges as an important issue.

Not many studies specifically highlight the PCD question raised in this section, namely, whether the inclusion of agriculture in RTAs adds to the welfare gains of insiders and the costs to outsiders. Scollay and Gilbert (2001) compare the results of APEC preferential agricultural trade liberalisation with MFN liberalisation. The major food-exporting APEC economies (Australia, New Zealand, the US) are estimated to gain most under a preferential agreement, while food-importing countries are better off under an MFN liberalisation. Under the preferential arrangement, the importing countries bear the burden of trade diversion, which for China implies a welfare loss. Harrison *et al.* (2003) explicitly consider a scenario where the EU excludes agriculture from the EU-Mercosur agreement. The gains to Brazil would be reduced to just one-ninth of the value of the gains with full preferential access to the EU market. A similar analysis of the FTAA, in which they assume that the US continues to use anti-dumping to effectively exclude market access for Brazil to its most protected agricultural sectors, shows that this would reduce the gains to Brazil to two-thirds of the gains in the case of full market access. The effects on excluded countries, which are shown to lose from these RTAs, would need to be taken into account in a full assessment of their poverty impact.

While the immediate effect of an RTA may be to benefit insiders and damage outsiders, the longer-term effects may be less clearcut. Opening up unrestricted access for agricultural imports under a preferential trade arrangement can put pressure on domestic market support policies and lead to their reform. For example, trade barriers were an integral pillar of the US peanut programme to support American growers. The removal of trade restrictions under NAFTA encouraged out-

of-quota peanuts from Mexico to enter the US market as the US phased out its out-of-quota tariffs on agricultural commodities. The unravelling of the tight restrictions on imports led the US to reform its peanuts support policy (Beghin and Aksoy, 2003). Similar developments are taking place in sugar in the United States (again because of NAFTA) and rice and sugar in the EU (because of the Everything But Arms (EBA) scheme which, while not an RTA, gives rise to the same dynamics in this instance). These reforms may benefit outsiders at the same time as they reduce some of the rents which insiders may have expected.

Agricultural trade preferences as a development instrument

Non-reciprocal trade preferences, including preferential access through tariff rate quotas, are offered by many OECD countries to developing countries (Tangermann, 2001). A number of OECD countries deliberately use non-reciprocal preferential trade arrangements as a development policy by targeting those preferences on the least developed countries (LDCs). This is the rationale behind schemes such as the EU's Everything But Arms (EBA) and the US Africa Growth and Opportunity Act (AGOA) as well as the proposal in the WTO Doha Round that all developed countries and possibly some middle-income developing countries should agree to provide duty-free and quota-free access to all imports from the least developed countries, including agricultural and agri-food imports. Some argue that sufficiently generous preferential access arrangements for developing countries would provide these countries with the advantages of multilateral trade liberalisation as well as a margin of preference against non-preferential suppliers. The argument raises the question whether agricultural trade policy should be used as a development policy by trying to target preferences on those countries where the poverty impact is likely to be greatest?

Preferential access arrangements have their shortcomings. Preferred countries gain from the positive trade creation and terms of trade effects, but partly at the expense of non-preferred suppliers who may be other developed countries or other developing countries which may be equally deserving. They may encourage production in preference-receiving countries which is not compatible with their long-run comparative advantage. Their unilateral nature and, in some cases, uncertain duration reduces their value as an incentive for investors to increase production in the beneficiary country. Restrictive rules of origin and the exclusion of sensitive products also reduce their real value, as may the addition of eligibility criteria or social, political or environmental conditionalities. It is argued that these restrictive features often lead to underutilisation of preferences and help to explain their limited development impact to date.

A recent empirical study of the utilisation of EU and US preferences suggests that, at least in the case of agricultural and food products, preferences have been highly used (OECD, 2004c). While the utilisation rate for individual preference schemes may appear low, this is because exports may be eligible for preferential treatment under more than one scheme. Overall, a very high proportion of products targeted by preferences enter under preferential rules. The study recognises that this conclusion does not necessarily mean that preference schemes fulfil their objectives, and it notes that the import flows induced by preferences, particularly for LDCs, are very small. This may be because preference schemes exclude relevant agricultural and food products of interest to developing countries, but is more likely due to factors unrelated to preference schemes, such as the difficulties exporting countries have in meeting technical standards and quality requirements in importer markets.

To the extent that preferences are beneficial, proponents of trade liberalisation argue that they are a form of trade-tied aid and that there are more efficient ways of providing aid of equal value to these countries. This is particularly the case for quota-limited preferences where the trade creation effects are limited to the right to sell a defined quantity of agricultural exports in the market of the preference donor. Preferences also have important systemic effects in that they create a group of beneficiary countries which may have a vested interest in opposing further multilateral reform because of the way in which this would erode the value of the preferences they receive. Eligibility for preferences may also induce beneficiaries to become more protectionist in their own domestic policies (Özden and Reinhardt, 2003).

Despite these criticisms and risks of preference schemes, duty-free and quota-free access for agricultural products originating from LDCs is a goal in the agricultural negotiations of the Doha Development Agenda. This offer should be pursued, provided it is recognised that the purpose of providing these countries with a preferential advantage is a transitional measure and not a long-term support. LDCs are particularly vulnerable economies which need additional support in helping them to integrate into the world economy. However, from a coherence viewpoint, it should be recalled that agricultural preference schemes for LDCs fail to focus on those countries where rural poverty is most extensive. Certainly, rural poverty is higher in poor countries, with up to 82% of the rural population in LDCs classified as poor. However, as noted earlier, some 58%% of the world's poor live in lower middle-income developing countries; only 15% live in LDCs. Just four countries – India, Bangladesh, China and Indonesia – account for 75% of the rural poor (World Bank, 2003a). Preferential agricultural liberalisation, therefore, cannot be a substitute for multilateral liberalisation in bringing about greater policy coherence for development.

Agricultural trade preferences and preference erosion

A complicating factor in using trade preferences to assist development is their interaction with multilateral trade liberalisation. The value of trade preferences depends on the preferential margin, or the extent to which the terms of access awarded to beneficiaries improves on MFN access. Multilateral liberalisation reduces the value of the preferential margin, a phenomenon known as preference erosion. For example, one study estimated that the EU's EBA scheme would bring benefits of USD 300 million to the LDCs. However, once the EBA is in place, the implementation of multilateral reform along the lines proposed in the Harbinson draft modalities text in March 2003 (reduction of market access barriers by 50%, elimination of export subsidies and reduction of domestic support by 35%) would result in losses of USD 400 million (Yu, 2004). Preference erosion can also result from unilateral agricultural policy reform leading to a reduction in support prices, or from the conclusion of preferential agreements with competitor countries. This leads to an important question for PCD, whether developing countries that currently benefit from tariff preferences or other beneficial trade arrangements would be worse off in a liberalised trade regime and, if so, what should be done about this?

The main benefit of preferential access to a beneficiary lies in the economic rents which can be appropriated unless it induces strong export expansion effects.[13] Whether these rents are captured by the exporter or by the importer depends on their relative market power and, where preferential access is limited by quota, on the way the quotas are administered. Whether total export revenues are higher for preference beneficiaries compared to a situation of free trade without preferences depends on the proportion of exports that gain access to the preferential market; the level of economic rent received by the exporter; and the price-depressing effects of agricultural support in other export markets (Tangermann, 2001). It has been argued that losses from preference erosion may not be that significant and that there are relatively few countries which would be adversely affected (IMF, 2003). For beneficiaries which are less efficient global suppliers, high production costs eat up much of the potential benefit of economic rents arising from preferential access to high-price markets. Furthermore, rents can become capitalised into higher

13. Economic rents arise because of the difference between the price at which the exporting country would be prepared to supply and the preferential price it actually receives. If the beneficiary country's export supply curve is upward-sloping, then additional exporter surplus will also be gained. If the expansion of exports brings previously unemployed or underemployed resources into production, then the export surplus gain will be much larger.

production costs, so that preferential access may undermine the longer-run competitiveness of these suppliers on world markets. For the countries directly affected by preference erosion, however, these general arguments are of little comfort. Particularly where the beneficiaries are among the most vulnerable countries in the world, specific measures to address preference erosion must accompany either unilateral or multilateral trade reforms. Preference erosion is a sufficiently important issue for some developing countries that they have insisted that it should be addressed as part of the negotiations on the Doha Development Round.

Slowing the pace of multilateral liberalisation in order to maintain the value of preferences is not the right response. The simulations on which the EBA numbers above were calculated point out that the overall welfare cost to the rest of the world of keeping protection in place for the sake of a meaningful EBA would be hard to justify from a purely economic perspective – the world would have to forego gains of USD 15 billion, as compared to the benefits of USD 300 million to the LDCs from the EBA (Yu, 2004). The cost to the EU and the US of providing USD 1 of preferential access through their sugar policies is estimated to be more than USD 5 (Beghin and Aksoy, 2003). Other studies also show that preferences have a high cost in terms of the benefits transferred to recipients relative to their overall cost (Stoekel and Borrell, 2001).

Indeed, multilateral liberalisation may be one of the ways to reduce the impact of preference erosion by providing preference beneficiaries with new market access opportunities. Beghin and Aksoy (2003) report that world sugar price increases alone generated by multilateral liberalisation would offset about half of the lost quota rents for countries that have preferential access. Even in the case of unilateral agricultural policy reform, compensatory trade measures could compensate beneficiaries by providing new market access opportunities of similar value. Financial assistance to enable preferred suppliers to become more competitive in the context of more liberal trade arrangements is a further option and has been promised under the Cotonou Agreement to ACP banana producers. A final option is financial assistance for diversification to encourage alternative income-generating opportunities to replace those lost through preference erosion. In principle, the savings made from policy reform could fund additional targeted development assistance of this kind, although preference beneficiaries question whether such a linkage would actually materialise.

Tariff escalation

Over time there has been a gradual shift from primary to processed products in agri-food trade flows. Exports of processed agricultural products grew at 6% annually during the period 1981-2000 compared to 3.3% for primary products, raising their share in total agricultural trade from 60% in 1981-1990 to 66% in 1991-2000. At the same time, however, the share of developing countries in world exports of processed agricultural products decreased from 27% in 1981-1990 to 25% in 1991-2000 (Elamin and Khaira, 2003). Among the factors responsible for this declining share is tariff escalation in both developed and developing country markets. Tariff escalation refers to a situation where tariffs rise along processing chains. The practice affords significant protection to processed products in importing countries, and makes it more difficult for commodity exporters (primarily developing countries) to diversify into food processing. Adding value to locally-grown agricultural products is one of the keys to an agriculture-led industrialisation strategy. Tariff escalation can hinder this.

A number of studies have documented the existence of tariff escalation in post-Uruguay Round tariff structures for both developed and developing countries (OECD, 1996; UNCTAD, 2000; Elamin and Khaira, 2003). One conclusion from these studies is that, while tropical products generally face lower tariffs compared with basic food commodities, the tariff wedge between tariffs at their primary and processed stages tend to be higher than for basic food commodities. Fewer studies have attempted to measure the trade impact of tariff escalation for processed products, but they indicate that developing countries could gain significant benefits from liberalisation of processed products compared to primary products (UNCTAD, 2003a). However, most of these studies refer to the structure of bound tariffs. The problem of tariff escalation may be attenuated when applied tariffs are considered and when tariff preferences are taken into account (Elamin and Khaira, 2003). For preference-receiving countries, tariff escalation implies that preferences for food-processing activities are more valuable than for primary exports. This should encourage the development of value-added activities in the preference recipient. Taking account of the actual tariffs faced by developing countries, one study concluded that, while tariff escalation may act as a barrier against further processing in some cases, its relative importance should not be overestimated at the aggregate level (OECD, 1996). Nonetheless, proposals to reduce tariff escalation in the Doha Round negotiations should be supported from a policy coherence perspective.

Trade remedy measures

International trade law allows the use of three different types of trade remedy measures as a defence against imports causing injury to a domestic industry. These include countervailing duties (CVDs, aimed at offsetting the export subsidies of foreign governments), anti-dumping (AD) duties (designed to counter "unfair" pricing practices of private firms), and safeguard measures (designed to provide a temporary respite to countries experiencing a surge in imports causing or likely to cause serious injury to a domestic industry). While trade remedy measures have been mainly used by developed countries in the past, their use particularly by developing countries has greatly increased since the conclusion of the Uruguay Round. As tariff measures are disciplined, there are fears that countries may increasingly resort to trade remedy measures to block import access. As a result, specific agreements on subsidies, CVDs, safeguards and AD duties were included in the Uruguay Round Agreement. Unlike previous attempts to agree disciplines on the use of trade remedy measures in the GATT, these agreements are binding on all WTO Members.[14]

Trade remedies traditionally have been little used in agriculture, in part because of the range of other trade barriers restricting imports (Gifford and Josling, 2004). However, this may be changing. Anti-dumping measures in agricultural trade should be relatively rare as the main target of these measures –predatory pricing designed to drive out competitor firms and create a monopoly position – is highly unlikely, particularly for primary commodities, where entry into a market is easy and relatively inexpensive. On the other hand, agricultural products may be more vulnerable to antidumping investigations given the way a dumping margin is calculated as the difference between the export price and the 'normal' price, defined as the price for domestic consumption in the exporting country. The perishable nature of agricultural produce means that it may be rational for firms to sell at below full production cost as a loss-minimising strategy. Although traditionally used by OECD countries, the use of AD measures by developing countries has been growing and now accounts for about half of all anti-dumping actions (Regmi and Skully, 2002). The pattern of CVD use is changing in a similar way, with growing

14. WTO Members which are in the early stages of development and whose economy could only support low standards of living also have the possibility to introduce safeguards on development grounds (Article XVII and Decision L/4897 of 1979), but this has hardly ever been invoked for agricultural goods (see WT/COMTD/39/Add.1).

use by developing countries virtually all related to imports of high-value agricultural products.

The general safeguards measure in the WTO allows countries to impose temporary import restrictions if a surge of imports causes or threatens to cause serious injury to a domestic industry. Unlike the other trade remedy measures which apply only to particular countries, safeguards must apply to all suppliers. About half of all safeguard investigations notified to the WTO since 1995 have covered agricultural products, primarily high-value products such as meat, milk powder, edible oils, peaches and tomatoes (Regmi and Skully, 2002). In addition, the Agriculture Agreement has a special safeguards provision for agricultural products. This differs from normal safeguards in that it is not necessary to demonstrate that serious injury is being caused to the domestic industry. The special agricultural safeguard can only be used on products that were tariffied — which amount to less than 20% of all agricultural products (as defined by tariff lines), and then only if the Member reserved the right to do so in its schedule of commitments on agriculture. Because few developing countries used the option of tariffication, it is mainly OECD countries which have the right to use the special safeguard. In practice, the special agricultural safeguard has been used relatively infrequently. Price-based actions cover around 4% of eligible tariff lines, while volume-based actions are taken on around 2% of eligible tariff lines annually (WTO TN/AG/S/12).

There are two questions raised by trade remedies from a policy coherence perspective. The first is whether the use of trade remedies by developed countries for agricultural products is abused or discriminates unfairly against developing countries and, if so, what might be done about this. In the US, for example, while Canada has been the largest target of AD and CVD cases, most other cases have been filed against developing countries (Carter, 2002). This evidence, on its own, does not necessarily show discriminatory treatment, but the relative ease with which producer groups can initiate AD actions in many OECD countries convinces many developing countries that they can be abused for protectionist purposes. Even where cases have a *prima* facie justification, the cost of defending their position may simply be too high for many developing countries. Gifford and Josling (2004) discuss how the trade remedy system might be modified to make it less vulnerable to abuse. They compare the option of reforming the general trade remedy system with developing agriculture-specific solutions and recommend steps to limit abuse such as eliminating provisional duties where constructed costs of production are used to determine dumping.

A second issue is whether the trade remedies available are appropriately designed for, and accessible by, developing countries. This issue has been raised

particularly in the light of food security concerns with respect to protection against particularly volatile world prices or subsidised import competition. The use of the general safeguard measure is cumbersome and requires proof of serious injury. Not all countries have safeguards legislation, and general safeguards have been invoked by relatively few countries, 17 in all, between 1995 and 2001 (Regmi and Skully, 2002). Few developing countries have reserved the right to make use of the special agricultural safeguard either. In the August 2004 Framework Agreement on the modalities for the agricultural negotiations in the Doha Round, it was agreed that developing countries should have access to a special safeguard measure although there were no details as to its scope or operation. Resort to countervailing duty measures by developing countries could also be eased when facing developed country subsidies. Under the Peace Clause of the Agriculture Agreement (Article 13) which was in force until 31 December 2003, WTO Members agreed to exercise restraint in making use of their rights to countervail or challenge domestic and export subsidies. Now that this provision has lapsed, developing countries can make use of their rights to challenge the use of such subsidies in the WTO dispute settlement mechanism. The outcome of the US-Cotton and EC-Sugar panels following complaints by Brazil, in particular, represent an important clarification of the legal position

Recognition of development concerns in international trade rules

An important area for policy coherence in OECD countries' agricultural trade policy is the attitude taken to developing country interests in designing the rules of the international trading system. Two areas are highlighted for discussion here: special and differential treatment with respect to trade in agricultural products, and the regulation of international commodity markets.

Special and differential treatment (SDT) has been a GATT principle since the 1960s. It is embodied in the URAA in various ways. The Preamble to the URAA commits developed country WTO Members to provide for greater improvement in market access for agricultural products of particular interest to developing countries. The beneficiaries of increased market access are likely to be middle-income developing countries with existing supply capacity. The concerns of import-competing sectors in developing countries are very different and have also been recognised in the URAA. Developing countries were required to make lower reduction commitments in the main areas of market access and disciplines on domestic and export subsidies and the least developed countries were not required to make any reduction commitments. They have greater flexibility to pursue domestic policy objectives through exemptions from rules and disciplines that would otherwise apply, they have longer implementation periods to meet the obligations

they are required to undertake, and technical assistance may be made available to help them to meet these obligations. The *Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries* was taken to safeguard the interests of these particular groups of countries during the reform process. This Decision contains many exhortatory and 'best endeavour' commitments although no real action has flowed from it during the implementation period of the URAA to date.

Despite this apparent asymmetric and more favourable treatment in the Uruguay Round, developing countries argue that WTO rule changes are necessary to give them the flexibility to implement policies to address their food security, rural development and poverty alleviation concerns. The huge imbalance in the amount of both Green Box and trade-distorting support provided to farmers as between developed and developing countries, despite the URAA, leaves many developing countries fearful that further liberalisation of their agricultural policies will leave their farmers exposed to unfair competition. Some countries fear that lowering the protection provided to their own farmers would result in a fall in agricultural incomes which would further exacerbate the problem of rural poverty. There is a general concern that poor farmers in developing countries are much less capable of dealing with the consequences of world market price volatility and deserve some protection against this volatility. Some countries which believe that food self-sufficiency is an important element in their food security strategy and which have bound their tariffs on food staples at relatively low levels are concerned at the possible consequences of further reductions for their food security. Other countries are concerned that their ability to pursue growth-promoting agricultural policies may be limited because they will come up against the low ceiling limits for domestic support. The exemptions and rule changes sought by developing countries to address their concerns have become known as the Development Box in the Doha Development Round negotiations to revise the Agreement on Agriculture. A summary of the main ideas which have been proposed for the Development Box is shown in Box 1.

Box 1. Potential provisions in a development box

General

Exempt certain developing country products from AoA commitments, using either a negative or positive list approach.[1]

Market access

Link developing country tariff reductions to reductions in trade-distorting support to agriculture in developed countries.
Exempt basic food security crops from tariff reductions or other commitments.
Permit (upward) renegotiation of developing country tariff bindings that apply to food security crops where those bindings are low.
Provide developing countries with access to special safeguards providing automatic increases in tariffs, with a provision to impose quantitative restrictions under specified circumstances in the event of a rapid increase in imports or decline in prices.
Exempt developing countries from any obligation to provide any minimum market access.

Domestic support

Double de minimis support ceilings for product-specific and non-product-specific support in developing countries to 20% each.
Expand Article 6.2 exemptions for developing countries, for example, by allowing subsidised credit and other capacity building measures as exemptions when provided to low income or resource poor farmers.
Allow developing countries to offset negative product-specific support (*i.e.* where farmers are taxed) against positive non-product-specific support (*i.e.* where farmers are supported).
Permit measures to increase domestic production of staple crops in developing countries for domestic consumption.

Export measures

Continue the exemption for developing countries to provide export subsidies in certain circumstances, including those that reduce the costs of marketing and those that reduce charges for export shipments.

1. Under the positive list approach, all products would be exempt except those listed by developing country members. This approach is used in negotiations on industrial tariffs and services. Countries volunteer to include only those products in the Agreement they feel ready for. Under the negative list approach, products would have to be nominated by developing country members to be exempt from AoA commitments (it is envisaged that these would be products important from a food security perspective). In other words, all products are included unless a country explicitly decides to exclude it.

The Doha Declaration launching the Doha Development Round of multilateral trade negotiations reaffirmed that "special and differential treatment for developing countries shall be an integral part of all elements of the negotiations on agriculture". SDT proposals feature in the negotiating proposals of OECD country Members and in the framework drafts of the modalities which have been prepared to date. Nonetheless, SDT elements remain a contentious part of the Doha Round

negotiations, and not only as an OECD country – developing country issue. A number of developing countries have expressed concerns that some SDT proposals would harm trade between developing countries, which should be encouraged instead. Broadly, the discussion revolves around two main questions (see WTO, 2004).

- **Special rules versus flexibility in implementing common rules.** Should developing countries be allowed special protection and support (for example, exempting certain products from all commitments) to address their particular situations, or should all countries be expected to participate in market liberalisation, even if the terms are more relaxed? Some countries oppose the idea of different sets of rules for developed and developing countries because of their potential for trade distortion. Other countries oppose the idea of allowing developing countries to protect themselves against trade from other developing countries. Negotiating history suggests that this dichotomy is more apparent than real – there are many examples where rules have been written to accommodate the interests of particular groups of WTO Members.

- **Should all developing countries be treated equally?** Should the agricultural deal accept that there are distinctly different subcategories within the developing country category? The GATT Enabling Clause adopted in 1979 which enables developed country members to give differential and more favourable treatment to developing countries does allow additional special treatment for least developed countries, but otherwise is generally interpreted as requiring all developing countries to be treated equally. Some developing country groups with special needs, such as single commodity exporters and small island developing states, have been highlighted. Given that the Development Box proposals are intended to address concerns about food insecurity, some have called for a new grouping of food-insecure countries which might benefit from additional flexibilities. The US-EU framework draft in August 2003 defined a new category of significant net food exporters and stated that SDT for these countries should be adjusted. Other countries oppose the idea of reopening the enabling clause and stress that SDT should be available equally to all developing countries. However, some negotiating proposals suggest that some middle-income developing countries might also be asked to extend preferential access to the agricultural and other exports of the least developed countries. Whatever categories might be agreed for countries eligible for special treatment, there remains the vexed question whether there should be rules to graduate countries out of these

categories as their circumstances improve, as well as the nature of any transition arrangements that might be agreed.[15]

The policy coherence perspective requires OECD countries to evaluate these proposals in the light of their impact on the Millennium Development Goal targets for poverty and hunger alleviation. OECD countries accept that the successful integration of developing countries into the global economy is a necessary condition if these goals are to be achieved (the evidence is reviewed in OECD, 2001b). However, without agreeing rules which would encourage developing countries to opt out of integration, there is scope to address some legitimate concerns that developing countries have that agricultural trade rules should reflect their particular needs. Research and analysis are clearly important in helping to define SDT rules which contribute to the MDG goals in individual countries without making their achievement in other developing countries more difficult.

International commodity market interventions are another area where policy coherence issues arise. Price volatility and the secular decline in real commodity prices with its attendant terms of trade losses have resulted in heavy costs in terms of incomes, indebtedness, investment, poverty and development. Between 1997 and 2001, the UNCTAD combined price index of all commodities in US dollars fell by 53% in real terms. That is, commodities lost more than half of their purchasing power in terms of manufactured goods (UNCTAD, 2003b). The view that the greater part of the deterioration in the commodity terms of trade is due to market forces and therefore something to which developing country exporters must adjust, in contrast to the deterioration due to OECD country protection which is policy-induced, can be challenged. The role that market access barriers play, including tariff peaks and tariff escalation, as well as domestic subsidies in OECD countries, has already been discussed. But the increasing disconnection between the prices paid by final consumers and those received by producers may reflect the growing market power of intermediaries in the marketing chain and emphasises the importance of competition rules to discipline the abuse of this market power. The salience of commodity market problems is increased by the dependence of many developing countries on a narrow range of commodity exports, leaving them very vulnerable to adverse trends in commodity markets.

Perceived difficulties in international commodity markets are not new, and international efforts to address these go back at least to the negotiations leading to

15. See, for example, the submission by Maldives on the treatment of graduating LDCs, WT/COMTD/W/128 of 21 April 2004.

the 1948 agreement on the Havana Charter (UNCTAD, 2003b). Various attempts were made to establish commodity price stabilisation agreements during the 1960s and 1970s, but none of these proved sustainable on a longer-term basis. The use of compensatory financing mechanisms, designed to compensate for shortfalls and short-term price shocks, has not proved more successful. More recently, more attention has been paid to market-based mechanisms, such as forward, futures and option contracts as well as swaps, to address price volatility and market-based risks.

Many of the responses to these commodity problems require actions at local and national levels, to improve quality and competitiveness or to diversify production, but these need to be complemented by supportive measures at the regional and international levels. Tackling the significant market concentration in commodity chains, promoting corporate social responsibility including through the use of codes of conduct, helping to develop new market opportunities, promoting diversification, helping to raise quality and encouraging increased value-added processing are among the areas where OECD interventions could help to promote the MDG goals in these sectors.

CHAPTER 4. POLICY COHERENCE BETWEEN OECD COUNTRY REGULATORY POLICIES AND DEVELOPMENT OBJECTIVES

Regulatory barriers

Regulatory measures (non-tariff measures or NTMs) with the potential to affect agricultural trade cover a wide range of measures. While policy reform has contributed to a gradual deregulation of the agricultural sector in some countries, the desire to address growing consumer concerns about food safety, animal welfare, food quality and protection of the environment has led to increased regulation in other areas. The treatment of these non-trade concerns is an important issue in the Doha Development Round. Only some of these measures are explicitly trade-related, such as the prohibition of meat imports from countries where animal disease is rife. But all regulatory measures are likely to have trade effects – they may reduce export opportunities relative to what they otherwise would have been, divert trade to those suppliers which have the fewest difficulties in meeting compliance requirements or, more positively, create market opportunities for countries in the best position to meet the new market demands.

The sharp rise in the recorded use of NTMs since the conclusion of the Uruguay Round Agreement in 1994 has prompted concerns that tighter restrictions on the use of conventional trade instruments may stimulate the greater use of NTMs for purposes of agricultural trade protection (OECD, 2001a). This OECD study distinguishes between NTMs defined as any policy measures that have the effect of limiting trade, without implying any judgement about the legitimacy or otherwise of these measures (an economic definition), and non-tariff barriers (NTBs), defined as those NTMs which are in violation of WTO law (a legal definition). Political economy considerations suggest that we would expect that special interest groups would try to influence safety or environmental standards in their favour. WTO law sets out to distinguish between a country's use of NTMs in the pursuit of legitimate domestic objectives on the one hand, and the adoption of unwarranted trade protection on the other.

The incidence of NTMs has become more transparent following the Uruguay Round Agreement. Under the SPS and TBT Agreements WTO Members are required to notify all new technical measures that fall under the scope of these

Agreements. Notifications have grown steadily over time. Although high-income countries have consistently notified the largest number of new technical measures, there are some developing countries where the number of NTMs applied to food, drink and tobacco products is as high as in many OECD countries (OECD, 2001a). However, there is much less information on the magnitude and importance of these measures, and thus on their trade effects. Nevertheless, exporter surveys suggest that SPS requirements and other technical barriers in the food and agricultural sector are as significant a barrier to trade as tariffs (OECD, 2001a).

The PCD question is whether the pursuit of legitimate domestic regulatory objectives in OECD countries makes the alleviation of poverty in developing countries more difficult. If this is the case, then a second question is whether there are alternative instruments available to achieve these objectives which might be less damaging, or whether there is a case for accompanying measures to assist developing countries to deal with and overcome the damaging effects, or whether it would make sense to extend a differential regime to developing countries. A further question is whether the measures in place to minimise or prevent the abuse of these measures for protectionist purposes are sufficient. These questions are now discussed with respect to four specific areas: food safety, environmental protection, consumer protection and the protection of intellectual property.

Sanitary and phytosanitary measures and product standards

As agricultural trade has shifted towards high-value, perishable commodities such as fresh fruits, vegetables, meats and fish, consumer concerns about food safety have grown. Governments as well as major supermarket groups have developed a growing array of regulations and standards in response. Food standards are a necessary part of international trade. No one will want to argue that developing countries should be allowed to export unsafe food simply because of their development needs. Nonetheless, SPS regulations are likely to bear heaviest on developing countries, both because the 'regulatory gap' between measures in place in export and domestic markets is likely to be greatest for these countries, and because of the more limited availability of compliance resources at the country and firm level.

The growing importance of SPS regulations raises a number of concerns for policy coherence. There is accumulating case study evidence where SPS barriers appear to have been disproportionate to the health threat implied. This applies not just to the standards themselves, but to the rules on testing, inspection and quarantine. A range of technical measures is open to countries to address their food safety concerns, and it can be difficult to establish whether a given degree of safety

is provided with the minimum disruption to trade. WTO case law, including complaints brought by developing countries against developed countries, is gradually clarifying the principles at stake. Sometimes, however, the level of trade, particularly for a developing country, does not warrant the expense of bringing a case to the dispute settlement procedure in the WTO. OECD countries should consciously investigate alternative ways of achieving their desired levels of food safety in order to operationalise the injunction in the SPS Agreement that Members shall take account of the special needs of developing country Members, and in particular of the LDCs, in preparing and applying SPS measures.

The SPS and TBT Agreements contain provisions, such as the obligation to establish enquiry points and notification points, designed to increase the transparency of technical measures. Developing countries complain, however, that the length of time given between the notification of new measures and their application is insufficient to allow them to respond effectively. Both the SPS and TBT Agreements encourage WTO Members to use international standards for their national regulations. The incentive to do so is that countries which base their regulations on international standards are deemed to have met the appropriate standard for scientific evidence and risk assessment and are thus unlikely to face a legal challenge. Members are encouraged to participate in the work of international standard-setting bodies. But many low- and middle-income countries have neither the resources nor the technical expertise to participate effectively in international standard-setting bodies and thus their concerns do not get heard. While some of the larger developing countries have been active in both the relevant WTO Committees and other international organisations, this is not the case for many low-income and least developed countries.

Developing countries have difficulties in complying even with legitimate standards in export markets. Key elements for compliance include information on the technical requirements, the capital resources necessary to make the necessary investments in processing facilities to meet these standards, and the requisite technical and scientific expertise (and associated infrastructure) necessary to be able to certify conformity with required standards. Even then, high-income countries may be reluctant to accept measures in low-income and middle-income countries as equivalent. A Standards and Trade Development Facility was established in 2002 to facilitate collaboration in raising the capacity of developing countries to meet SPS standards.[16]

16. See www.standardsfacility.org.

Environmental standards

Farmers in OECD countries face increasing environmental regulation which increases their costs of production. If the environmental costs of producing food are higher in OECD countries and governments require producers to internalise these costs, then higher environmental standards could displace domestic production to the benefit of third country exporters, including developing countries. Farmers, however, may react to more stringent environmental regulations which increase domestic costs of production by arguing that competing foreign exporters should face similar constraints. Also, environmental groups may seek to apply trade restrictions on products considered detrimental to the environment or whose production process in the country of origin is considered environmentally unfriendly. Developing countries fear, therefore, that higher environmental standards could lead to additional non-tariff barriers to trade. From a PCD perspective, does the adoption of environmental standards constitute a further market access barrier to the exports of developing countries, or create market access opportunities for developing countries?

As in the case of food safety and animal and plant health standards, WTO rules permit countries to choose their own desired levels of environmental protection, subject to certain conditions. Environmental measures must not be used to discriminate between members and should not be used as disguised trade barriers. WTO rules allow Members to regulate trade on the basis of product characteristics but prohibit discrimination among the 'like products' of Members. This is to prevent a Member from using trade measures to enforce its own environmental preferences on others. However, with the growing importance of 'eco-labelling' (reflecting environmental effects associated with production, consumption and disposal of products), there is the possibility that labelling and packaging standards may incorporate unrelated 'production and process method' requirements and could function as discriminatory trade measures. Developing countries fear that environmental standards in export markets may discriminate against them in practice if their compliance costs are higher. Harmonisation of rules and standards has been raised as one means of addressing perceived impediments to competition, but harmonisation may be undesirable where there are no transboundary environmental effects and where the absorptive capacities of the environment differ. OECD countries' practices in these areas need to be evaluated from a policy coherence perspective to ensure that unnecessary difficulties are not being placed in the way of developing country agricultural exports.

Governments which eschew trade measures may still distort trade by providing environmental subsidies. The Green Box in the URAA expressly allows Members to

pay farmers located in disadvantaged regions to compensate them for the extra costs or loss of income involved in agricultural production in those areas, as well as to compensate farmers participating in environmental programmes for the extra costs or loss of income due to their programme participation. These provisions allow WTO Members to make payments to farmers to offset the costs of providing important public goods, provided that the payments meet the requirement that they have no, or at most minimal, trade-distorting effects or effects on production. Some WTO Members would like to extend Green Box protection also to animal welfare payments. If farmers are compensated for simply adopting less environmentally-damaging farming practices, however, this would run counter to the OECD-sponsored polluter-pays principle. The distinction between what is the avoidance of a negative externality and what is the provision of a public good is the outcome of a political process about the distribution of property rights in each country. When making the choice in specific cases, the policy coherence perspective implies choosing the trade-off which minimises the adverse trade implications for developing countries.

Consumer protection

Consumer concerns go well beyond basic food safety. An OECD report used the term 'food quality' to refer to all the attributes of food included in a consumer's utility function (OECD, 1999). Quality refers not only to safety-related and nutritional aspects. It covers other product-related characteristics such as integrity and authenticity, as well as ethical factors affecting a consumer's preference for a product derived from the way it has been produced. These include whether goods have been produced in an environmentally harmful way, have taken animal welfare concerns into account, or have used particular technologies such as genetic engineering or irradiation. Governments increasingly regulate to address these consumer concerns. Difficulties arise when consumer preferences differ widely across countries, whether because of differences in income, in tastes, in willingness to pay for quality or acceptable levels of risk. This is because either producers in the non-regulated market object when the government of the regulated market restricts imports of products that do not meet the domestic regulation (*e.g.* hormones, GMOs, labelling), or because producers in the regulated market object to the higher costs they face in competition with producers from non-regulated markets (*e.g.* animal welfare regulations, environmental protection measures).

The PCD perspective follows directly from these two dilemmas. If countries introduce greater regulation of agri-food markets in response to consumer concerns, will this make the alleviation of poverty in developing countries more difficult? If the answer to either question is yes, is it possible to design interventions which meet

the domestic objective without damaging the interests of that country's trading partners?

The controversy over GM foods aptly illustrates these dilemmas. While farmers in North America and in a few large developing countries are rapidly adopting GM crop varieties, in other parts of the world consumers are worried about the environmental impact of cultivating GM crops and the safety of foods containing GMOs. If a country decides to ban the import of foods containing GMOs, the short-term effect would help developing country exporters which chose not to adopt GMOs, though at the expense of those developing countries which were already growing such crops. But the longer-term impacts could be quite damaging if, as a result, developing countries felt unable to take advantage of potentially more productive technologies which could raise yields or improve the nutritional quality of foods. Some countries require that GM seeds or foods must undergo an approval process and when marketed must meet mandatory labelling and identity preservation requirements. These rules are leading to the emergence of separate production systems for GM and non-GM crops. Developing country exporters will be faced with the choice between adopting modern biotechnology in agriculture or maintaining the possibility of a GM-free food export to importers with restrictive policies. Alternatively, if they were in a position to differentiate and label GM foods and non-GM foods, this would allow them to capture the benefits from modern biotechnology and agriculture for domestic consumption while maintaining an export market for GM-free foods.

Intellectual property protection of plant varieties and geographical indications

The vast potential for new agricultural technologies to contribute to agricultural development in developing countries means that international IPR rules for agricultural products are likely to have particularly important effects in these countries (OECD, 2001a). In the Uruguay Round, developed countries pushed hard for an agreement to reinforce the protection of knowledge in an increasingly global marketplace. The outcome was the TRIPS Agreement which specifies minimum standards of protection for a range of IPRs covering different kinds of knowledge. The Agreement also defines detailed provisions for their enforcement, together with a multilateral mechanism to address disputes relating to IPRs. This latter was welcomed by developing countries as affording them protection against unilateral action by high-income countries in the area of IPRs. The key article relevant to agriculture is Article 27.3(b) which covers the patentability of naturally-occurring substances, plants and animals. Countries may exclude from patentability plants and animals and essentially biological processes for producing them, but not micro

organisms. But they are required to apply some form of protection to plant varieties, either by patents or a *sui generis* system.

IPR is another example of a regulatory objective which can have significant trade effects. Current IPR rules can affect the supply of new technologies to developing country farmers in a variety of ways. The availability of IPR protection for plant varieties has encouraged greater private investment in plant breeding research. Market forces dictate that this research effort is directed to areas with the greatest potential return, and thus the breeding strategies of private firms naturally have been oriented to the needs of developed country markets and the commercial sectors of middle-income developing countries. For example, Bt cotton and Bt maize are now grown in a number of developing countries. Some companies have donated technologies of relevance to developing countries (for example, through royalty-free licences) including those related to vitamin A enhanced rice (golden rice) and cassava (CIPR, 2002). However, when even the Green Revolution which was developed with public sector funding failed to reach those poorer farmers living in more marginal rainfed environments, biotechnology-related research led by the private sector will be even less likely to do so. For that, more public sector research specifically oriented to such farmers will be required (CIPR, 2002).

Possible restrictions on access as a result of the requirement to extend IPR protection to plant varieties trouble many critics of the TRIPS Agreement. A key aspect of this is balancing the interests of the right-holder and those of farmers and breeders. Patent protection, in particular, carries the dangers that the right of farmers to re-use patented seeds is removed and that it restricts the ability of breeders to use a protected variety as the basis for breeding another variety. There is also evidence that it has encouraged the consolidation of the seed breeding industry, raising potential concerns about the extent of competition in the market for seeds from a farmer's perspective. However, the TRIPS Agreement does not mandate patents for plants and animals but only requires Members to apply some form of protection for plant varieties, including through a *sui generis* system such as plant breeders' rights. Under such systems, countries can make appropriate provision for exemptions for farmers and breeders as they see fit. Nonetheless, there is concern that increased protection may mean that farmers must pay higher prices and royalties as a result.

The relationship between IPR rules and the principles of access and benefit sharing set out in the Convention on Biological Diversity is also a PCD issue. The concerns include equity (the custodians of traditional knowledge should receive fair compensation if the traditional knowledge leads to commercial gain), conservation (insofar as the protection of traditional genetic resources contributes to conserving the environment, bio-diversity and sustainable agricultural practices) and the

prevention of 'biopiracy' (the appropriation of the knowledge and genetic resources of farming communities by individuals or institutions seeking exclusive control over these resources through patents or plant breeders' rights). The new International Treaty on Plant Genetic Resources for Food and Agriculture seeks to establish principles for facilitating access to plant genetic resources and creating fair and equitable mechanisms for benefit sharing.

Geographical indications (GIs) are indications that identify goods as originating in a particular country, or region within a country, where part of the quality, reputation or value of the good is attributable to its geographical origin. The TRIPS Agreement currently provides two levels for the protection for GIs –a higher level of protection for wines and spirits (Article 23) and a lower one for all other products (Article 22). The main difference between these two levels of protection is that, in order to prevent the incorrect use of a GI under the ordinary protection, the party that considers itself wronged must furnish proof that the wrongful use of the GI is misleading for the public or constitutes unfair competition. This burden of proof criterion does not exist for wines and spirits. A number of WTO Members argue for the wider protection of GIs, on the grounds that use by unauthorised parties is detrimental to both consumers and legitimate producers. Consumers may be misled into thinking they are buying a product with particular characteristics, quality or reputation when they are not, while legitimate producers may find that they face unfair competition and that the characteristics which give value to the product may be compromised, thus discouraging further investment.

Whether extending the protection currently provided to GIs would facilitate poverty alleviation in developing countries is disputed. There are developing countries on both sides of the debate in the current Doha Round. On the one hand, developing countries with rich and varied food cultures based on traditional knowledge would be able to protect these products and may be able to benefit from increased opportunities to access lucrative niche markets, particularly in developed countries. On the other hand, GIs are seen as differentiating rich country products, thus effectively reducing the demand for more standard substitute products from other countries (Anderson, 2004). Increased protection could also adversely affect local enterprises which currently exploit GIs that may be protected by another party. Opponents fear that there would be implementation and cost issues with respect to enforcement, processing notifications and dispute settlement. Furthermore, for most developing country products the trade value of enhanced GI protection remains theoretical rather than quantified. In the light of these controversies, there is a need for further studies to evaluate the economic impact on developing countries of extending protection for GIs. Such studies should examine the actual or likely costs

of implementing GI provisions under TRIPS and the likely role which GIs could play in promoting viable export opportunities for these countries.

Running through these debates are concerns about the extent to which the TRIPS Agreement takes into account the needs of developing countries. Key areas of controversy include the protection of plant genetic resources – in particular, the use of patents versus *sui* generic systems, the extent to which the Agreement protects traditional knowledge and bio-diversity, and geographical indications. The costs of compliance with the Agreement and the scale of the changes necessary to prevailing systems of IPR protection have also been highlighted. While the Agreement acknowledges the scale of the changes required by mandating transition periods of various length, many developing countries have struggled to adapt their national legislation to fully implement the Agreement. This is despite a significant amount of technical assistance from the donor community.

CHAPTER 5. POLICY COHERENCE BETWEEN OECD COUNTRY DEVELOPMENT ASSISTANCE POLICIES AND AGRICULTURAL TRADE AND DEVELOPMENT

The justification for supporting agricultural development in developing countries as a key element of the global strategy to alleviate poverty and hunger has been discussed earlier in this paper. Much of the impetus behind the call to reduce trade-distorting agricultural support in OECD countries is because of the pro-poor effect this will have in stimulating agricultural development in developing countries. But it is increasingly recognised that more open markets, on their own, are not the whole answer. There is a need to help developing countries, and particularly the least developed among them, to take advantage of new market opportunities. The earlier discussion also emphasised that there are winners and losers in any policy reform, both between and within countries. Because the losers from OECD agricultural policy reform may be found among the most vulnerable countries and communities, there is a particularly strong case for accompanying reform by targeted safety net and compensation measures. This means that policy coherence is also a relevant concept when discussing the development assistance programmes of the OECD countries. Are the development assistance efforts of OECD member countries as effective as they might be in promoting agricultural development and in enabling developing countries to take advantage of trade liberalisation?

Trends in overall aid

Recent years have seen a turning point in the evolution of official development assistance (ODA) to developing countries (OECD, 2004b). Aid flows maintained a steady level during the 1980s, but fell sharply after the end of the Cold War and superpower rivalry in the Third World. By the late 1990s, aid flows were at an all-time low of 0.22% of donor's combined national income. However, aid effort has increased since 2001. At Monterrey in March 2002, donors committed themselves to what would be the largest ever multi-year percentage increase in aid in real terms. If these commitments are realised, ODA would rise from the level of around USD 55 billion in the late 1990s to around USD 75 billion (at 2002 prices and exchange rates) by 2006. As a proportion of donor GNI, this would be an increase to about 0.29% from the low of 0.22% in 2001, but still well below the comparable levels of the early 1990s (OECD, 2004b).

This is a substantial increase, but it will fall short of the USD 50 billion extra suggested by the 2001 Report of the High-Level Panel on Financing for Development (the Zedillo Report) as needed to meet the identified needs of the poorest countries to set them on the path to achieving the Millennium Development Goals. The Report recognised that this was an indicative figure, and that a more accurate figure would need to be built up from individual country estimates. More recently, the UN Millennium Project Report "Investing for Development" (the Sachs Report) has calculated the level of ODA required to achieve the MDGs based on preliminary MDG needs assessments that it carried out in Bangladesh, Cambodia, Ghana, Tanzania, and Uganda (UN Millennium Project, 2004). The report highlights, first, that only a small share of today's global ODA - an estimated USD 16 billion of the USD 65 billion in 2002 (in 2003 dollars) - supports direct MDG investment needs at the country level. It estimates that ODA for direct MDG support will need to rise to USD 73 billion in 2006 and USD 135 billion in 2015 if all countries are to meet the Goals. As not all ODA will be, nor should be, directed towards the MDGs, by 2006 global official development assistance would need to reach USD 135 billion. It calculates that total ODA volumes need to rise to 0.54% of rich country GNI in 2015, up from 0.23% in 2002 and 0.25% in 2003. The report estimates that, based on the Monterrey commitments, ODA in 2006 would reach approximately USD 88 billion. These figures underline the overall need for donor countries to redouble their efforts to implement the target of providing ODA equal to 0.7% of their GNI.

Trends in agricultural aid

The long-standing goal of raising ODA to 0.7% of industrial country GNI is an important element of the strategy to reduce global poverty and to meet the Millennium Development Goals by 2015. But equally important is how donors choose to allocate these funds, and in particular, the priority which is given to assistance to agriculture. There are definitional problems in estimating the share of assistance which goes to agriculture and rural areas. However, the evidence suggests that this has been steadily falling over the past two decades. Overall DAC bilateral aid to agriculture has fallen from 12% of total bilateral aid in 1980-81 to 6% of the total in 2000-2001. For individual donors, the fall is even more striking. For Canada, the fall was from 22 to 4%; for New Zealand, from 25 to 3%; for the Netherlands, from 21 to 3% and for the United States from 18 to 4% (OECD, 2004b). The multilateral institutions have also reduced aid flows to agriculture, from 35% of their total flows in 1980-81 to 7% in 2000-01.

Table 4. Aid to agriculture by donor and share in total aid; commitments, 1980-2001

	1980-81	1985-86	1990-91	1995-96	2000-01	2000-01
	% of donor total					USD million
Total DAC	12	12	7	8	6	2 569
Total multilateral	35	30	25	16	10	1 541
Total	16	16	10	10	7	4 110

Source: OECD (2004b).

The reasons for agricultural aid fatigue are to be found on both the supply and the demand side (FAO, 2001, DFID, 2004). On the supply side, donors and lending agencies have been put off by the high failure rate of agricultural projects, as well as the inherent complexity and risk and the high transactions costs (preparation, supervision and monitoring) involved in agricultural and rural development projects. The number of technically competent staff in agriculture employed by donor agencies has shrunk, making it even more difficult to design successful projects to claw back some of the share which was lost. In some cases, projects performed poorly because of unfavourable domestic policies which discriminated against the agricultural sector. The increased profile of the poverty alleviation objective also led many donors to give priority to social spending in the areas of health and education. The initial Poverty Reduction Strategy Papers were strongly oriented towards social services, health and education, while the growth in programme lending and in other areas such as debt forgiveness also squeezed the resources available for the directly productive sectors. Some donors may have been influenced by the attitudes of domestic farm lobbies who opposed assistance which was perceived as increasing the supply capacity of potential markets. This is despite the evidence that agricultural assistance can lead to a rise in exports from donor countries as broadly-based growth in low-income countries results in demand growth for food which exceeds the capacity of the local agricultural sector to supply (Pinstrup-Andersen and Cohen, 1998).

There have been various calls to increase the priority given to agriculture in aid budgets, including at the Financing for Development meeting in 2002, the Johannesburg World Summit on Sustainable Development in 2002 and the G8 meeting in Evian in 2003. This will only be possible if developing countries, too, increase their investment in agriculture. Here, there are hopeful signs, for example, as witnessed by the resolution by the African Union that member countries should increase their agricultural budgets to at least 10% of the government budget,

compared to less than 5% currently. The pervasive importance of global public goods for the livelihoods of poor people is a further argument. These include the generation of technologies for the sustainable management of land and water, forest and marine resources; the control of trans-boundary animal and crop pests and diseases; the conservation of agro-biodiversity; ensuring food safety; carbon sequestration; and the rehabilitation of degraded lands. Another argument for re-evaluating the priority given to agricultural assistance is the link with trade policy reform discussed in the following section.

Trade-related assistance

Whether market access is provided through ongoing multilateral liberalisation or through preferential trade arrangements, many developing countries continue to have difficulty in taking advantage of these opportunities, not because markets are closed but because of supply constraints at home. The latter can broadly be divided into policy-induced constraints resulting from trade and macroeconomic policies that have biased the structure of incentives against agriculture and exports, and structural constraints, which are particularly prevalent in Sub-Saharan Africa. Typical structural constraints are a high dependence on a limited number of export commodities; weak technological capacities; inadequate legal and regulatory institutional frameworks; limited access of farmers to credit; and inadequate transport, storage and marketing infrastructure.

To take advantage of OECD country agricultural policy changes and the resulting improvements in market access requires that the structural impediments to raising the productivity of domestic firms and improving their international competitiveness are addressed. Inadequate export related infrastructure and bottlenecks can significantly undermine a country's export potential. Hence the importance of a range of flanking elements such as human capital development, reliability of transport and communication infrastructure, effectiveness of public utilities, efficiency of financial services and trade-related institutions and good governance. In the donor community, these elements are now referred to as trade capacity building or 'aid for trade'.

The efforts of major donors to provide trade-related assistance to developing countries are now tracked in the Doha Development Agenda Trade Capacity Building Database launched by the WTO and OECD Secretariats in November 2002.[17] Activities are classified into trade policy and regulation

17. The Trade Capacity Building Database can be accessed at http://tcbdb.wto.org.

(supporting recipients' effective participation in trade negotiations, improving trade facilitation and supporting regional trade arrangements), trade development (covering business development, access to trade finance and trade promotion in the productive sectors) and activities to enhance the infrastructure necessary for trade. The latter includes assistance to the transport, communications and energy sectors which clearly benefit trade although this may not be its primary purpose. Special programmes include the Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries as well as the Joint Integrated Technical Assistance Programme which provides trade capacity building to a number of African country partners.

In many developing countries, the withdrawal of governments from direct involvement in agricultural marketing has left large gaps which the private sector is not yet able to fill. Firms often lack trade support services, including trade finance, general business services, telecommunications and transport services, and trade promotion and marketing services. Where such services are provided, this is often through public trade promotion organisations which by and large are not effective (OECD, 2002c). Increasingly, therefore, 'aid for trade' projects focus on the micro- and firm-level, on encouraging improvements in product presentation and the production process as well as developing the capacity of export promotion organisations. Support for training of exporters, strengthening local associations and enterprise networking, providing trade information, and promoting investment are other examples of initiatives which can be taken. An important factor in the success of such projects is the degree to which the private sector in developing countries is actively involved in setting priorities and determining the uses to which assistance is put.

Exporters may face difficulties in entering OECD food markets not necessarily because their products are unsafe but often because their countries lack the monitoring, testing and certification infrastructure that would make it possible for them to demonstrate compliance with import requirements. The cost of meeting legitimate SPS standards is large, and developing countries need help to address the weaknesses in their food safety and quality control systems, and the associated institutions. Assistance can be provided for the establishment of verification and certification bodies in developing countries in order to demonstrate compliance with food safety and other traceability requirements.

A specific attempt to promote complementarity between trade and development is the Sectoral Initiative on Cotton. This follows the proposal made by four West African cotton producing countries to the WTO in May 2003 seeking a system for the reduction with a view to elimination of cotton subsidies and compensation for

LDC cotton producers while the subsidies remain in place. The context was the dramatic drop in cotton prices in the late 1990s, a crop with a strong poverty reduction impact in the four countries concerned. A WTO-organised African Regional Workshop on Cotton held in Cotonou in March 2004 brought together trade and development representatives from donor countries and institutions to clarify existing cotton-specific financial and technical assistance by bilateral and multilateral donors and additional value added opportunities for cotton, particularly through enhanced coordination among multilateral institutions and bilateral donors.[18] The August Framework Agreement, in reaffirming the importance of the Sectoral Initiative on Cotton, endorsed the complementarity between the trade and development aspects and called on the WTO Director-General to consult with international development organisations to direct effectively existing programmes and any additional resources towards development of the economies where cotton has vital importance. While some NGOs and producer organisations are critical that the development aspect sidesteps the compensation issue, the mobilisation of additional external resources to help improve the competitiveness of the cotton sector while negotiations addressing all trade-distorting policies affecting the sector continue as part of the agricultural negotiations is an important step in promoting coherence between the trade and development aspects of the cotton issue.[19]

Food aid

Food aid remains an important element in donor countries' assistance programmes, although its share has greatly declined. There is no controversy in principle about the provision of food aid in emergencies and for humanitarian purposes, although even emergency food aid needs to be managed carefully to avoid unintended adverse side effects in the recipient country. The provision of long-term food aid is more controversial. There are three sets of interests in the debate on food aid which are relevant from the PCD perspective.

First, there are the interests of commercial exporters who fear that food aid may be used to circumvent restrictions on subsidised exports. These countries point to the way in which food aid donations vary in line with the availability of surpluses, and to the possibility that food aid may be abused as a marketing tool to help expand

18. WTO, African Regional Workshop On Cotton, Cotonou, Republic of Benin – 23-24 March 2004, Summary Conclusions WT/L/564.

19. See documentation for the OECD Development Assistance Committee Briefing on the Development Dimensions of African Cotton, 28 January 2005. http://www.oecd.org/document/55/0,2340,en_2649_34665_34355575_1_1_1_1,00.html

exports from the donor country. These concerns are central to the debate on disciplines on export competition in the Doha Development Round. While these disciplines concern exporting countries in the first instance, they have a development dimension. For example, a provision that only food aid given in grant form would be exempt from export subsidy disciplines would improve the coherence of food aid policy with development objectives.

Second, there are the concerns of net food-importing developing countries for which food aid currently makes an important contribution to their food supplies. Agricultural policy reform, for these countries, holds the threat that food aid supplies might diminish and thus that the cost of meeting the food needs of their populations would increase. To the extent that food aid in kind has been replaced by financial aid in donor commitments, this linkage is less important than in the past. However, financial aid commitments have their own problems, for example, they are worth less to the recipient when world prices are high which is the time when food aid may be most needed. It was to address this latter concern that the Uruguay Round Agreement included the Marrakesh *Decision on the Possible Negative Effects of the Reform Programme on the Least-Developed and Net-Food Importing Developing Countries*. This included a commitment that the reform programme would not adversely affect the availability of food aid at a level which is sufficient to continue to provide assistance in meeting the food needs of developing countries, especially least-developed and net food-importing developing countries. It also established a mechanism whereby the level of food aid would be regularly reviewed and a minimum level of food aid commitments established sufficient to meet the legitimate needs of developing countries during the reform programme. The minimum commitments established under the 1999 Food Aid Convention amount to 4.9 million tonnes, which is well below the 10 million tonne target set in the 1995 Convention. Actual food aid flows have been well above the minimum in recent years, though still below the 10 million tonne target, particularly if only flows to low-income food deficit countries are considered.[20]

Third, regardless of the motives behind it, food aid is criticised for its negative impacts on developing country interests as regards food security and the alleviation of poverty. Food aid in kind is often attacked for being wasteful, needlessly expensive and for consisting of inappropriate foods which may lead to changes in local food preferences. It is blamed for lowering food prices and creating disincentives for developing country food producers, and it may also remove the

20. There have been significant flows of food aid to the Russian Federation, for example, in recent years.

incentive to make necessary changes in agricultural and trade policy at policy-making levels in these countries. For this reason, many donors advocate the integration of food aid operations with overall food security and development policies. Guidelines to ensure that food aid is targeted and consistent with agricultural development in recipient countries are set out in the Food Aid Convention. The current Convention has been rolled over for a two-year period until mid-2005 with a view to using this period to review and renegotiate it. Some members wish to move away from a preoccupation with targets to putting more emphasis on the quality of food aid.

Donor country coordination and aid effectiveness

An important dimension of the policy coherence debate between trade, agriculture and development is the extent to which OECD donor country aid policies are coherent with each other and with the priorities of recipient countries. Important as it is to raise overall aid flows and the proportion going to agriculture and agricultural public goods, it is also necessary to ensure that the aid provided is effective. The quality of aid is often very low. It is often unpredictable; targeted at technical assistance and emergency aid rather than investments, long-term capacity, and institutional support; tied to contractors from donor countries; driven by separate donor objectives rather than coordinated to support a national plan; overly directed to poorly governed countries for geopolitical reasons; and not evaluated or documented systematically for results (UN Millennium Project, 2004).

The Monterrey Consensus recognized the need to make aid more effective. The suggested actions included aligning assistance with poverty reduction strategies and other development frameworks and systems that are owned and driven by developing countries; harmonizing operational procedures and reporting requirements to reduce transaction costs for recipient countries; implementing the OECD/DAC Recommendation on aid untying; improving the targeting of ODA to the poor; simplifying aid coordination mechanisms through greater use of sectorwide approaches, direct budget support and multilateral financing; and improving measurement of results. The OECD Development Assistance Committee set up a Working Party in 2003 on Aid Effectiveness and Donor Practices. Following the Rome High Level Forum on Harmonisation in 2003 and the Joint Marrakech Memorandum in 2004, the Working Party is moving from discussion of principles to actual implementation of harmonisation at country level (OECD, 2004b). However, changes in donor behaviour have been slow to materialise, and new mechanisms will have to be found to bring donors together around agriculture, nutrition and rural development (UN Millennium Project Task Force on Hunger, 2005).

More needs to be done to focus aid on achieving the Millennium Development Goals. The UN Millennium Project found that multilateral and bilateral institutions have not encouraged recipient countries to take the MDGs seriously as operational objectives. Many documents referred to the Goals either in passing or as a lofty ambition, but no country has been supported to plan seriously around the Goals. This is particularly necessary in the case of the first Millennium Development Goal of eradicating extreme hunger which enjoys unparalleled global endorsement.[21] Priority actions to reach the hunger Goal through investments in agriculture and rural development to enhance direct and immediate access to food for the most seriously undernourished have been identified in the FAO's Anti-Hunger Programme. As noted by the UN Millennium Project Task Force on Hunger, "the challenge now is to translate widespread political support into concrete action in the policy, institutional and budgetary arenas" (2005, p. 71).

21. The hunger Goal, as a quantitative, time-bound goal, was first adopted by the World Food Summit (1996), reiterated at the Millennium Summit (2000) and reaffirmed at the World Food Summit five years later (2002) and the World Summit on Sustainable Development (2002), see UN Millennium Project Hunger Task Force, 2005.

CHAPTER 6. POLICY COHERENCE WITHIN DEVELOPING COUNTRIES

The policy coherence agenda is largely about promoting positive changes in the conditions that poor countries face in the world (OECD, 2004b). It is about ensuring that the voice of the poor is heard when OECD countries make choices about the ways in which they achieve their domestic policy objectives, as discussed in the previous sections. But global issues of poverty and hunger are too complex to be addressed by international trade rules, or by adjustments in OECD country policies, alone. Developing countries too have a responsibility to ensure that their domestic policies are consistent with the Millennium Development Goal objectives and to facilitate adequate supply responses. Specifically, in the case of agriculture, this requires developing countries to follow consistent and credible economic policies which encourage private investment; to adopt trade policies that are not biased against primary production and exports; and to make the public investment in infrastructure, technical development, and credit which is necessary for modernising production and improving competitiveness.

Coherent incentives

Governments in developing countries affect agricultural production directly through sector-specific measures including border protection, input and credit subsidies, price controls, and government expenditures and taxes. But policies concerning industrial protection, exchange rates, interest rates and other fiscal and monetary policies also have important, if often unintended, effects by influencing the incentives for agriculture vis-à-vis other sectors. The predominant development strategy following by most developing countries in the early post-war decades emphasising import-substitution industrialisation had a profound negative effect on agricultural incentives. These effects for a wide range of developing countries were examined in Krueger, Schiff and Valdés (1988) and in Schiff and Valdés (1992). They found that agricultural pricing policies imposed the equivalent of an 8% tax on agriculture, while indirect taxation (resulting from macroeconomic policies and industrial protection) taxed agriculture in excess of 22%, for a total taxation of 30%. Industrial protection policies in most of the countries examined had a more adverse impact on agriculture than did exchange rate overvaluation. As most countries protected import-competing products, the direct protection of importables was about

18%, and the direct taxation of exported commodities averaged about 16%. These distortions within agriculture increased between the early 1960s and the mid-1980s.

Since the mid-1980s, a growing number of developing countries have implemented structural adjustment programmes, with the support of the World Bank, aimed at reducing fiscal imbalances and redefining the role of the public sector. These programmes affected agriculture in a number of ways. Redressing fiscal imbalances involved reductions in both agricultural and non-agricultural subsidies, and the net impact on agricultural incentives depended on the initial distribution of subsidies across sectors. Trade liberalisation improved agricultural incentives, both through lower industrial prices and through real exchange rate depreciation. Privatisation and liberalisation led to reductions in government involvement in the marketing and provision of inputs, finance and commodities, though in many cases the private sector has disappointed in taking up the slack. Whether this is because of incomplete liberalisation scaring off potential private investment, or because of pervasive market failures in rural areas, is much debated. Nonetheless, the expansion of agricultural production was generally below expectations. One explanation for the poor supply response is a lack of complementary investment to enable producers to respond (discussed below). Another explanation is that the agricultural incentive bias may have been smaller at the outset than originally thought.

This latter is the position taken in a recent study by Jensen, Robinson and Tarp (2002) of the extent to which indirect taxes, tariffs, and exchange rates affected relative price incentives for agricultural production for a sample of 15 developing countries in the 1990s. They found that the economy-wide system of indirect taxes, including tariffs and export taxes, significantly discriminated against agriculture in only one country, was largely neutral in five, provided a moderate subsidy to agriculture in four, and strongly favoured agriculture in five. In contrast to the earlier work which assumed that overvaluation of the exchange rate would hurt agriculture, they demonstrated that, in a general equilibrium setting, changes in the exchange rate can lead to anything between strongly increasing and decreasing relative agriculture/non-agriculture incentives, depending on relative trade shares. They conclude that, whatever incentive bias there was in the 1980s, it had mostly disappeared by the 1990s.

Others take a less sanguine view. The World Bank, while acknowledging that the magnitude of the bias has been reduced, argues that it still remains significant (World Bank, 2003b). It notes that average tariffs on agricultural imports remain high, creating barriers to greater South-South trade in agricultural products. Although most reforming countries have eliminated export taxes, cases of export

restrictions continue to exist. It also points to the continuation of inefficient state-owned marketing enterprises for key agricultural exports in some countries. Where they persist, developing country macroeconomic and trade policies should seek to eliminate the remaining implicit taxation from currency overvaluation and high tariff and non-tariff barriers to improve agricultural production and investment incentives.

Investment trends in agriculture

While developing countries have been moving in the right direction as regards incentives for agricultural production, necessary complementary investments are still lacking. Already low levels of public investment in agriculture have declined further. Compared to developed countries, agricultural spending as a percentage of agricultural GDP is extremely low in developing countries. The former usually have more than 20%, while the latter average less than 10%. In Africa, agricultural expenditure as a percentage of agricultural GDP remained consistently low (7-8%) over the 1980-98 period; in two-thirds of African countries, the percentage fell (Fan and Rao, 2003). On average, developing countries now invest just 0.6% of their agricultural GDP in public agricultural research, compared to 2.6% in developed countries.

The UN Millennium Project Task Force on Hunger (2005) reports that, in countries where 20-35% of the population is malnourished, agricultural spending averaged 7.6% of total budgets in 1992 and only 5.2% in 1998. In countries with more than 35% of the population food-insecure, agricultural spending in 1992 was 6.8% of total budgets, falling to a mere 4.9% in 1996. These levels of spending are far lower than the share of agriculture in these countries' GDP. Highly food-insecure countries may spend two or three times as much on defence as on agriculture. By contrast, in countries with less than 2.5% of the population malnourished, the share of government spending on agriculture comes closest to matching agriculture's importance in the economy.

Making public investments in rural infrastructure and agricultural research to increase farm productivity and reduce rural poverty is thus an essential part of the policy coherence agenda. The UN Task Force on Hunger recommends that African governments should invest at least 10% of their budgets in agriculture and rural development, in addition to needed investments in rural energy, infrastructure, health, education and other rural sectors. Agriculture must become a more central component of Poverty Reduction Strategy Papers. Fortunately, there are heartening signs that governments, particularly in Africa, are heeding this message but declarations must be followed up by action on the ground. Also, the importance of

increasing agricultural investment should not blind us to the practical problems of delivering cost-effective interventions on a country-wide scale.

Other complementary policies

There are many other aspects to an enabling domestic policy environment for agricultural growth and rural development (UN Millennium Project Task Force on Hunger, 2005). Good governance, including the rule of law, lack of corruption, conflict prevention and resolution, and sound public administration, is vital to food security. Trade policies should be reformed to address the corruption and delays that inhibit cross-border trade flows. Translating improved market access for agricultural products into significant poverty reduction depends on increasing poor people's access to productive resources. Rural financial markets and institutions should be supported to make it easier to gain access to credit. Recognition must be given to the role of women in food production by providing them with improved access to land, water, credit and extension services. While these political commitments are ultimately the responsibility of governments of developing countries themselves, more coherent policies on the part of OECD donors can greatly strengthen their efforts.

CHAPTER 7. KEY MESSAGES AND PROPOSALS FOR FURTHER WORK

Improving policy coherence

This paper has surveyed the most important issues that arise with respect to the coherence of OECD agricultural policies with the Millennium Development Goals' objectives of reducing poverty and overcoming hunger in developing countries. The primary focus is on the impact of OECD country agricultural policies, but it is also important to take into account closely-related measures which also impact on agricultural and rural development in developing countries. OECD country policies have been classified into four policy domains for the purpose of this discussion: domestic agricultural policies, agricultural trade policy, regulatory policies and development co-operation policy. Policy coherence for development, in this context, is defined not just as avoiding negative spillovers which would adversely affect the development prospects of poor countries but also, more positively, as seeking to exploit the potential for positive spillovers in the way these OECD policy objectives are pursued.

Policy incoherence is an important issue for OECD country agricultural and related policies. In order to assess the impact of these policies on developing countries, we need to know what the world would look like in the absence of these policies. We can only attempt to understand this with the aid of empirical models of how the global economy works. Because all models are simplifications of reality, the results are dependent, inevitably, on the assumptions which are made. However, there is a broad consensus among recent model results that OECD agricultural protection costs developing countries between USD 5 and USD 10 billion per annum, and that these costs multiply as other, plausible, transmission channels such as trade-technology spillovers and capital accumulation effects are taken into account. There is also a growing awareness that some developing countries, and particularly LDCs, could lose out from OECD country reforms in the short run. Thus the design of liberalisation, its sequencing and the availability of accompanying measures to provide a safety-net or compensation to countries adversely affected are all important issues.

In the context of agricultural trade liberalisation, attention should be focused on reducing tariff barriers to improve market access. Tariff peaks and tariff escalation have particularly adverse effects on developing countries. The gains to developing countries from increased market access are considerably reduced if developed countries are able to avail of lower reduction commitments for commodities where tariff barriers are high. The impact of an agreement to reduce tariff barriers is also strengthened where appropriate commitments are undertaken by middle-income developing countries. Certain types of domestic subsidies can have a significant trade-distorting effect. However, the impact on developing countries of disciplining domestic subsidies is likely to be smaller than tariffs. Many domestic subsidies are exempted from reduction commitments because they are deemed not to be trade-distorting, or have eligibility conditions which reduce their trade-distorting effects in the first place. Export subsidies can be very disruptive for particular commodities and in particular markets, but their scale now is such that even their total elimination would have limited macro-level effects for food markets. Finally, there is a need to address the question of access to trade remedies such as safeguard measures. In principle, from a policy coherence perspective, it would be desirable to give greater access to developing countries, while limiting the access of OECD countries, to such measures.

Other aspects of agricultural trade policy also have the potential for policy incoherence. Regional trade arrangements (RTAs) are a growing feature of international trade, and increasingly link developing countries not just with neighbouring countries but also with developed countries. Agricultural trade is more and more encompassed by these arrangements. The danger with RTAs is the potential for trade diversion, either for developing country importers who are party to the arrangement and who may be asked to pay over the odds for their food imports, or for developing country exporters who are not party to the arrangement, and who may find their food exports substituted by those of the preferred partners. Trade impact assessments should accompany proposals for RTAs to assess the likely magnitude of these effects. Seen in a more dynamic framework, however, there is evidence that the inclusion of agriculture in RTAs can help to drive the process of agricultural policy reform by raising the cost of support arrangements to a prohibitive level.

One approach favoured by some OECD countries to address market access issues for developing countries, while keeping in place a basic structure of agricultural support for domestic farmers, is to extend non-reciprocal preferential access to the agricultural exports of developing countries, and particularly the least developed countries. Targeting improved access at producers in very poor countries who usually have limited supply capacity is advocated as one way to reconcile the

interests of producers in OECD countries and those in the least developed countries. But there are dangers to this approach. Beneficiary countries may come to have a vested interest in opposing further multilateral reform because of the way in which this would erode the value of the preferences they receive. It is also the case that the majority of the world's rural poor are not located in the least developed countries, so confining improved market access to these countries risks having a very limited impact on poverty alleviation.

The fear of preference erosion among countries with preferential access to OECD country markets at supported prices resulting from further MFN liberalisation is a very real one. Slowing the pace of multilateral liberalisation in order to maintain the value of preferences is not the right response. However, once preferences are in place, the need for policy coherence suggests that donor countries should actively monitor the impact of their withdrawal or reduction and put in place compensatory trade measures or financial adjustment assistance as appropriate.

Preference erosion is not the only reason why some developing countries may lose from further agricultural trade liberalisation. Net food-importing countries are also vulnerable and there is a need to address their concerns. Putting teeth into the *Marrakesh Decision* is one possible route. Making a commitment to the world's poorest countries that their food import needs would be met and their import bills kept under control would remove one real source of concern that they have about embarking on further trade liberalisation.

Developing countries, more generally, have proposed various exemptions from new WTO disciplines for their import-competing sectors as part of special and differential treatment. OECD countries, while sympathetic in principle to these proposals, have been reluctant to fully embrace them. One issue of contention is whether different rules should apply to developing countries, or simply a more relaxed version of common rules. Another issue is whether exemptions should apply to all developing countries or to particular sub-groups among them. Those countries advocating the latter position favour trading more generous special and differential treatment for greater differentiation among developing countries. The policy coherence perspective does not point unambiguously in one direction, given that developing countries themselves are likely to be adversely affected by any generalised exemptions from WTO rules.

The paper also highlighted the importance of regulatory coherence in the design of food safety measures, environmental protection, consumer protection and intellectual property protection. As traditional trade barriers are reduced, regulatory barriers are on the increase and may now be more important obstacles to increased

exports from developing countries. No one questions the right of OECD countries to introduce measures for these purposes, but given the potential for policy incoherence, all such measures should be reviewed to assess their impact on development. Among the steps which can be taken are to ensure that the regulations are proportionate to the desired objectives, to assist compliance by developing country exporters through early notification and technical assistance, to encourage developing countries to make their voices heard in international standard-setting bodies, and to be willing to recognise the mutual equivalence of standards and certificates where this is justified. Intellectual property protection for plant varieties and genetic resources is a particularly important issue, given the role of technical change in driving productivity growth in developing countries' agricultural sectors. The rules in place should do nothing to hinder the flow of useful knowledge to developing countries, whether as scientific knowledge or embodied in new technologies such as new seed varieties. Striking the right balance between providing incentives through the grant of monopoly rights to plant breeders and seed companies in the hope that this will generate useful knowledge to the benefit of developing countries, while at the same time maintaining the access of farmers in these countries to productive new varieties, will have important long-term consequences for poverty alleviation.

Although the policy coherence focus is on the activities and policies of OECD country governments, it has to be accepted that, increasingly, regulations in the food chain are driven by private sector actors, not least the supermarket groups, in responding to consumer demands. Thus, while it will be important to monitor the use or abuse of regulations for protectionist purposes, the longer term objective must be to assist developing countries to reach a position where they can meet the requirements of ever more demanding consumers. Foreign direct investment in their food processing and supporting sectors has a role in providing the necessary expertise.

A policy coherence perspective needs to be aware of the distributional impacts of agricultural policy reform, both within developing and OECD countries. The growing amount of literature on the household level and poverty impacts of agricultural policy reform in developing countries highlights the complexities of the impacts. Within each country there will be winners and losers, depending on the structure of income sources and expenditure patterns of the poor. Because it is difficult to draw generalisations, it will be important to ensure that the methodologies now being developed to map the impact of food market price changes on to households are made available widely so that individual countries can identify those likely to be vulnerable in their own specific circumstances. These findings, in turn, should influence the direction of aid policy and help in the design

of appropriate safety nets. Distributional impacts are also important in OECD countries. Although OECD farm incomes may be more robust to the removal or reduction of agricultural support than is sometimes supposed, the shocks to income arising from agricultural policy reform may justify specific interventions to promote resource adjustment and to cushion the impact on asset values.

Policy coherence also has implications for OECD countries as aid donors. This is obviously the case with respect to food aid, where there is a need to ensure that food aid deliveries are consistent with the food security policies of recipient countries. More generally, it is increasingly recognised that improvements in market access and the elimination of subsidised competition is only part of the requirements for agriculture-oriented growth strategies in developing countries. A huge need exists to promote greater supply capacity as well. Investment and support for agricultural production is required, as well as investment in a wide range of complementary services and activities. While developing countries themselves must take primary responsibility for this, aid donors can help in various ways. Donors can give more support to agricultural projects in their aid budgets, particularly those geared towards the provision of global public goods such as agricultural research, disease control, and water, land and forest management. There is also a greater need for trade-related aid, and the increased monitoring of this by the WTO and OECD jointly will ensure that it receives greater prominence in the future. Donors should also seek greater coherence between their development assistance efforts in order to maximise aid effectiveness.

Improving the knowledge base

What are the most critical gaps in knowledge for the making of good policy? This final section suggests some priority areas for further research with a view to strengthening policy coherence for development in the design of agricultural policy and related policy areas.

The policy coherence argument for OECD agricultural policy reform is based on the evidence that OECD agricultural policies damage the growth prospects of developing countries. There is a growing convergence of the estimates of this damage at the aggregate level, although there are greater disagreements among the empirical studies on the individual country effects. It is clear that the estimates of the overall impact are influenced by the model specification and database used. Research to identify the reasons for differences in model results and to help bring about a greater consensus on the appropriate features to be included in empirical models would help to increase confidence in their predictions. This includes

investing in databases, in model specification and testing, and in parameter estimation.

The growing volume of work attempting to predict the household level impacts of agricultural trade liberalisation should be welcomed. As discussed in the paper, this work is still at an early stage and the techniques to integrate household-level data with global models continue to improve. This work should be supported. It would be particularly valuable to gain a better understanding of the impact on rural households of domestic policy reforms undertaken by developing countries themselves, as the fear that reductions in agricultural protection would undermine rural incomes is one of the factors leading some developing countries to seek exemption from further WTO disciplines in import-competing sectors under special and differential treatment. Helping developing countries to understand how adverse effects on rural incomes could be avoided through undertaking complementary reforms in parallel would have a high pay-off. For example, to what extent would employment and income gains from non-agricultural trade liberalisation help to lift rural households out of poverty through making non-farm opportunities more plentiful and more attractive? A difficulty in interpreting the output of the trade and poverty studies is the complexity and country-specific nature of the findings. Thus it would be useful to investigate if there are systematic differences across countries which would help to predict whether higher international food prices increase or decrease poverty and food insecurity among poor households, allowing policy makers and aid officials to identify potential winners and losers based on household characteristics. Model-based approaches should be completed by detailed case studies of policy impacts, particularly to try to capture some of the dynamic structural changes which may accompany the opening of more profitable export markets. It would be useful to associate developing country analysts in this research, both for the insights they would bring and as an important form of capacity building.

The likelihood that some countries could be worse off as a result of OECD country liberalisation should be the focus of more research. It would be desirable to have better estimates of the potential cost to beneficiary countries arising from the phase out of MFN tariff preferences and special trade arrangements. Also, identifying ways in which the exposure of net food-importing countries to fluctuations on world food markets could be reduced and their confidence in the value of closer integration with these markets increased should be a high priority. More work to produce case studies on how the welfare gains to developing countries from regional arrangements compare with those from multilateral liberalisation would also be useful.

The growing importance of regulatory coherence has been highlighted in the paper, but the real extent of regulatory measures in creating trade barriers is still little understood. We need better evidence of the impact of regulatory measures, including food safety, animal health, environment and consumer protection measures, on developing countries. Case studies of how developed country governments have helped to alleviate any adverse impacts on developing country exports should also be developed as examples of best practice. Some types of regulations may have the potential to benefit developing countries, for example, through the creation of niche marketing opportunities. More widespread protection of geographical indications is one example. Whether this is the case or not, and under what circumstances, should be investigated further.

Further work to identify the steps which developing countries need to take in order to take advantage of improved market access opportunities while preventing unacceptable shifts in income distribution as a result would also be helpful. The necessary measures are likely to be country and location specific, but a central objective must be ensuring that it is not only the larger-scale commercial farmers but also medium- and small-scale farmers who are able to participate in the benefits of trade. Work on detailed studies, particularly for the least developed countries, on poverty reduction strategies to help identify their most important policy priorities and the role which trade liberalisation should play in helping them to meet the Millennium Development Goals would also be valuable.

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Annex A

Why is Agricultural Policy *Still* so Difficult to Reform?

by Jonathan Brooks, Directorate for Agriculture, Food and Fisheries, OECD

Why is agriculture in need of reform?

In many OECD countries, the basic structure of farm programmes has changed little for several decades. The original motivations for these programmes included the need to support rural incomes during the depression of the 1930s and the desire to boost agricultural production in the aftermath of the Second World War. The needs of farm policy in the 21st century are very different, but in many cases the basic mechanisms of support remain the same. Agricultural policy has tended to accumulate and to be revised at the margin – radical overhaul has been relatively rare.

In 1986-88, total transfers to the sector, as calculated annually by the OECD, cost consumers and taxpayers USD 298 billion, representing 2.3% of GDP. In 2002, the corresponding figure was USD 318 billion, or 1.2% of GDP.[22] Three-quarters of these transfers are provided as support to farmers, accounting for one-third of their gross receipts, with general expenditures on items such as research, marketing and infrastructure accounting for the rest. There has been some shift away from market price support and payments based on output or input use towards budgetary payments that are less linked to production, but overall, output and input-related measures still account for three-quarters of all support.

However, the vast majority of agricultural policies in OECD countries fail to address their purported objectives efficiently. The stated objectives of farm policy

22. This sum is approximately twice the value of all developing country agricultural exports to OECD countries, and six times the value of ODA. The latter ratio is routinely brought up in discussions of coherence with respect to developing countries.

fall into two categories: those concerned with the incomes of farm households, and those designed to address other societal concerns such as the environment, the provision of rural amenities, land and water management, food safety and food security. In each case, governments justify their policies on the grounds that private markets alone may not lead to optimal outcomes.

Yet the majority of policies fail to correct clearly identified market failures, or to raise the welfare of farm households, in an efficient or equitable manner. With respect to household incomes, OECD work has shown three things very clearly. First, that there is no evidence that farm households have systematically lower incomes than other households, so policies to support incomes across the whole sector are unnecessary. Second, sector-wide policies are highly inefficient at transferring income to farmers. In particular, only about one-quarter of the value of market price support translates into additional household income with much of the increase in receipts paid back out to input suppliers or capitalised into land values. Third, that when support is linked to output the distribution of that support is heavily skewed towards larger (and typically richer) farmers. Yet despite these well documented policy failings, approximately two-thirds of all support is provided through sector-wide policies that support prices to all producers at higher levels than would otherwise prevail. Furthermore, these same instruments which fail to address domestic objectives also cause the greatest harm in terms of international trade distortions.

OECD Ministers have recognised the need for fundamental reform, and in 1987 agreed on a set of principles for reform based on the notion of "market orientation", principles which have been periodically reaffirmed over the past 16 years. Yet reform in practice has been slow and piecemeal, and in many cases the underlying commitment to agricultural commodity programmes has not been questioned. The relative lack of progress highlights the need to think not just about the case for reform, but also about *why* reform has been difficult to achieve, and *how* reform might be put into practice.

Why has reform been so modest?

The gathering weight of evidence that agricultural policies fail to meet their stated objectives efficiently (much of it produced by the OECD Secretariat) has in many cases failed to elicit fundamental change. Why has reform been so intractable? A major reason must be that there is a gap between the officially articulated objectives of agricultural policy, and the implicit priorities of policymakers, who often feel obliged to respond to political imperatives.

The political implications of structural change in agriculture go some way to explaining the persistence of inefficient and inequitable support policies. With economic development, incomes increase and consumers spend a smaller share of their budgets on food. Thus whereas consumers in developing countries typically spend about half their income on food, the figure for OECD countries is around 15%. Increasingly, consumers are "rationally ignorant" that they are paying more for their food than necessary – *i.e.* it is not worth the effort of becoming informed.

On the supply side, competition leads to productivity growth, which in turn stimulates supply. The combination of supply and demand effects means that agriculture has become a "declining" industry (*i.e.* a successful one). Many developing countries have over half their workforce employed in agriculture, whereas the share in OECD countries is typically around 3%. Thus a given transfer to producers imposes a progressively smaller burden on the overall economy. Also, the competitive process, which puts pressure on less efficient farmers, increases those farmers' incentives to seek government support.

At the same time, the decreasing size of the agricultural constituency increases the scope for collective action by farmers. This is because farmers have fewer incentives to "free-ride" on the benefits of lobbying by other members, as larger per capita gains can be achieved, organisational costs are likely to decrease, and "shirking" on political activity among members becomes easier to monitor and control.

These factors explain the obvious asymmetry that, for example, sugar producers are more likely to protest against the removal of support than sugar consumers and/or taxpayers are likely to mobilise in favour of it. However, the reasons for the political imbalance go further than straightforward economic incentives. If policy-makers respond to these political pressures, then they are put in the position of having to defend existing policies. One way of doing this is to claim that the policies being pursued are in fact consistent with stated policy goals. This can introduce "noise" into the public debate and prevent objective economic analysis from registering.

An important manifestation of such "noise" is the exploitation of an agrarian ideology that emphasises the moral richness and cultural contribution of family farming. Of course, every country is entitled to hold its own social values. The problem arises when these values turn into myths. Agrarian myths include the misrepresentation of the nature of modern commercial agriculture, and the suggestion that current agricultural policies serve to uphold fundamental social values.

Agricultural interests can exploit agrarian myths to generate public support for existing programmes and to forge common links around otherwise unrelated narrow policy benefits. Political pressure can then lead politicians to collude in propagating agrarian myths. Once politicians are lured by the support of vested agricultural interests, they too have a stake in ensuring that the public is convinced of the agrarian worth of their policy actions.

The political economy / public choice perspective can also explain some policy nuances. For example, whereas farmers tend to become more politically influential as their numbers diminish, larger groups are nevertheless more effective if they can overcome the obstacles to collective action. Complex policies can reduce the incentives for free-riding, which may explain why the dairy sector – where programmes often vary by region, or by some other factor that divides sectoral interests (such as quota allocations) – is relatively highly protected.

The institutional environment can also influence the process of policy formation. In some cases, agriculture ministries can come to see themselves as defenders of farmers' interests, and their role to involve claiming the maximum possible budget for their activities. When decisions are made at the supra-national level, as in the European Union, individual countries may also have an incentive to expand their share of a collectively agreed upon budget. If a country receives more than it pays in, this can limit the incentives for restraint.

Economic analysis, ideology, political pressure – and even nostalgia – all feed into the process of agricultural policy formation, making it difficult to infer which motive dominates any particular policy decision. Nevertheless the failure of agricultural policies to address legitimate economic and social objectives in an efficient manner implies that the root cause of current support policies must be seen as political.

How is the political balance evolving?

As economic growth continues, the forces outlined above continue to operate, and it becomes ever easier for OECD countries to waste money on agricultural policies. In addition, domestic and trade policies have tended to become ever more complicated, which further increases the incentives for rent-seeking by organised interests.

Against this, some of the traditional myths about agriculture are gradually being eroded, partly because of health scares such as BSE and concerns about the effects of biotechnology on food safety and the environment, but also because some

of the trade-offs between the interest of developed and developing countries are being brought into sharper relief, notably in the more protected sectors such as sugar, dairy and cotton. However, there is also a danger of new myths taking hold, including those associated with biotechnology and the anti-globalisation movement.

A further reason for believing that the log-jam over agricultural policies can be broken is the increased cohesion of developing country interests, manifested by the emergence of the G22 group in Cancún. This grouping of countries has a diverse set of views about the benefits or otherwise of liberalising its own farm policies (with India for example tending to be more protectionist than Brazil), leading some observers to question whether it can survive. But the popular convention to insist on the "heterogeneity" of developing countries may hide a deeper truth. It is true that some developing countries have relatively high incomes while others are very poor, some are net exporters while others are net importers, some benefit from trade preferences while others do not, and so on. Yet all developing countries would benefit from greater access to OECD country markets, and all worry about the effects of liberalisation on poor farmers in uncompetitive (import-competing sectors).

Indeed, the defence of current agricultural policies in some OECD countries on the grounds that reform would hurt food importers and lead some exporters to lose their preference margins may become less tenable, as these "losers" become more aware that trade preferences and subsidised imports are poor ways of fostering long-term development, and that there are potential mechanisms within a WTO framework for smoothing the transition to more productive activities, and offsetting short to medium-term losses.

What does this imply for OECD work?

The OECD Agriculture Directorate's programme of work traditionally has involved evaluating the performance of agricultural policies in attaining their explicit (i.e. stated objectives). Thus, among other things, the Secretariat has undertaken studies looking at the distribution of support (does support go to poor farmers?), the efficiency of support programmes (how much of that support translates into additional household income?), and the effects on the environment (are support policies beneficial or harmful?).

There is a continued need for such work. But as the evidence that current policies are ineffective in attaining explicit objectives becomes overwhelming, there is also a need to think in terms of the implicit objectives – i.e. the consider the *causes* of policy as well as the consequences. The question of *how* reform can be

facilitated is in fact to be analysed within the current programme of work, and a political economy perspective suggests a few factors that may be important.

First, it is clear that compensation can ease the process of reform. In the United States, the 1996 FAIR Act involved a switch towards less market distorting forms of assistance. But the return to more coupled instruments under the 2002 Farm Act highlights the need to think not just about compensation but even more importantly about effective adjustment assistance. If people can be helped into more remunerative activities (in or out of agriculture) that is not only good for them, it also makes it less likely that they will make demands for protection at some point in the future.

For similar reasons, it is important that policies be simplified. Market price support sounds like a simple policy, but the historical experience has been that it requires a range of other instruments to keep it in place, both at the border (e.g. tariffs, tariff-rate quotas, export subsidies) and internally (*e.g.* production controls). Transparent payments for the provision of identifiable public goods, or as an income safety net, may have more administrative requirements, but if everyone is treated equally the incentives for rent-seeking should diminish.

OECD work has demonstrated that a significant share of farm support is capitalised into asset values, including farmland and other sector-specific investments. Hence there is also a need to look beyond direct income effects when considering the implications of reform, and take account of the impacts on non-farming landowners, quota holders or industry suppliers.

Finally, it is essential to look beyond the immediate interests of OECD countries and take a global perspective. It is natural that OECD member countries' concerns should be at the heart of OECD work, but some issues that have assumed high importance (such as the "multifunctionality" of agriculture) have had little resonance at the global level. At the same time, work on how OECD country policies affect developing countries has, until fairly recently, received relatively less attention and funding.

The OECD's assessment of the Uruguay Round Agreement on Agriculture was relatively upbeat, describing the Agreement as a "watershed" in that agriculture was finally brought under the auspices of WTO rules, despite the fact that it left high levels of support and protection intact. However, that optimistic assessment was predicated on the assumption that, having established a system of ground rules, the next round would tackle protectionism more forcefully. The tough stance taken by several OECD countries in the run-up to Cancún, with the EU/US joint proposal

offering no elimination of export subsidies, and the US refusing to scale back its subsidies to cotton farmers, suggests that this optimism may have been misplaced.

With countries' positions in danger of becoming even more entrenched, there is a need for greater openness in acknowledging the importance of political factors in the decision-making process. Such openness could (hopefully) foster a climate in which countries are willing to share and discuss their national policy-making experiences with a view to discovering the kinds of circumstances and initiatives that can make reform more palatable.

Annex B

Agricultural Policies in OECD Countries: Monitoring and Evaluation 2005 (Extracts)

Agricultural support in OECD countries is calculated annually by the OECD. The tables and figures in this Annex are extracted from *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2005*. Highlights from this publication are available at http://www.oecd.org/dataoecd/33/27/35016763.pdf

Box B.1. How are support policy developments evaluated?

In 1987 Ministers stressed the need for a progressive reduction in agricultural support and a move towards those forms of support that are less production and trade distorting in order to let the agricultural sector respond more to market signals. Ministers also recognised that governments need flexibility in the choice of policy measures and in the pace of reform, taking into account the diverse situations in OECD countries, and the need to address a range of policy goals. In 1998 they agreed on a set of principles for agricultural policy reform and a set of operational criteria that should apply in designing and implementing policy measures.

The Producer Support Estimate (PSE) and derived indicators (Annex 2.A3) are the principal tools used to monitor and evaluate agricultural policy developments. It is important to distinguish between support provided to producers and its impact on individual production decisions, and support provided to general services for the agricultural sector as a whole. Policy measures within the PSE are classified in terms of how policies are implemented.

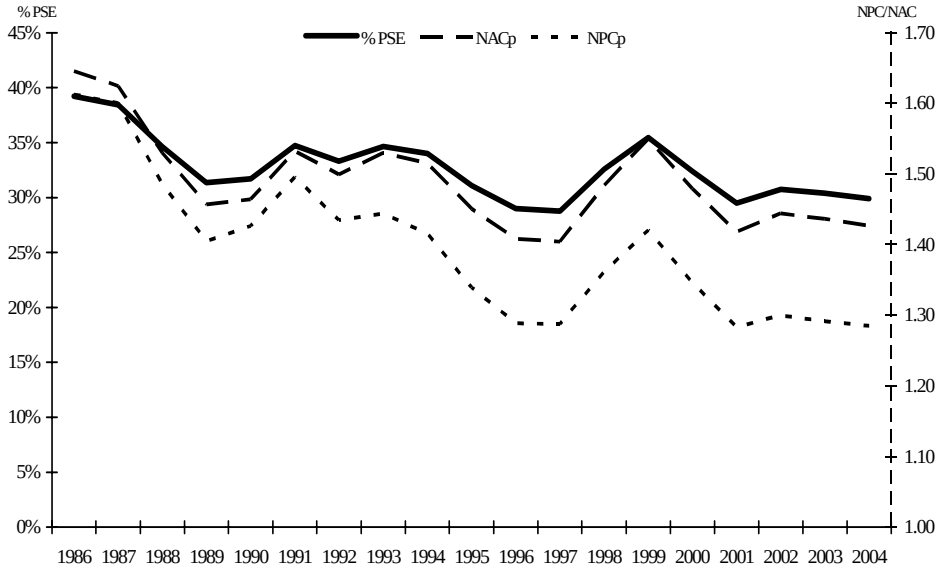
An explanation of the concepts, methodology, interpretation and guidelines for the calculation and use of the OECD support indicators in policy evaluation can be found in *Methodology for the Measurement of Support and Use in Policy Evaluation* [www.oecd.org/dataoecd/36/47/1937457.pdf] and in the OECD Policy Brief, *Agricultural Support: How is it Measured and What does it Mean?*, June 2004 [www.oecd.org/dataoecd/63/8/32035391.pdf].

One indicator of the level of support provided to agricultural producers is to express the value of producer support (PSE), the monetary value of transfers from consumers and budgetary payments to producers, as a share of gross farm receipts (%PSE). The level of producer support in the OECD as a whole, as measured by the

%PSE, is estimated at 30% in 2004, the same level as in 2003. In other words, close to one-third of current OECD gross farm receipts result from transfers associated with agricultural policies (Figure B.1; Tables B.1 and B.2). The level of producer support has remained fairly constant since 2000, averaging 30% for the period 2002-04.

The level of producer support can also be measured by the producer Nominal Assistance Coefficient (NAC), which expresses the monetary value of transfers from consumers and taxpayers to producers (PSE) relative to current production valued at border prices. Like the %PSE, the producer NAC for the OECD as a whole has changed very little over the last three years, averaging 1.44 over 2002-04. In other words, current farm receipts are 44% higher than if valued at current world market prices without any support.

Figure B.1. Evolution of OECD Producer Support Estimate (%PSE), Nominal Protection Coefficient (NPCp) and Nominal Assistance Coefficient (NACp)



Source: OECD, PSE/CSE database, 2005.

Table B.1. OECD: Estimates of support to agriculture
(USD million)

	1986-88	2002-04	2002	2003	2004p
Total value of production (at farm gate)	**596 509**	**740 239**	**652 674**	**745 549**	**822 493**
of which share of MPS commodities (%)	*72*	*68*	*68*	*68*	*70*
Total value of consumption (at farm gate)	**559 564**	**734 768**	**650 947**	**750 466**	**802 890**
Producer Support Estimate (PSE)	**242 867**	**254 244**	**226 451**	**256 752**	**279 527**
Market price support	188 479	155 836	142 894	157 123	167 492
of which MPS commodities	*135 955*	*106 598*	*96 882*	*106 361*	*116 553*
Payments based on output	12 213	11 176	8 657	10 344	14 526
Payments based on area planted/animal numbers [1]	15 833	39 752	33 188	39 200	46 868
Payments based on historical entitlements	515	12 099	10 139	12 770	13 387
Payments based on input use	20 302	22 572	20 467	23 345	23 903
Payments based on input constraints	2 993	9 113	7 789	9 516	10 035
Payments based on overall farming income	2 250	3 667	3 013	4 253	3 734
Miscellaneous payments	281	29	304	201	-418
Percentage PSE	**37**	**30**	**31**	**30**	**30**
Producer NPC	**1.57**	**1.29**	**1.30**	**1.29**	**1.28**
Producer NAC	**1.60**	**1.44**	**1.44**	**1.44**	**1.43**
General Services Support Estimate (GSSE)	**40 946**	**61 269**	**55 946**	**62 028**	**65 834**
Research and development	4 004	6 732	6 105	6 755	7 337
Agricultural schools	764	1 742	1 553	1 727	1 946
Inspection services	1 094	2 357	2 107	2 406	2 559
Infrastructure	13 467	19 389	17 286	20 018	20 862
Marketing and promotion	12 793	25 121	22 948	25 397	27 017
Public stockholding	6 646	2 127	2 336	2 016	2 028
Miscellaneous	2 178	3 800	3 609	3 708	4 084
GSSE as a share of TSE (%)	**13.4**	**17.7**	**18.0**	**17.8**	**17.4**
Consumer Support Estimate (CSE)	**-172 243**	**-148 181**	**-137 611**	**-154 191**	**-152 741**
Transfers to producers from consumers	-188 357	-154 629	-141 450	-156 603	-165 832
Other transfers from consumers	-17 478	-26 009	-24 238	-30 357	-23 431
Transfers to consumers from taxpayers	21 697	30 317	27 733	30 641	32 577
Excess feed cost	11 895	2 139	344	2 127	3 945
Percentage CSE	**-32**	**-21**	**-22**	**-21**	**-20**
Consumer NPC	**1.59**	**1.33**	**1.34**	**1.33**	**1.31**
Consumer NAC	**1.47**	**1.27**	**1.28**	**1.27**	**1.25**
Total Support Estimate (TSE)	**305 510**	**345 830**	**310 130**	**349 421**	**377 938**
Transfers from consumers	205 835	180 637	165 688	186 959	189 264
Transfers from taxpayers	117 153	191 201	168 679	192 819	212 106
Budget revenues	-17 478	-26 009	-24 238	-30 357	-23 431
Percentage TSE (expressed as share of GDP) [2]	2.33	1.17	1.17	1.18	1.16

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
Notes:
MPS is net of producer levies and excess feed costs. MPS commodities: see notes to individual country tables in Part II.
1. This category provisionally includes the US counter-cyclical payments from 2002.
2. TSE as a share of GDP for 1986-88 for the OECD total excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.
Source: OECD, PSE/CSE database 2005.

Table B.2. OECD: Estimates of support to agriculture
(EUR million)

	1986-88	2002-04	2002	2003	2004p
Total value of production (at farm gate)	**540 270**	**672 161**	**692 530**	**659 933**	**664 020**
of which share of MPS commodities (%)	*72*	*68*	*68*	*68*	*70*
Total value of consumption (at farm gate)	**506 464**	**667 725**	**690 697**	**664 285**	**648 194**
Producer Support Estimate (PSE)	**220 776**	**231 072**	**240 279**	**227 268**	**225 670**
Market price support	171 253	141 973	151 620	139 080	135 221
of which MPS commodities	*123 600*	*97 013*	*102 798*	*94 146*	*94 096*
Payments based on output	11 146	10 023	9 185	9 156	11 728
Payments based on area planted/animal numbers [1]	14 418	35 917	35 215	34 698	37 838
Payments based on historical entitlements	489	10 956	10 759	11 303	10 808
Payments based on input use	18 402	20 560	21 717	20 664	19 297
Payments based on input constraints	2 723	8 263	8 264	8 423	8 101
Payments based on overall farming income	2 077	3 325	3 197	3 764	3 015
Miscellaneous payments	268	54	323	178	-337
Percentage PSE	**37**	**30**	**31**	**30**	**30**
Producer NPC	**1.57**	**1.29**	**1.30**	**1.29**	**1.28**
Producer NAC	**1.60**	**1.44**	**1.44**	**1.44**	**1.43**
General Services Support Estimate (GSSE)	**37 157**	**55 805**	**59 362**	**54 905**	**53 149**
Research and development	3 624	6 127	6 477	5 979	5 924
Agricultural schools	692	1 583	1 648	1 529	1 571
Inspection services	992	2 144	2 236	2 130	2 066
Infrastructure	12 231	17 635	18 342	17 720	16 843
Marketing and promotion	11 617	22 881	24 350	22 481	21 812
Public stockholding	6 032	1 967	2 479	1 785	1 637
Miscellaneous	1 968	3 469	3 830	3 282	3 297
GSSE as a share of TSE (%)	**13.4**	**17.9**	**18.0**	**17.8**	**17.4**
Consumer Support Estimate (CSE)	**-156 261**	**-135 270**	**-146 014**	**-136 485**	**-123 312**
Transfers to producers from consumers	-171 090	-140 863	-150 088	-138 619	-133 881
Other transfers from consumers	-15 765	-23 835	-25 718	-26 871	-18 917
Transfers to consumers from taxpayers	19 716	27 616	29 426	27 123	26 300
Excess feed cost	10 879	1 811	365	1 882	3 185
Percentage CSE	**-32**	**-21**	**-22**	**-21**	**-20**
Consumer NPC	**1.59**	**1.33**	**1.34**	**1.33**	**1.31**
Consumer NAC	**1.47**	**1.27**	**1.28**	**1.27**	**1.25**
Total Support Estimate (TSE)	**277 648**	**314 494**	**329 068**	**309 295**	**305 119**
Transfers from consumers	186 856	164 698	175 806	165 490	152 798
Transfers from taxpayers	106 558	173 631	178 980	170 676	171 238
Budget revenues	-15 765	-23 835	-25 718	-26 871	-18 917
Percentage TSE (expressed as share of GDP) [2]	2.33	1.17	1.17	1.18	1.16

p: provisional. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
Notes: MPS is net of producer levies and excess feed costs. MPS commodities: see notes to individual country tables in Part II. 1. This category provisionally includes the US counter-cyclical payments from 2002. 2. TSE as a share of GDP for 1986-88 for the OECD total excludes the Czech Republic, Hungary, Poland and the Slovak Republic as GDP data is not available for this period.
Source: OECD, PSE/CSE database 2005.

Table B.3 OECD: Producer Support Estimate by country

		1986-88	2002-04	2002	2003	2004p
Australia	USD mn	1 321	1 068	1 058	1 063	1 085
	EUR mn	1 219	980	1 123	941	876
	Percentage PSE	8	4	5	4	4
	Producer NPC	1.05	1.00	1.00	1.00	1.00
	Producer NAC	1.09	1.05	1.06	1.04	1.04
Canada	USD mn	6 082	5 521	4 798	6 051	5 714
	EUR mn	5 548	5 020	5 091	5 357	4 613
	Percentage PSE	36	22	21	25	21
	Producer NPC	1.40	1.14	1.12	1.16	1.13
	Producer NAC	1.57	1.29	1.26	1.34	1.27
Czech Republic (1)	USD mn	1 350	1 003	967	1 165	n.c.
	EUR mn	1 097	1 012	1 026	1 031	n.c.
	Percentage PSE	31	26	25	29	n.c.
	Producer NPC	1.54	1.20	1.21	1.22	n.c.
	Producer NAC	1.49	1.35	1.33	1.40	n.c.
European Union (2)	USD mn	101 672	114 274	91 407	118 028	133 386
	EUR mn	92 308	103 050	96 989	104 474	107 686
	Percentage PSE	41	34	34	36	33
	Producer NPC	1.80	1.32	1.31	1.34	1.29
	Producer NAC	1.71	1.52	1.52	1.56	1.49
Hungary (1)	USD mn	880	1 573	1 871	1 685	n.c.
	EUR mn	716	1 592	1 986	1 492	n.c.
	Percentage PSE	16	28	33	28	n.c.
	Producer NPC	1.15	1.19	1.19	1.22	n.c.
	Producer NAC	1.20	1.39	1.49	1.39	n.c.
Iceland	USD mn	196	195	165	204	216
	EUR mn	177	177	175	180	175
	Percentage PSE	77	70	70	72	69
	Producer NPC	4.37	3.15	3.13	3.28	3.03
	Producer NAC	4.36	3.37	3.36	3.53	3.23
Japan	USD mn	48 976	46 924	44 162	47 874	48 737
	EUR mn	44 408	42 861	46 859	42 377	39 346
	Percentage PSE	61	58	58	59	56
	Producer NPC	2.47	2.27	2.29	2.33	2.20
	Producer NAC	2.58	2.37	2.39	2.43	2.28
Korea	USD mn	12 075	18 253	17 575	17 334	19 849
	EUR mn	10 840	16 672	18 648	15 344	16 025
	Percentage PSE	70	63	65	61	63
	Producer NPC	3.33	2.59	2.76	2.46	2.55
	Producer NAC	3.39	2.72	2.88	2.59	2.67
Mexico (3)	USD mn	8 255	7 024	8 961	6 661	5 452
	EUR mn	6 718	6 602	9 508	5 896	4 401
	Percentage PSE	28	21	26	19	17
	Producer NPC	1.35	1.17	1.27	1.14	1.09
	Producer NAC	1.39	1.26	1.35	1.24	1.20
New Zealand	USD mn	474	186	103	198	257
	EUR mn	451	164	109	176	208
	Percentage PSE	11	2	2	2	3
	Producer NPC	1.02	1.02	1.01	1.02	1.02
	Producer NAC	1.13	1.02	1.02	1.03	1.03

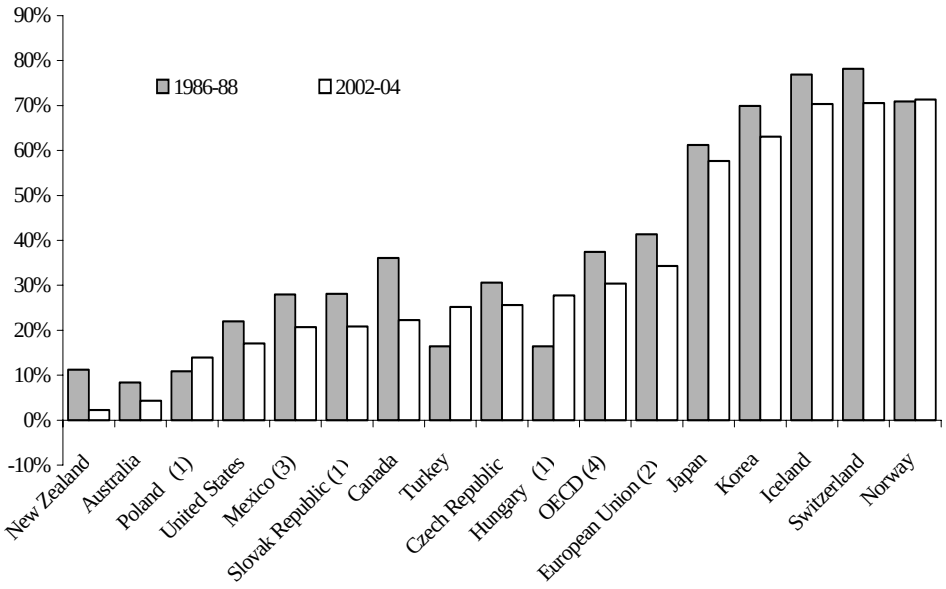
Table B.3. OECD: Producer Support Estimate by country *(cont'd)*

		1986-88	2002-04	2002	2003	2004p
Norway	USD mn	2 812	2 902	2 755	2 995	2 955
	EUR mn	2 545	2 653	2 923	2 651	2 385
	Percentage PSE	71	71	74	72	68
	Producer NPC	4.29	2.80	3.27	2.73	2.41
	Producer NAC	3.45	3.52	3.88	3.54	3.12
Poland (1)	USD mn	1 433	2 065	2 681	1 224	n.c.
	EUR mn	1 180	2 161	2 844	1 084	n.c.
	Percentage PSE	11	14	19	8	n.c.
	Producer NPC	1.08	1.15	1.19	1.10	n.c.
	Producer NAC	1.13	1.17	1.23	1.09	n.c.
Slovak Republic (1)	USD mn	540	348	343	469	n.c.
	EUR mn	440	346	364	415	n.c.
	Percentage PSE	28	21	21	25	n.c.
	Producer NPC	1.17	1.13	1.14	1.20	n.c.
	Producer NAC	1.40	1.27	1.27	1.34	n.c.
Switzerland	USD mn	5 457	5 343	4 885	5 336	5 807
	EUR mn	4 925	4 865	5 184	4 723	4 688
	Percentage PSE	78	71	73	71	68
	Producer NPC	5.10	2.57	2.81	2.54	2.36
	Producer NAC	4.59	3.41	3.66	3.40	3.16
Turkey	USD mn	3 162	9 365	5 614	10 846	11 635
	EUR mn	2 868	8 317	5 957	9 601	9 393
	Percentage PSE	16	25	20	29	27
	Producer NPC	1.17	1.28	1.20	1.36	1.30
	Producer NAC	1.20	1.34	1.26	1.40	1.36
United States	USD mn	36 390	40 409	39 105	35 618	46 504
	EUR mn	33 295	36 855	41 493	31 527	37 544
	Percentage PSE	22	17	18	15	18
	Producer NPC	1.14	1.09	1.10	1.07	1.11
	Producer NAC	1.28	1.21	1.22	1.18	1.22
OECD (4)	USD mn	242 867	254 244	226 451	256 752	279 527
	EUR mn	220 776	231 072	240 279	227 268	225 670
	Percentage PSE	37	30	31	30	30
	Producer NPC	1.57	1.29	1.30	1.29	1.28
	Producer NAC	1.60	1.44	1.44	1.44	1.43

p: provisional. n.c.: not calculated. NPC: Nominal Protection Coefficient. NAC: Nominal Assistance Coefficient.
Notes:
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93, and 2002-04 by 2001-03.
2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004. The value of producer support (PSE) in the EU15 for 2004 is estimated to be EUR 100 236 million (USD 124 192 million).
3. For Mexico, 1986-88 is replaced by 1991-93.
4. 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.

Figure B.2. Producer Support Estimate by country

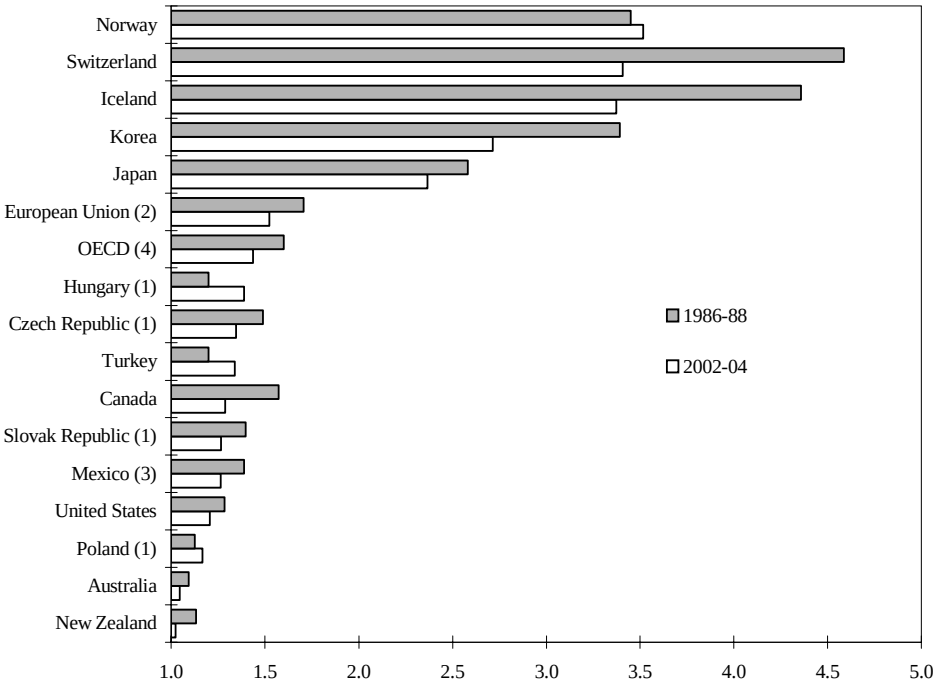
(Percent of value of gross farm receipts)



Notes: Countries are ranked according to 2002-04 levels.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93, and 2002-04 by 2001-03.
2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.
3. For Mexico, 1986-88 is replaced by 1991-93.
4. 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.

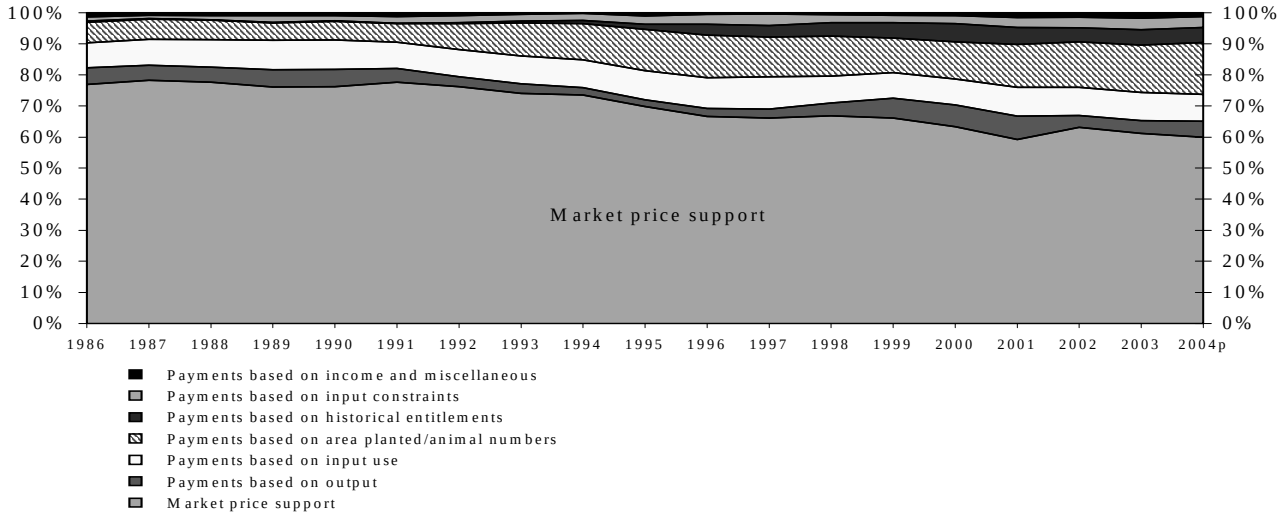
Figure B.3. Producer Nominal Protection Coefficient by country



Notes: Countries are ranked according to 2002-04 levels.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93, and 2002-04
by 2001-03.
2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.
3. For Mexico, 1986-88 is replaced by 1991-93.
4. 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.

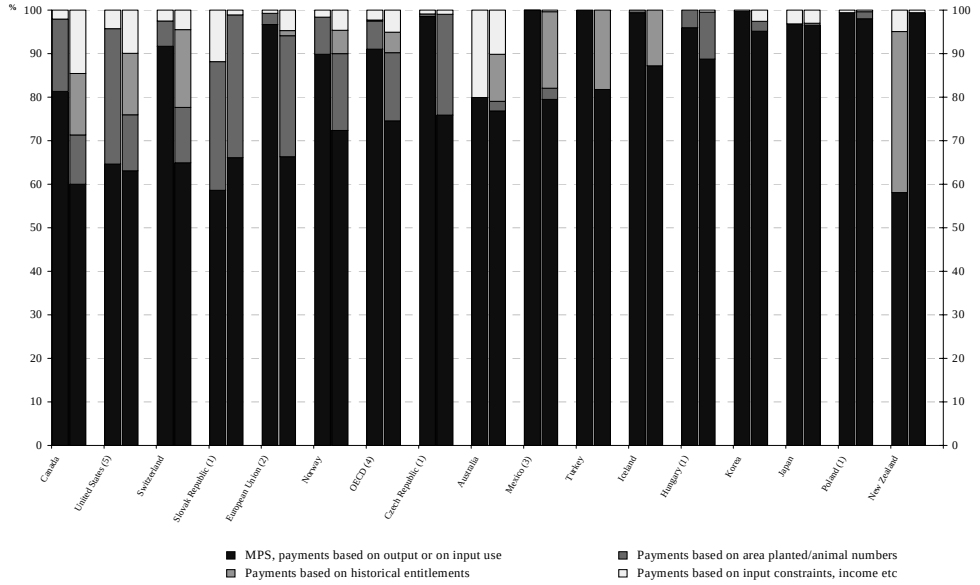
Source: OECD, PSE/CSE database, 2005.

Figure B.4. Composition of Producer Support Estimate for the OECD
(Percentage share in PSE)



Source: OECD, PSE/CSE database, 2005.

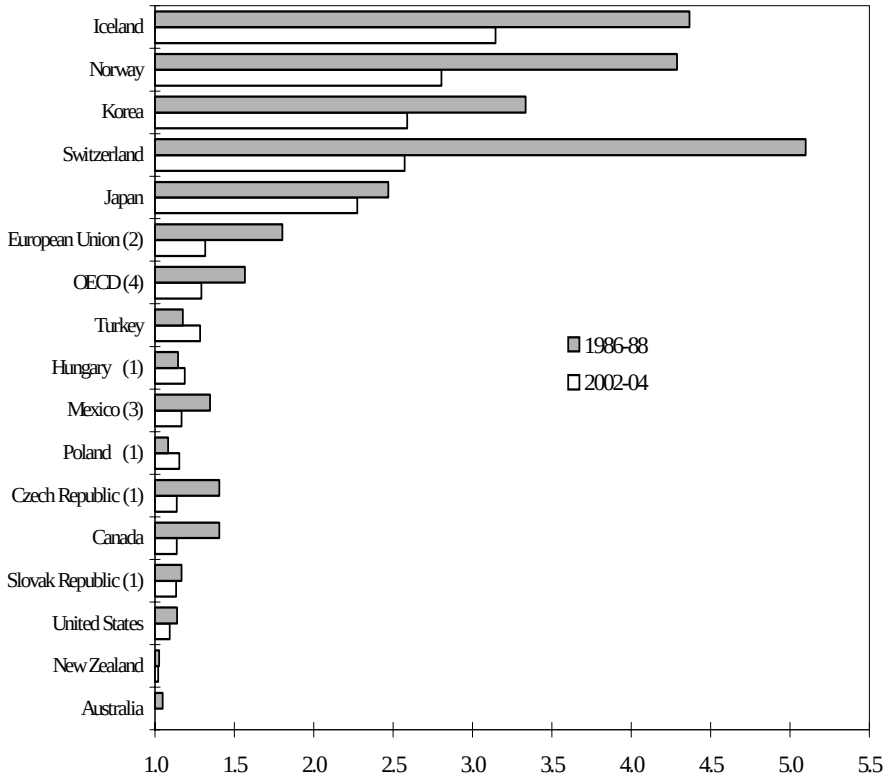
Figure B.5. Composition of Producer Support Estimate by country, 1986-88 and 2002-04
(Percentage share in PSE)



Notes: Countries are ranked according to the 2002-04 shares of market price support and payments based on output or on input use in the PSE.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93, and 2002-04 by 2001-03.
2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.
3. For Mexico, 1986-88 is replaced by 1991-93.
4. 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.
5. Payments based on area planted for 2002-04 provisionally include US counter-cyclical payments from 2002.

Source: OECD, PSE/CSE database, 2005.

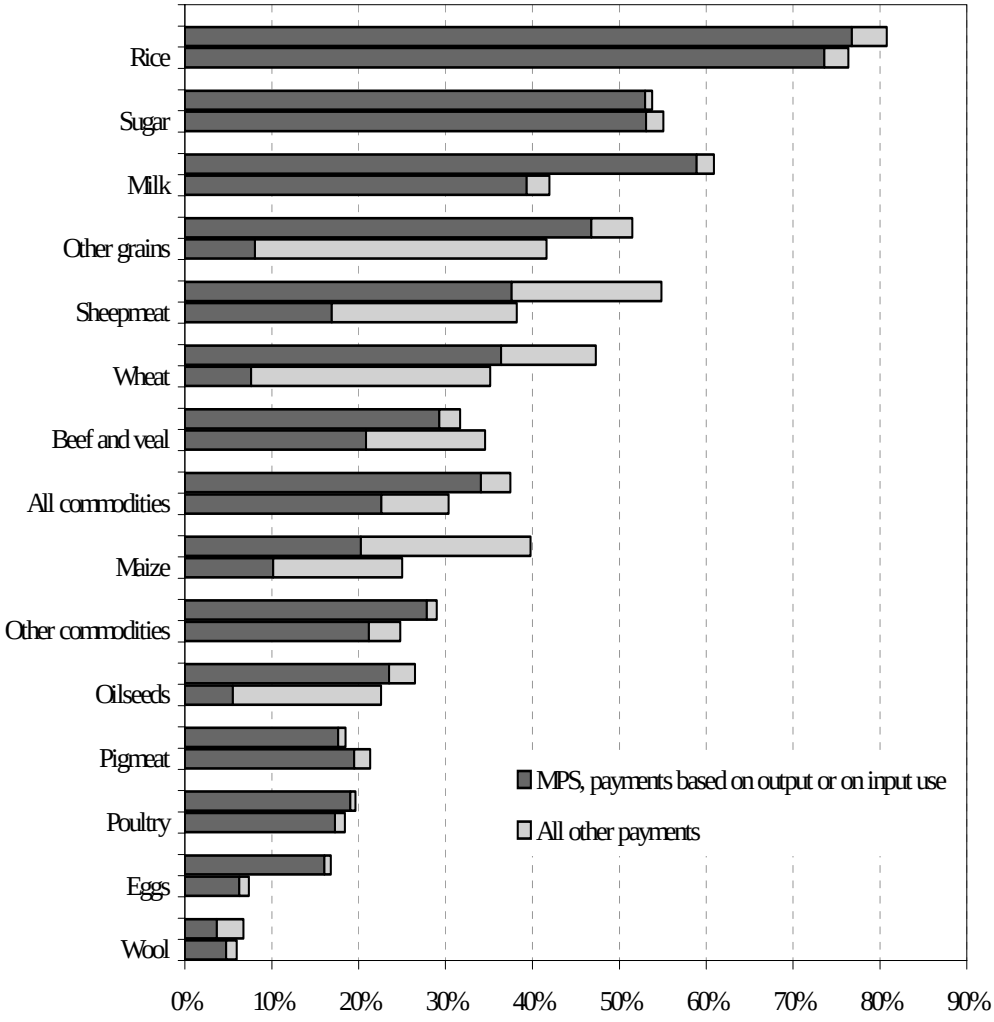
Figure B.6. Producer Nominal Protection Coefficient by country



Notes: Countries are ranked according to 2002-04 levels.
1. For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93, and 2002-04 by 2001-03.
2. EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004.
3. For Mexico, 1986-88 is replaced by 1991-93.
4. 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.

Figure B.7. Producer Support Estimate by commodity, 1986-88 and 2002-04
(OECD average as percent of value of gross farm receipts)



Note: For each commodity the first horizontal bar represents 1986-88, the second 2002-04. Commodities are ranked according to 2002-04 levels.
Source: OECD, PSE/CSE database, 2005.

Table B.4. OECD: Total Support Estimate by country

		1986-88	2002-04	2002	2003	2004p
Australia	USD mn	1 710	1 504	1 412	1 505	1 595
	EUR mn	1 570	1 373	1 498	1 332	1 287
	Percentage of GDP	0.8	0.3	0.4	0.3	0.3
Canada	USD mn	7 577	7 160	6 261	7 729	7 490
	EUR mn	6 907	6 510	6 643	6 841	6 047
	Percentage of GDP	1.8	0.8	0.8	0.9	0.7
Czech Republic (1)	USD mn	1 386	1 117	1 076	1 303	n.c.
	EUR mn	1 126	1 127	1 141	1 153	n.c.
	Percentage of GDP	4.4	1.5	1.5	1.4	n.c.
European Union (2)	USD mn	117 216	128 881	103 643	132 431	150 568
	EUR mn	106 372	116 251	109 972	117 223	121 557
	Percentage of GDP	2.8	1.2	1.2	1.3	1.2
Hungary (1)	USD mn	901	1 876	2 219	2 024	n.c.
	EUR mn	733	1 897	2 355	1 792	n.c.
	Percentage of GDP	2.5	2.8	3.4	2.4	n.c.
Iceland	USD mn	260	215	182	226	239
	EUR mn	233	195	193	200	193
	Percentage of GDP	5.1	2.1	2.1	2.1	1.9
Japan	USD mn	57 644	58 881	55 489	60 304	60 850
	EUR mn	52 200	53 794	58 877	53 379	49 126
	Percentage of GDP	2.3	1.4	1.4	1.4	1.3
Korea	USD mn	13 217	21 247	20 460	20 753	22 528
	EUR mn	11 860	19 422	21 709	18 370	18 187
	Percentage of GDP	9.3	3.5	3.7	3.4	3.4
Mexico (3)	USD mn	10 874	7 848	9 685	7 573	6 287
	EUR mn	8 846	7 352	10 276	6 703	5 075
	Percentage of GDP	3.0	1.2	1.5	1.2	1.0
New Zealand	USD mn	578	304	194	320	398
	EUR mn	545	270	206	283	322
	Percentage of GDP	1.7	0.4	0.3	0.4	0.4
Norway	USD mn	3 162	3 146	2 974	3 252	3 212
	EUR mn	2 863	2 876	3 155	2 879	2 593
	Percentage of GDP	3.5	1.4	1.6	1.5	1.3
Poland (1)	USD mn	1 693	2 414	3 107	1 622	n.c.
	EUR mn	1 391	2 513	3 296	1 436	n.c.
	Percentage of GDP	2.2	1.2	1.6	0.8	n.c.
Slovak Republic (1)	USD mn	612	405	407	541	n.c.
	EUR mn	498	403	431	479	n.c.
	Percentage of GDP	4.2	1.6	1.7	1.7	n.c.
Switzerland	USD mn	6 546	5 834	5 361	5 889	6 252
	EUR mn	5 908	5 316	5 688	5 213	5 047
	Percentage of GDP	4.0	1.8	1.9	1.8	1.7
Turkey	USD mn	3 471	10 485	7 642	11 750	12 063
	EUR mn	3 145	9 416	8 109	10 400	9 739
	Percentage of GDP	3.9	4.4	4.2	4.9	4.1
United States	USD mn	64 009	96 972	90 020	92 199	108 696
	EUR mn	58 476	88 294	95 517	81 611	87 753
	Percentage of GDP	1.3	0.9	0.9	0.8	0.9
OECD (4)	USD mn	305 510	345 830	310 130	349 421	377 938
	EUR mn	277 648	314 494	329 068	309 295	305 119
	Percentage of GDP	2.3	1.2	1.2	1.2	1.2

p: provisional. n.c.: not calculated.
Notes: *1.* For the Czech Republic, Hungary, Poland and the Slovak Republic, 1986-88 is replaced by 1991-93, and 2002-04 by 2001-03. *2.* EU12 for 1986-94 including ex-GDR from 1990; EU15 for 1995-2003; EU25 from 2004. The value of the total support to agriculture (TSE) in the EU15 for 2004 is estimated to be EUR 113 007 million (USD 139 977 million).
3. For Mexico, 1986-88 is replaced by 1991-93. *4.* 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.

Annex C

OECD Action for a Shared Development Agenda

(From the OECD Council at Ministerial Level, Final communiqué, 16 May 2002)

OECD's Role and Strengths

1. Contributing to global development is a key objective of the OECD. Its founding Convention calls upon the OECD to promote policies

   "… designed to contribute to sound economic expansion in member as well as non-member countries in the process of economic development." (Article 1(b)).

   Given increased interdependence, this objective is even more vital today in order to achieve poverty reduction and sustainable development globally. The principles and values that the OECD promotes -- commitments to democracy, market-based economies and open, rule-based, and non-discriminatory trading and financial systems, supported by good governance -- are essential to achieving our ultimate goal of the economic and social well being of all people, in a way that respects diversity and cultural identity.

2. OECD's strengths include a multidisciplinary capacity for analysis and policy dialogue, its sharing of best practices and monitoring of its Members through peer review, and extensive policy dialogue and capacity building activities with more than 70 non-member economies, international organisations and other stakeholders. The Development Assistance Committee (DAC) provides a capacity to foster amongst donors concerted, well co-ordinated, effective and adequately financed international efforts in support of development and poverty reduction in developing countries.

3. The building blocks for achieving the internationally agreed goals of the Millennium Declaration are now in place, supported by a broadly shared view that effective development calls for a comprehensive, partnership-based and results-focused approach. Developing countries have primary responsibility for their economic and social development, establishing good governance and sound policies to mobilise domestic resources and attract private investment, while developed countries give increased attention to the impacts of their policies on developing countries, and assist developing countries, in particular least developed countries (LDCs), in their

efforts to build the capacity necessary to make effective use of trade, investment and aid in support of poverty reduction and sustainable development.

How OECD Contributes

4. The OECD, for its part, will build upon its strengths to advance this shared development agenda in the following ways:

Encouraging policy coherence for development

5. Successful poverty reduction requires mutually supportive policies across a wide range of economic, social and environmental issues. 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. Analysis should consider trade-offs and potential synergies across such areas as trade, investment, agriculture, health, education, the environment and development co-operation, to encourage greater policy coherence in support of the internationally agreed development goals.

6. By increasing understanding of the development benefits of rules-based trade and investment, such work will help to reinforce our efforts, including promoting the better integration of developing countries into the multilateral trading system, to achieve more open markets both between developed and developing countries and among developing countries themselves to allow for export-led growth, and further our aim to improve market access to the goods of developing countries, and particularly LDCs.

Supporting developing countries' governance and policy capacities

7. The OECD will continue to work with developing countries and countries in transition to help them identify and meet key human and governance capacity needs, including through use of information and communication technologies. OECD Global Forums and regional dialogue can support developing countries' efforts to build good governance and market-supportive institutions conducive to mobilising domestic resources and attracting investment capital. Such resources are critically important to developing countries' efforts to achieve sustained economic growth and support their capacities to address vital environmental, educational, health and other needs. We welcome initiatives at the regional level, such as the New Partnership for Africa's Development (NEPAD), and stand ready to share the OECD's experience and expertise, notably on peer reviews, in support of a sustained commitment to strengthen political and economic governance.

Improving aid effectiveness and ensuring adequate aid volume

8. Aid remains an important policy instrument and complement to domestic and international private capital for reducing poverty, preventing conflict, promoting good governance and creating an enabling environment conducive to achieving private sector-led growth. The OECD, where the world's major donors meet, has a

key role in improving aid effectiveness, thereby sustaining the case for aid volume. Peer review in the DAC is an important tool in support of this role. The OECD is working to reduce the complexity of aid management procedures in collaboration with multilateral aid agencies and developing countries, and to ensure effective implementation of all aspects of the OECD/DAC Recommendation on untying aid to the least developed countries.

Strengthening partnerships and accountability

9. The OECD will strengthen its partnerships with non-members, in particular developing countries, as well as with international organisations and other stakeholders through analytical work, policy dialogue, and advice. A broader and more effective dialogue will improve the quality of our efforts to support development. The OECD will account for its actions to advance this shared development agenda through regular review and reports on progress.

The full text of the Communiqué is available at http://www.oecd.org/document/41/0,2340,en_2649_201185_2088681_1_1_1_1,00.html

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The Development Dimension

Agriculture and Development

THE CASE FOR POLICY COHERENCE

The OECD's calculations of its member countries' support to agriculture receive world-wide attention. These numbers have been used effectively by NGOs, international organisations and others to draw attention to the huge sums of money spent to support agricultural producers, often the richest ones.

However, the political will for change continues to be sapped by vested interests that stand to lose out. With a view to helping policy analysts and decision makers focus on the development impacts of their policies, this report discusses the extent to which OECD country agricultural and agricultural trade policies are coherent with, and supportive of, the achievement of the Millennium Development Goals, particularly the elimination of extreme poverty and hunger.

Agriculture and Development: The Case for Policy Coherence defines the "where" (country impact), "how" (most damaging forms of support), "which" (commodity aspects) and "who" (household effects) of agricultural policy reform. It treats the effects of four main categories of OECD country agricultural policies: domestic, trade, regulatory, and development co-operation policies. In each case it identifies the implications from the perspective of making agriculture and development policies more coherent.

By providing a survey of the policy coherence dimension in OECD country agricultural policy-making, this report provides the analytical framework that policy makers need to help them weigh their decisions in the light of their countries' internationally agreed development commitments.

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