



Evian Group Communiqué – February 2004

Agriculture: Extracts Arising from the November 2003 Evian Group Plenary Meeting Session VI – *Why is Agriculture so Important and What Must be Done?*

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Post-Cancún situation

After the failure of the WTO Ministerial Meeting in Cancún in September 2003, the question now is how to re-start the negotiations and achieve a successful Doha Round in a reasonable timeframe. As negotiations resume in Geneva, agriculture is more crucial than ever.

In Cancún, agriculture was acknowledged to be a top priority agenda item. It was also a key issue where the interests of WTO members diverged, revealing the importance of emerging alliances, such as the G90 and the G20. Demands formulated by African cotton producing countries were comprehensively reported in the media. However, agriculture was held hostage – some would say on purpose – by other issues (in particular the controversial Singapore issues). Cancún showed that trying to reach a consensus on issues that seemed at first sight easier to negotiate might not prove the right strategy to move the Doha Round forward. **Real negotiations on agriculture still have to take place.**

Successful agriculture negotiations will not solve all the problems faced by the developing world. A lot more is needed – education, health, infrastructure, governance reforms etc. However, comprehensive agricultural reform and liberalization can contribute significantly to development and poverty alleviation – even if initially only by eliminating the flaws of the present situation. Indeed, liberalization of agricultural markets is specifically referred to in the list of indicators to be monitored by the United Nations Millennium Project (see indicators 37 to 39, under Millennium Development Goal 8, Target 12: “Develop further an open, rule-based, predictable, non-discriminatory trading and financial system”).

If it fails to deal with agriculture, the WTO system might lose legitimacy in the eyes of those to which a *Development Round* was promised in Doha in 2001, i.e. developing countries. However, as is the case for the failure in Cancún, it is not the institution that should be blamed for the broken promise, but its members.

Domestic protection: Beyond economic efficiency, common sense

Agriculture is the sector where many developing countries do already have or can better develop comparative advantages. But it is also one of the most distorted trade sectors. The agricultural issue is perceived as – and is – extremely complex. It also evokes a lot of history, sentimentality and sensitivity; which are translated into the so-called “non-trade concerns”. However, the **end game** is fairly simple: global prosperity.

Subsidies still amount to over \$300 billion per year in OECD countries, which is equivalent to about 6 times the amount of public aid for development. A cow in Europe receives an annual subsidy of about \$900 – her Japanese sister gets about \$1400 – which is much more than the annual per capita GNI of

Sub-Saharan Africa, estimated at \$461 in 2001¹. Massive cotton and sugar subsidies are as shocking: in 2001, US cotton subsidies amounted to more than \$3 billion, which corresponds to the GDP of Burkina Faso – one of the world's most efficient cotton producing countries. 60% of Burkina Faso's foreign exchange earnings come from cotton.

Cotton provides a good example of the flaws of the current situation. Producers in Mali, Chad, Burkina Faso and Benin – the four West African countries that launched the “cotton initiative” at the WTO – produce cotton at about 48¢ per pound. The cotton produced is often clean and environmentally friendly. European and American farmers produce cotton at about 70¢ per pound², via a mechanized process. In 2001, cotton prices fell sharply down to 28¢ per pound. That same year, US cotton producers got a subsidy of 52¢ per pound and EU cotton producers in Spain and Greece 60¢. Producers in West Africa got nothing. 20'000 farmers grow cotton in the US; 10 million in Africa.

Unfortunately, cotton is not the only commodity that suffers from the heavy distortions caused by subsidies in the industrialized world. In the EU, sugar prices are between €170-240 per ton, and the corresponding subsidies amount to €540-630 per ton. The EU has a 15% share of global sugar trade, but is one of the world's most inefficient producers.

The present situation – rich and inefficient farmers in Europe and in the United States harming poor and efficient farmers in West Africa – is totally unjustifiable, morally, economically and politically.

In addition, resources are badly allocated not only at the international level, but also domestically: inefficient producers continue their activity at the cost of consumers and taxpayers; and competitive producers do not have access to major markets. Subsidies tend also to go to a few big farmers only, thereby failing to bring about income redistribution – on the contrary! – which is the usual justification for subsidisation. Agriculture is a matter of politics, special interest groups and lobbies, which results in other inequalities at the domestic level. About 10% of US farmers receive 70% of the subsidies, whereas the bottom 80% received in 2001 only 12% of the total subsidies³. Often linked to production, big agribusinesses are the main beneficiaries of domestic support. Taxpayers – who are funding subsidies – are often not sufficiently informed; in order for the system to change, they need to be! The system is not only unfair, but also senseless.

The negotiators at the WTO may wish to engage in discussions on some of the finer points in the categorization of subsidies in green (subsidies with no or a minimal impact on trade), blue (payments tied to an obligation to limit production) and amber boxes (trade and production distorting support measures). The example of the United States revealed that an inflation of the green box could also prejudice fair trade and markets' equilibrium. However, the broader context should not be forgotten. If the Doha Round is to be a development round, it must address cases where the unfairness of the current situation to the detriment of developing countries is blatant – such as cotton.

The expiration at the beginning of 2004 of the so-called “**peace-clause**” will put pressure on industrialized countries to liberalize their agriculture. The “peace clause”, contained in the Agriculture Agreement, was broadly interpreted as prohibiting countries to take action against other members' subsidies. The failure of the Cancún Ministerial meeting meant that no decision was taken on the extension of the clause. From now on, WTO members will be able to action subsidies granted to a specific industry and ask for compensation, if they can prove that it causes them a “serious prejudice”. The end of the “peace clause” implies that subsidies are no longer insulated from actions in courts and dispute settlement. This might reveal an important step in achieving a more balanced system, although a tacit “peace clause” might still exist between the United States and the European Union.

¹ World Bank.

² See for instance www.ersd.usda.gov for the US figures.

³ Still at the Federal Through: farm Subsidies for the Rich and Famous shattered records in 2001, Brian M. Riedl, The Heritage Foundation Backgrounder n°1542, 30.04.2002.

Market Access: Leadership would be more useful than calls for reciprocity

Market access really matters for developing countries. Market access barriers are all-time favorite protection tools, primarily because they do not imply direct costs, contrary to subsidies. They also represent a source of income for governments, that is not negligible in some developing countries.

Tariffs are used in a very selective manner. It is true that the EU is, at one level, very open – it is the largest importer of agricultural products. However, it is open for the commodities it does *not* produce, such as tropical products. Tariffs imposed by industrialized countries on certain agricultural products are breathtakingly high: Japan imposes a 500% duty on rice, whereas the average tariff on sugar beet amounts in the EU to 350%, the same figure as the US tariff rate on butter.

Agriculture is not always a North/South issue, and high tariffs are found in both developed and developing countries. The Cairns group is also made of both developed and developing countries. However, it is questionable whether industrialized countries can reasonably expect poor countries to open their markets at the same pace as they open theirs. For industrialized countries, the rural workforce corresponds to 2 to 5% of total labor, while in developing countries it is often more than 50%. A development round must be balanced and realistic: but the focus and the outcome must be on development! Obviously, substantial agriculture liberalization will benefit primarily industrialized countries and large developing countries whose agricultural sector is efficient. Developing countries with weak and inefficient agricultural sectors that have come to depend on “hand-outs” of subsidized products from industrialized countries will need to be granted extra consideration and protection.

There is no doubt that the ultimate goal must be for developing countries to open their markets, and that this would benefit consumers. Protectionism has never proved successful in the long run. However, it must be acknowledged that poorer countries should be granted special and differential treatment (S&DT) for local producers and local markets to be given time to adapt and to ensure that social stability is not suddenly and radically undermined.

Rules: Bargaining Chips?

Certain industrialized countries argue for rules to make their agriculture sustainable, such as geographical indications. Geographical indications could prove a double-edged weapon - a tool for differentiation of products and, if abused, a protectionist tool. The Cancún Ministerial revealed that there was little enthusiasm in the WTO for entering into new regulatory frameworks.

Rules on standards and environment also have a major impact on farm trade. These are outside the negotiations on agriculture, but should be carefully looked at.

However, the key point is that success in agricultural negotiations should not be held hostage to progress on rules. At this point, the right priorities should be set.

Food supply: Beyond the WTO

World population should reach its peak (just below 10 billion people) around the middle of the century, then decline. As a result, demand for food will continue to increase, partially also because of prospective higher living standards in developing countries. The main concerns are about meat and water supply.

The aim is to produce 2 to 3 times more agricultural products for the same surface of cultivated land. This should be easily achievable, as productivity was multiplied by 2 every 25 years in the past. Technology should contribute to wide-spreading productivity gains, assuming it is made available to all.

The purpose of agriculture is to feed people; agriculture, therefore, has a very strong social and demographic dimension. Whereas it is undeniable that trade has an extremely important role to play in order to provide the world population with food, many issues related to agriculture go well beyond trade.

Millions and millions of people are into subsistence agriculture, i.e. very small-scale farms. If these people cannot produce, they will go to cities, where very often no opportunities or jobs will be given to them. If subsidies are phased out in rich countries, this will not necessarily bring a solution for them. It is also doubtful that an increase in prices resulting from a phasing out of all subsidies would be sufficient to make some developing countries producers more competitive and reduce the deficit of some net food-importing countries. The question that trade negotiators will have to answer is how to help these rural populations to become more successful, for instance by producing special types of products (organic food, "niche" markets, equitable trade) or restructuring some agricultural sectors through technical assistance and trade capacity building.

Recommendations: Leadership and Commitment

Agriculture is too important to be left to agriculture ministries and lobbies. Leaders of industry and services sectors need to get involved in the discussion on agriculture

Agricultural protectionism also bears costs for the industry and services sectors. High land prices, huge portions of budgets allocated to agriculture etc... also adversely affect other areas of a nation's economy and society. However, business has so far been insufficiently involved in the discussion of agriculture, both at a domestic and international level. In addition, at the WTO, liberalization of other sectors has been made in practice dependent on the outcome of agricultural negotiations. Thus, there is a case for business to get involved in order to move forward the negotiations on agriculture.

There are no appropriate alternatives to the multilateral system as far as agriculture liberalization is concerned.

While, after the failure in Cancún, there was a widespread move towards the conclusion of bilateral agreements, such agreements do not offer constructive prospects for agriculture. First, agriculture is in many countries too sensitive a sector to be liberalized in the context of a bilateral deal. Second, there is no point for a country to commit to give up domestic support in a bilateral deal if its major trading partners do not undertake similar commitments. For example, the US is unlikely to stop subsidizing its agriculture because of a bilateral deal with a third country, if the EU and Japan do not make the same commitment. Thus, if agriculture is not liberalized multilaterally, it is likely not to be liberalized at all, and - as mentioned before – this would take away benefits from both developing and industrialized countries.

The Doha Round cannot succeed unless industrialized countries accept to reform their agricultural sectors

The importance of agriculture is sometimes explained by the concept of food security. However, highly protected products are often not vital to consumers. There is an important need for clarification and simplification of the debate. One problem in the agricultural debate is that people do not understand – let alone agree – why the current situation is unsatisfactory. There are a lot of vested interests.

There is no vision based on human and social goals of what are the objectives of multilateral trade negotiations, and thus no agreement on how to reach them.

There is also a need for generating greater awareness among public opinion in industrialized countries on the costs and final use of farm support. The interests of a few defended by powerful lobbies should not surpass the long-term interest of the majority, as is presently the case in most OECD countries.

Whereas the American, European and Japanese agricultural policies proved successful, and indeed necessary, in the aftermath of WWII, this is no longer the case. France started to produce sugar beet in the context of Napoleon's war against Great Britain and a blockade that made it impossible to import sugar cane from the colonies. Such policies are no longer justified because they hurt consumers at home and producers abroad. In the perspective of the EU's enlargement, a reform of the common agricultural policy will become unavoidable. Continuing to devote such a high percentage of the budget to agricultural support will prove unsustainable. The EU has to decide whether it wants to come to the table to promote European values or to protect European agriculture. It cannot do both without incurring yet again the accusation of being flagrantly hypocritical.

Conclusion

Finding a consensus on agriculture liberalization is not an easy task – and has never been. However, a solution must by all means be found in the course of the ensuing months.

If agricultural negotiations fail or do not achieve satisfactory results, the chances that the Doha Round survives and succeeds are quasi nonexistent. A failure of this *Development* Round will be harmful, not only to the economy, but also to peace and global security. Development must not only be a label for the Round, it must become reality. And to achieve this, the procrastination of real negotiations on agriculture must be quickly brought to an end.

Distortions that are morally, economically and politically unjustifiable have no reason to last. This is all the more so the case as agriculture, for example, has been hovering around the trade agenda for years, but invariably relinquished to a moveable feast. Industrialized countries must show willingness to eliminate trade-distorting subsidies and open their markets without asking full reciprocity from developing countries as they are in a position to make. In addition, even though standards and geographical indications are important issues, the right priorities must be set, and in this Round, priorities relate to market access improvements and phasing out of domestic support and export subsidies to the benefit of developing countries.

In the long run, protectionism has never proved to be a suitable solution. It harms producers in developing countries, consumers in industrialized countries and benefits only a small – and generally quite pampered – minority. Collective vision and action is required to avoid detrimental “short-termism”. This is also true for developing countries: it is in the interest of all to open markets, and efforts – although differentiated – must be made on all parts. Real negotiations imply good faith and a give/take approach and not a take/take approach that some countries seem to have adopted.

The costs of failing to achieve the Doha Development Round – specifically failing to move forward the agricultural agenda – should not be underestimated and will be borne not only by current generations, but also by future generations!