



**Center For Global Development
The German Marshall Fund of the United States
&
The Heinrich Böll Foundation**

present

**"HOW TO FIGHT HUNGER AND POVERTY:
IS LIBERALIZATION
OF AGRICULTURAL TRADE THE SOLUTION?"**

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P R O C E E D I N G S

MS. SCHALATEK: Good afternoon. I would like to welcome you all on behalf of the organizers, the Center for Global Development, the German Marshall Fund of the United States, and the Henrich Boll Foundation.

My name is Liane Schalatek. I'm the associate director of the Henrich Boll Foundation here, and the Heinrich Boll Foundation is a German non-profit political foundation affiliated with the Green Party in Germany. And this is why we are especially honored and privileged to have Renate Kunast, the German Federal Minister for Consumer Protection, Food and Agriculture and a member of the Green Party as part of our distinguished panel here today.

I would also like to just take a second to thank Sarah Dean [ph.] and Lawrence MacDonald from the Center for Global Development, and Susan Seckler [ph.] from the German Marshall Fund of the United States.

When we approached them initially about putting together this event, they welcomed us with enthusiasm and gave generously of their time and expertise to make this event happen today. And when I'm looking around here, I have to say personally it's a wonderful turnout, and it's for me tremendously gratifying.

I think it speaks to the importance of the issues that our expert panel will tackle here in just a few moments.

Indeed, the discussion I believe is both timely and timeless; timely since we are looking ahead to the Millennium Review Summit in September in New York, which judge the progress that will be made towards achieving the Millennium Development Goals, and as you all know one of them, the first goal, is trying to have poverty and hunger by 2015; timely also because the sixth WTO Ministerial in Hong Kong in December will attempt to finish negotiations on a dual development round, with agricultural trade being one of the central issues if not the central issue.

Timeless and I think the discussion is timeless, indeed, not only because sadly the issue of poverty and hunger has not been resolved yet, and it might not be in our lifetime, but also because the issue, the complex issues of food agriculture, development, and poverty alleviation deserves a holistic approach which takes into account the unchanging tenets of human dignity, equity, people's livelihood, and the cultural and social dimensions of food and agricultural production.

Food is more than a tradeable commodity, a fact that our honored guest, Minister Kunast, has championed in her work for voluntary FAO guidelines for the right to food, for the right to adequate food in the last few years.

I'm looking very much forward to this discussion, not the least because we were able to win over Nancy Birdsall as our moderator.

Nancy personifies a wealth of knowledge on development issues acquired over a distinguished career that included 14 years in research, policy, and management positions at the InterAmerican Development Bank and the World Bank.

She's also, as you all I'm sure are familiar the founding president of the Center for Global Development.

With this, I would like to hand the microphone over to Nancy. Thank you again, all, for coming, and I'm looking forward to a tremendous event.

[Applause.]

MS. BIRDSALL: Well, thank you very much. It's a pleasure to co-host this session with the Heinrich Boll Foundation and the German Marshall Fund, and it's especially nice for me because normally I don't get introduced with a bio. It's kind of fun.

What I'd like to do is say a few words to frame the issue and then I'm going to ask the Minister to come to the podium and make remarks. And then myself and the minister and our other panelists will come up here to have a conversation, make additional remarks and then I hope interact with those of you in the audience with comments and questions.

To frame the issue, I thought I would just put a couple of questions on the table. I know about these questions because at the Center for Global Development where, as you heard, we're concerned always with improving policies of the rich world toward the poor world and in that context, of course, the whole question of trade and agricultural liberalization is central.

Let me put my--I've learned so much about these questions from my colleagues and from our partners in other organizations over the last few years that I presume to ask three questions as a way of framing the rest of the discussion.

One is how much does it really matter for poverty reduction in the developing world and for a transformation of societies and economies in the developing world whether or not the rich countries fully liberalize their agricultural markets, both in terms of tariffs and, of course, subsidies.

The second question. If it happens across countries, which will be the winners and which might be the losers. To what extent does it matter whether a country is now a small or a large producer, whether it's in one crop or staple or another, whether it is now benefiting from preferences, which would be eroded under multilateral liberalization. To what extent does it matter whether you're Brazil--and we have a speaker from Brazil today--or Senegal, Malawi, Mali, Mauritania, Uganda, Nepal, Cambodia, and so on?

And third, within countries, who will be the winners and losers. Within countries, even the poorest ones, will the big producers win and the small producers lose? Will the small farmers lose out to intermediaries who will capture all of the gains reflected in any increase in prices for agricultural exports?

To me, those are the big questions. Does it matter at all which countries will win, which might lose, and within countries which groups might win, which might lose?

As economists, we know that when there are winners and losers, it doesn't mean you do nothing. It means you take steps that take into account that though there are net gains, and then you worry about how they might be shared.

With that, let me go to the privilege of introducing Minister Renate Kunast. She is the German Federal Minister of Consumer Protection Food and Agriculture and has been since early 2001.

I asked a little bit about how the Coalition works in Germany. Many of you will not be familiar with necessarily how these coalitions operate. In Washington, we're accustomed to having the Democrats and the Republicans, and some are in the White House and some are in Congress.

Of course, in the German parliamentary system, there is a coalition, and the Minister' party, the Green Party, she has one of the several--three or four ministerial seats that that party has amongst perhaps I don't know maybe 15 ministers.

I was very interested to see you have her bio that she joined something called the Alternative List of West Berlin in 1979. That's something that I don't know what it is, but maybe we'll hear later what that's about.

MS. KUNAST: That was the beginning of the Green Party.

MS. BIRDSALL: That was the beginning of the Green Party, and it's clear from the short bio that she has been a force in her own party, and through her party, I believe a force in Germany.

We hope her presence here today suggests that she intends to continue to be a force on this key issue of agricultural liberalization and its implications for poverty and hunger in the developing world. Minister Kunast, with apologies if I'm not pronouncing your name correctly.

[Applause.]

MS. KUNAST: Mr. Schalatek, **Mr. Cline, Mr. Mitchell**, ladies and gentlemen.

The fight against hunger and poverty is a prerequisite for justice, democracy, and peace in this world. I'm, therefore, pleased that precisely now you have decided to examine the question can free trade provide a solution in the fight against hunger and poverty? I try and answer.

I'll give you--how much is it--I think nine premises.

Premise number one. Trade can and must make a contribution to greater prosperity. Trade leads to increased prosperity but only if both sides profit from it. We cannot allow trade to be at the expense of the weaker partner.

Premise number two. The WTO is the world's chief multilateral firm, and that means that its members must assume responsibility for fighting against hunger and poverty and to ensure food security. I just say that because I think not--to say it friendly--not the whole of the WTO is on this stage, feeling responsibility for ensuring fighting against hunger.

In practice this means that during negotiations we must be honest when looking at and evaluating all direct and indirect effects. In the process, we must also ask what about the assumed trickle down effects. Will they actually take place?

In the past, they have unfortunately been much smaller than expected.

So what about the opportunities for economic growth in general, improved balances of trade, foreign exchange earnings?

We, ladies and gentlemen, must retune the special rules that already exist and pursue new approaches such as special products and special protective measures for stabilizing conditions in the respective country. This includes definitely taking rural areas seriously.

It's ironic that rural areas are the areas where food is being produced and that the majority of the people that are threatened by hunger and poverty live in this rural area. Rural development policies are integral to fight poverty and hunger. That's logical, and that's why we--and which country ever--should not only focus on city and urban development. In general, the--I have to focus on one other point. This is the non-trade concern. I know that the non-trade concerns--the so-called non-trade concerns are not loved by all, but I think they provide a particularly suitable framework for incorporating fighting against hunger and for food security measures. Just look at these so-called non-trade concerns. I always say so-called non-trade concerns, because I am the one not understanding why they shouldn't be trade concerns. If you look at these measures, geographical indications why shouldn't the ones that are growing--best [inaudible] rise shouldn't have the possibility to earn their money with this and say that's our geographical possibility for us and not for the others. Why don't we do more in fair trade or in organic farming, for example, which gives the

not graduated farmers the possibility, going back to old knowledge, and using this even niche market international, but it's a growing market.

That's one of the reasons why I say the so-called non-trade concern must be part of the WTO negotiations, and that's not a protective idea of the North. I think there are a lot of chances for the South and, for example, least developed countries.

And it is important that voluntary guidelines on the right to adequate food, which is the FAO Council adopted last year, be put in practice. And I just say that beside the sentence that the WTO has responsibility to fight against hunger.

I, as was already mentioned, put some pressure on getting these guidelines, and Germany paid money so that the meetings could happen just knowing that if there is no money sometimes people say I'm very much in favor of guidelines, of the right to adequate food, but we don't have money to organize the meetings.

Just in case of this, we delivered the money. So the result was that there had been a decision last year, but now the next point must happen and that is to put it in practice.

Premise number three. The current DOHA round offers an opportunity to put the interests of the world's developing countries more in front. The DOHA round should be a development round or is a development round. We should, therefore, take advantage of this opportunity to offer the least developed countries, in particular duty free and quota free, access to markets worldwide.

I say worldwide because I don't think that we should talk only about South-North trade, but also about South-South trade and its possibilities.

We--it is not only what that I have to say over market access. It's just that we need a reliable transparent multilateral framework rather than this uncontrolled proliferation of bilateral agreements. This is something like the theory of Darwin in action, because if you have a lot of little countries, and dealing with bilateral agreements, you always know who is the stronger one, and I think multilateral agreements have the possibilities that groups of countries put each other together and fight for their interests each, the least developed, the developing countries, the countries that are just maybe both, developed or developing countries.

Fourth point. A prerequisite for this is we must continue integrating the so-called developing countries and civil society into the WTO negotiation process. A few steps have been already taken, and they've been successful. For now, we are seeing even smaller members being listened [sic].

In addition to this NGOs and other stakeholders are playing an increasingly important role and are entering into a dialogue with the WTO. This is real news after the get out of the WTO posters we saw in Cancun and other places. That is something I personally remark. The WTO--a lot of the NGOs just drove this idea. Okay. Let's organize something like a disaster. It's okay if we show the North, we'll not have any result. Now, it has changed. They are starting to make concrete and write down concrete ideas. Okay. They have a lot of questions. That is their good right. But now they are I think a bit more constructive to say there are possibilities, more possibilities in multilateral agreements than in bilaterals, which sometimes only the stronger ones of the developing countries are able to make. So this is I think really good news.

Premise number five. Global agricultural trade does not offer simple solutions along the lines of something like a one-size-fits-all approach. If we are serious about fighting poverty, we must take full use of the entire range of political means available to us. I say this also with an eye to the G20 declaration issued last March. This declaration does not include a number of issues, such as market

access for the particularly poor countries. The opening up of these countries' markets for the issue of services.

And I say this because the G20 represent nearly three-quarters of the world's farmers, two-thirds of the world's population, and 22 percent of global agricultural production.

Having good governance, for example, is one approach where we can say it's not good to go to--along the line of one size fits it all. We need good governance on the national level of developing countries, for example. It's equally important for us as for them.

To achieve this, we will have to strengthen the International Labor Organization, and the United Nations Environment Program and, as I already mentioned, this FAO guidelines, which have more than 20 measures how we can implement a poverty and hunger fighting program in your state, which starts and organizes economic growth for your state. It starts with school meal programs, which gives the possibility for parents to send their children to school instead of children [sic] labor, and gives, you know, knowledge to have further development.

But this is only one of the measures of the FAO guidelines. It goes up until anti-corruption strategies you need so that the money coming in is not only for the benefit of a few.

Of course, we know agriculture is not everything. Even though assigning priority to the agricultural sector was an important step during the WTO negotiation. It was right. But it is definitely not all.

What we have to look also on is that there are the possibilities for these countries to develop their economies on different stages, even to go to the service sector.

Premise number six. The EU bears substantial responsibility, just like the United States does, which is why I can say the EU agricultural reform is or was so important. I think it was a milestone. Milestone may be only looking inside the EU. It was hard fight to have this [inaudible] reform, but I think it's also a milestone because it is the EU agricultural reform is a clear expression that the EU member states have a wish--that is the wish and the desire to bring WTO negotiations to successful conclusion.

We have made some things I want to point out possible inside the EU with this market trade distorting subsidies. We did decoupling of the premiums, so we have uncoupled payments from output. And we want to improve market access by lowering tariffs.

And this reform process is not at an end. We had two steps of reform. The last one was continuing the reform by olive oil, tobacco, and cotton, which is responsible for minimum for West African countries. And the EU has already started--voted to implement the next step of reforms and this is for this year very high on the agenda, the sugar market reform.

I think a fundamental point for the possibility to have a result on the WTO level in Hong Kong in December this year. That's why we try to make political decisions on the sugar market in November of this year.

But after all, the question is how far should liberalization go, if we go this way?

This brings me to premise number seven. Just like trade in general, liberalization is not an end in itself. Liberalization is a very difficult balancing act. It must be fostered where it benefits stakeholders and restricted with the help of protective measures where necessary.

Let me illustrate this briefly using the example of sugar, an area which is remarked by a high, very high degree of protectionism until now.

We are in the process of, as I said, overhauling this area, and the EU clearly reforming this year, which I think far reaching consequences not only for the farmers in the EU, but worldwide.

There are large conflicts of interests involved here. The reform of the EU sugar market will impact jobs throughout the world and will also affect the number of agreements and initiatives, including the EU--the Mercosur Treaty, the EU's Everything but Arms Initiative, and the WTO negotiations.

Therefore, the question of how will be crucial in our reform for the sugar market. To give you an example there, in the Everything but Arms Initiative, we gave some preferences for some countries. And just these countries looking and seeing forward to EU sugar market reform fear their preference and losing their preferences now.

On the other hand, we have a sugar panel at the WTO where are Brazil's interests on the WTO. This is something like riding a tiger or riding two tigers at the same time, and everyone is running in a different direction, because the interests of the countries that benefit from Everything but Arms is not the same like the Brazilian interests, for example. And at the very end, we still have some European interests to keep the areas of--really competitive production of sugar. We don't want to abolish this totally in Europe.

So this gives you maybe an example of, you know, minimum three different interests we have to look at when we go on and want to work with the sugar market reform.

But this for clear shows you one point. In case of sugar, as in a lot of other cases, total liberalization would lead into a situation in which the so-called developing countries, for example, Mauritius, would also be negatively impacted. Mauritius has focused on sugar. And they still have in their financial perspective for the next years that they will have some income on Everything but Arms. So what could they do? So a total liberalization would have a very negative effect for them, for example. And even when the EU is discussing and working with an action plan giving states the possibility to develop even other areas, other production, that would not happen immediately.

So premise number eight. Liberalization processes need an expanded framework. Adjustments must be possible, and we need more guard rails.

There is one thing we cannot allow here and that is that we have a further widening of the gap between rich and poor, and we have a widening of the gap between North and South and even within these countries.

The consequences arising from the dismantling of tariffs are one example of how this gap could widen further.

Governments, particularly in many so-called countries of the South, see that they could have some negative results of such steps, and I think that we cannot leave the states dealing with this problem alone.

Premise number eight. We need flanking measures to prevent the means of action available to governments from being undermined. This premise is also based on the recommendations issued by the international conference policies against hunger, which Germany held the third time last fall. And this brings us on today's subject. Fighting poverty and fostering the liberalization of trade.

We must act in this spirit and take steps to ensure that the WTO negotiations are a success. But, as I tried to explain here, liberalization of trade is important, but it is not all.

Global trade can be only one instrument in the fight against poverty. It is one instrument that must be incorporated into a comprehensive plan that requires national and multinational action on the

part of developing and industrialized countries. Both have to show actions, and the international community as a whole, of course.

The crucial point here is that we need a consistent, comprehensive plan at the institutional level to ensure that truly everyone benefits from the opportunities of global trade and everyone is enabled really to have profit, which could mean for some to have special safeguard matters to close so that they have the room, the space, to develop their productions, for example. And I think that especially those who are negatively affected by the charges triggered by liberalization and free trade we should organize that they do not fall through the cracks, and that means that all the things I mentioned here are not only things, arguments, and questions that should be asked by the so-called developing countries and those who have the highest amount of poor and people. It is also a charge that states like the United States or Europe do not only think about their own market access, but also about the point that the DOHA round should be really a development round and there are a lot of other different tools we have to use. It's not only a question about free trade. It's, for example, also a question about this FAO guidelines. And these guidelines are not only a question to be fulfilled by the governments of the developing states. It's also a question to us, and which kind we give money and donor to the others.

This means look at the question if they have, for example, action plans fighting against hunger, and I think that we should implement our work and our financial--implement into these complete and comprehensive action plans. Thank you.

[Applause.]

MS. BIRDSALL: Thank you very much, Madam Minister. In the great tradition of all good ministers, you were both clear and subtle, and I expect that our panel members will help us supplement what you said and engage everyone in a discussion of the implications of what you said.

Now, what I'm going to do is introduce all three of our subsequent speakers very briefly, because you have their bios. Can you hear me? And I'm going to ask them to take--they were given 10 minutes, so I'll be tough on a maximum of 10 minutes. And when you have three minutes to go, I'll do something embarrassing like knock on the table. Okay? So that we're assured to have time for questions.

We will begin with Bill Cline. He's a senior fellow at the Center for Global Development and at the Institute for International Economics. And Bill wrote the book, in my view, Trade Policy and Global Poverty, which we published--last year?--and has written extensively over the years on related issues, including on things like global warming, on income distribution, and I hope he'll tell us something of what is in the analysis--reflecting the analysis in his fine book.

Second we will hear from Donald Mitchell. He has the onerous task and has had it for many years at the World Bank of predicting commodity prices. We won't ask him how often he's been right and how often he's been wrong. He's the lead economist in the World Bank Development Prospects Group, which is the part of the World Bank that produces economic forecasting.

And finally we will turn to Evandro Didonet--have I got it right? Didonet or Didonay?--who is the person at the Brazilian Embassy who worries about these issues. He's the Minister-Counselor of Economic Affairs and Trade Policy, and you'll see from his bio that he has served around the world. My guess is that this is one of his toughest tasks, this impending next six, eight months before Hong Kong.

Bill, we'll start with you.

MR. CLINE: Thank you very much, Nancy. I will draw on my book that we published last June and try to bring out its implications for the particular question of agriculture and poverty reduction.

The basic approach in the book is that growth is the ultimate source of reducing global poverty and that trade contributes critically to growth and that trade liberalization can improve trade opportunities. And we're probably not going to get trade liberalization unless we liberalize agriculture because it's so critical to many of the middle-income countries in particular and for a deal it has to be there and also because agriculture is a heart really of the liberalization.

Here you can see the experience that there's a clear correlation between growth of exports and growth of economies in the past. Each one percent extra growth in exports has been associated with a 0.15 percent extra GDP growth.

And that's because of the familiar benefits from free trade that Adam Smith talked about, from specialization, from economies of scale, but increasingly the profession is looking at dynamic productivity growth as a result of having integration with the world economy. This is a survey of economic analyses, statistical analyses relating the openness of the economy to productivity growth and the summary parameter that I derive from this literature is that an extra one percent in trade relative to GDP is associated with an extra half a percent in output per worker over the longer term. That's a very powerful effect on productivity.

Now, if you get faster growth through more trade opportunities and a more efficient economy as it's exposed to competitive pressure from the world and has world skilled technology, et cetera, you get a leveraged effect in reducing poverty. There is a lot of empirical literature and, to some extent, the underlying theoretical distributions of income inequality give you the result that a one percent rise in per capita income can reduce the incidence of poverty by two percent or maybe three percent in countries where it's fairly equally distributed and where the ratio of average income to poverty income is fairly high. So we're talking about a leveraged impact in reducing poverty.

Now what the book does is to look at the existing protection. It's still quite high in agriculture. My single figure for agricultural protection in the United States would be 20 percent; the European Union and Canada, about 50 percent; Japan about 80 percent of a total tariff equivalent, both subsidies and tariffs. Also fairly high in textiles and apparel.

So what I looked at was what would happen if you had global free trade. Sorry for the small print here. But the blue number down toward the right says that just the traditional static effects would be \$90 billion a year of gains for the developing countries. And if you look at the-- importantly, that first column, half of that arises in agriculture.

Now, how does this translate into poverty reduction we are worried about? Well, does it really reach the poor?

Well, basic theory tells us that these countries have abundant unskilled labor and that is the source of their comparative advantage. So if you open up trade opportunities, the unskilled workers are the ones who are likely to gain the most. And sure enough, you see large proportionate increases in unskilled wages in these estimates, which are the result of--I should add--of two of the state of the art model; one model--Harrison, Rutherford, and Tarr, and one data base the GTAP Protection Database. I would point out, by the way, that the land factor prices change even more, which reflects the importance of agriculture.

Now, these are just the static effects. There are two dynamic effects. One is the induced investment that one could expect from new trade opportunities, what Harris, Rutherford, and Tarr call their steady state effect, and the other is the dynamic productivity gains that I was talking about. When you add those all together, and when you take a global total, I estimate that over 15 years, you would lift about 500 million people out of poverty globally as a consequence of global free trade. So I think that that is the single number that sort of tells what are the stakes at DOHA and probably beyond.

Now, for comparison, there are three billion people today in poverty at the two dollar a day level. So this is not the be all and the end all. It is not a panacea. But it is a very critical component of reducing global poverty. There you can see that again.

The bottom line of the study first of all then is that the stakes for poverty reduction are large. The income gains for developing countries amount to \$200 billion a year, once you take these dynamic effects into account. Half of that effect, the least half of that effect, comes from liberalization of the industrial country markets. And I'm already being applauded.

Half of that comes from liberalization of the industrial country markets. That is about twice the amount of annual aid, but again half the gains are in agriculture.

For a blueprint for DOHA, what we need is deep liberalization, including in agriculture and textiles and apparel in the North, elimination or decoupling of subsidies. Now, here I think one of key questions we need to discuss, and I'd like to hear from the Minister, is the EU's blue box, true blue, or something that's really not anywhere recognizably close to that part of the color spectrum. Blue box, for the non aficionados, is subsidies that are okay because they're decoupled from production.

But, for example, does the based for recalculating that change, when you go back five years from now and say, oh, well, this guy's got a larger acreage, et cetera. If this is true, decoupling, then a major breakthrough has, in fact, been achieved. And the developing countries in the negotiations should recognize it. But doesn't that imply we should have some international panel so that the Europeans decide whether it's blue or not.

Now, the United States has its own challenges on ag subsidies. I won't go into them.

Now, what about the poverty? Well, I'm going to get more knocking on this, but basically the urban poor will tend to lose out because agricultural prices will go up globally by about 10 percent from global free trade. But 75 percent of the world's poor are in the rural area, and, therefore, they will benefit from an increase in their income that exceeds the increase in the cost of food in their food budget. And based on a very simple model, you get something like a hundred and fifty million could be lifted out of poverty on that.

Again, looking at agriculture, subsidies are key. They, interestingly enough, are about the same for the United States and Europe. Even though Europe spends \$50 billion, we spend \$20 billion because imports are a much smaller share of U.S. agricultural consumption, so the leverage that exerts in squeezing down imports is greater, so they both work out to be about a 10 percent equivalent. But as the Minister said, it's critical to have reduction of tariffs, too. Some of these agricultural tariffs can be enormously high, like 400 percent for Japanese rice.

Now, does agricultural liberalization hurt the least developed countries? This is an argument we've heard some recently. I think it's based on a misconception between partial equilibrium and general equilibrium.

It turns out that the least developed countries do tend to import food, but they import manufactures even more. They are deficit in everything, and they have a comparative advantage in food.

Now, it follows logically that if world trade makes production more efficient, all prices have got to fall. They can't rise. Point one.

Point two. That must mean that even though the least developed countries are food importers, they will gain more on the reduction in the price of their manufactured imports, which are much larger, than they will lose on the increased prices of their food imports.

So I think that this is basically a failure to see the general equilibrium effect of those who take this position. And these are simply the data supporting comparative advantage.

Now, what about preference erosion? Well, we've heard a lot of concern about that, too. In the calculation that I did with my model, I made a very strong test. I tested--take these countries that are least developed countries and run the model, which uses most favored nation tariffs, run it as if the United States gave free trade to everybody else but kept in place a MFN tariff against all the least developed countries. This is the exact analogue of the strongest possible preference erosion. It has the opposite sign, but it's a way of getting at this question. This test shows that, in fact, yeah. Sure the preference erosion could reduce their potential gains from \$8 billion to \$2 billion, but they would still be positive gains.

Query? What about sugar? What about these quota rents, the standard sugar quota rents? Well, partly that's going to be offset by the rise in world prices, as I suggested. But it is possible that it would make sense for countries that have been providing development assistance to least developed countries by a windfall on their protected quota market would, in turn, simply shift that assistance to a different channel and give more direct assistance to those countries.

And with that, so that I don't get knocked, I will stop. Thank you.

[Applause.]

MS. BIRDSALL: Thank you, Bill. It's not easy to do a very good book in 10 minutes. Next I think I said Don Mitchell.

MR. MITCHELL: Good afternoon. Thank you very much for the opportunity to be here. I'm not Ataman Aksoy [ph.] who was the editor and organizer of this book. I'm Donald Mitchell, but he couldn't be here. He's on travel in Turkey.

So I'm going to try to quickly present the main points of this book. And I should tell you first off that the book is available from the World Bank book store, and it's also available out in the lobby. So you can get a copy if you would like. It has two parts to it. It has the general cross-cutting issues in agricultural trade, and it has detailed commodity studies for nine of the most important commodities.

And I'll try to get through the first portion only, but even that will be a bit of a challenge.

Let me start by saying a little bit about why agricultural trade is important. For developing countries, the ability to export gives them cash income which can be used for a number of purposes, including reducing poverty, of course. But it can also be used to buy inputs which allow them to increase their food production. So it has a direct benefit in increasing food production and reducing food insecurity in developing countries.

Many export crops also have a manufacturing component to them. So if you're going to produce sugar, you don't ship sugar cane. You ship raw sugar or refined sugar. That provides

employment in developing countries. That's another important source of income for developing countries.

Agricultural exports do not face the domestic demand constraint which commodities produced for the domestic--

[TAPE FLIP.]

MR. MITCHELL: --do require. So that means if you increase production and you're constrained by the domestic demand, prices are going to draw more than proportionately to the increase in production because of the inelastic nature of demand.

If you have the world market to deal with, you have much less of a domestic demand constraint, so you can increase production, increase exports, and you don't have an offsetting--as large of an offsetting decline in prices.

Why is agriculture important? In developing countries, 63 percent of the population, 73 percent of the poor live in rural areas, so it is the critical part if you're interested in trying to reduce rural poverty is the most predominant kind.

Depending on how you define it, it can be anywhere from 30 to 60 percent of GDP, and even after 30 years, based on the way things are trending now, we'll still have half of the rural--half of the world's poor living in rural areas, so it's going to be a problem that's with us for a long time.

Agricultural reforms--and additional reason why agriculture trade is important--agricultural reforms are probably the key issue in global trade reforms right now.

So if we're going to get a DOHA round agreement, we have to get agreement in agriculture and that means basically sugar and cotton. And so agriculture takes on a different and even more important aspect there.

The main messages of the report. Agricultural protection is complex, widespread, varies by country, varies by commodity. It is not, in any way, simple, and it has very complex political dimensions to it.

There are reforms ongoing in most developing countries. They have done most of the reform. The industrial countries and some of the higher income developing countries have done little in the way of reforms.

Protection by the rich countries leads to reactive protection in developing countries where producers say look at what the high income countries are doing, what the producers in those countries are doing. We need protection because they're subsidizing exports, and it's a very effective argument. It's being used all over the world.

Supply expansion. This is a point I've previously made. Supply expansion without trade reform just drives prices down.

Most developing countries are constrained by global demand and some still have supply constraints, especially those, the poorer countries, especially in sub Saharan Africa.

So to remove that constraint on global demand, one of the approaches, the best approach we believe is global multilateral trade reforms, and that will produce large welfare gains and even larger changes in exports, output, and imports.

The impact of higher consumer prices, which **Mr. Cline** just mentioned, will be negative in some cases, but they do not have to be as negative as commonly thought because many countries also have high tariffs on food imports, so if they would reduce those tariffs, a rise in world prices would

be offset by the reduction in tariff and many consumers would not actually see an increase in prices, and I can give you examples.

The first part of the book on cross-cutting issues. Quickly some of the issues that are probably known by some of you, and that is that border protection in agriculture is still the dominant form of protection. Price protection at the border it's about 63 percent of OECD production, and the remaining 37 percent is in domestic support. So border protection is still the big issue that we need the big issue that we need to deal with.

OECD protection in general has not declined. It is about between 40 and 45 percent of total agriculture production. If you take out the one bar that shows up as the highest that was because that was when the prices were the lowest, then you see almost no trend in protection, and, in fact, it's even been going up recently. So in OECD countries agricultural production has not declined.

In developing countries, they have made substantial reforms. They have reduced their tariffs from about 30 percent on average in 1990 to 18 percent now. That's in agriculture, which is the red bars. In manufacturing, the decline has been even more rapid so that means that agriculture has made huge progress, but manufacturing in developing countries has had even greater declines in tariffs.

The average tariffs do not fully tell the story. It is generally the case that the high income countries have low tariffs and high protection, and the reverse in developing countries. What that means is the high income countries have other ways of protecting besides tariffs. So tariffs do not tell the whole story.

Border protection is complex in the industrial countries. The high income countries tend to do this more often so they don't just have tariffs. They have specific duties on individual items targeted to the most sensitive commodities. So they try very hard to be very careful in what they target, while developing countries have more general tariffs which don't discriminate as much by commodity.

Tariff escalation is another problem which hurts developing countries because it makes it impossible for them to move into higher valued production, and here are examples for raw, intermediate, and final for a range of countries, and you can see the story is the same almost everywhere, and that is the more you process, the higher the tariffs become. So it discourages processing and export and it encourages imports of raw materials.

Here's a specific set of numbers which show that. But generally, the story can be seen by the middle set of lines--that cocoa, where on raw cocoa the tariff is virtually zero, and on highly processed, it is between 15 and 30 percent in these three countries--the EU, the U.S., and Japan.

That's the crux of the tariff escalation problem. It makes it very difficult for countries to move into higher valued exports, which would provide jobs, more income.

There has been some progress with reform through decoupled support, and certainly the EU and the U.S. have been undertaking this approach. It is a step in the right direction, but there are some problems with decoupling, and it's not completely obvious that decoupling is delivering the results that were expected.

In some cases, the support was replaced by other payments. There was often times an unlimited horizon on this thing, so it would be better if it came to an end after a certain number of years. And sometimes there are requirements that you cannot remove the land from agriculture, which somewhat defeats the purpose of decoupling.

The better approach is the one-time buy out, which the U.S. did in the peanut program, for example. New Zealand has done it with exit grants. That is a way of removing resources from agriculture.

Preferences have already been discussed. It's a very interesting area, and it is true that some countries will lose if the EU were to reform its sugar policy, for example. They would lose some of their preferences. But the preferences are vastly overstated. They do not have the positive benefits which many expect they should have.

And if you look in detail at why that is, there are a number of reasons, and I've done studies on this. And I did a study on the Caribbean sugar sector a year ago. And what happens is that the level of imports that both the U.S. and the EU have been buying under preferences have declined. So the value of the preferences have declined because the quantities have declined.

In the U.S., for example, the imports of sugar went from about four million tons 20 years ago to 1.2 million tons now. So you had a huge erosion in preferences even though the price didn't change. A lot of the developing countries that depend on preferences have done so at the expense of diversification which would be a much better thing for them to do, to move into higher value products. But they are stuck in sugar, if you want to say it that way.

On a global scale, preferences are really very small. They don't account for a large part of world trade. They are five percent of the volume of world sugar, for example. So preferences are not the solution. Some countries would be harmed, but the way to deal with those is to help them diversify into other things.

Standards are an increasingly important part of agricultural trade, and the standards are rising both because of national and private importers. They will not be declining. I'm sure that standards are going to continue to increase, and they are an essential part of agricultural trade. Developing countries need to get on board. They need to raise their standards so they can supply to the high income markets, and they should not be encouraged to try to avoid making these adjustments in standards because that will only prolong their exporting of lower value products.

We have found in our own studies at the World Bank that the standards are demanding, but they are manageable. Countries can meet the standards of the industrial countries.

One of the most interesting cases is Bangladesh, which exports shrimp to both the EU and the U.S. and does so successfully under very high standards. So a country can organize itself to meet the standards that are being posed now.

One of the reasons that developing countries have done relatively better in agriculture is because they've increased their exports of high value products. So they have moved into fruits and vegetables, for example, and seafood and aquaculture. So they are gaining a larger share in the non-traditional products, which are shown here in the green lines, and that has become a positive effect while the tropical traditional products--coffee, cocoa, tea--are declining as a share of their total exports. So developing countries are moving into the high value. That's where they really need to concentrate and improve their standards.

We then went on and did individual commodity chapters, which I won't try to go into, but two of the chapters were on--or one of the chapters was on sugar, which is being discussed here, and another is on cotton, which is another important issue in the WTO current round of negotiations.

So with that, I'll stop.

[Applause.]

MR. DIDONET: Good afternoon. First of all, thank you very much for the Heinrich Boll Foundation, the Center for Global Development for the invitation. We really appreciate it, and I'm truly honored to participate in this panel.

Time is short. Ten minutes only. I will try to focus on five messages--five points--and in doing that I will try to respond to the issues that were raised in the invitation to this event, and also try to address the three questions that were asked by **Ms. Birdsall**.

Well, point number one. I think I can say that there is a consensus that agriculture is not the solution to hunger and poverty, but, yes, that agriculture is a key component to fight hunger and poverty in the world.

Let me just give you one example with regard to Brazil. Sugar industry. The sugar industry in Brazil employs 1.1 million Brazilians direct--jobs. So it is very important in Brazil. Twenty years ago, before the sugar program was introduced in the United States, Brazil exported 1.5 million tons a year of raw sugar to the United States. Nowadays, this figure is 150,000 tons of raw sugar a year. So it's only 10 percent of what it was 20 years ago. So this has a tremendous, a huge impact in jobs in Brazil.

So responding to the question asked by **Ms. Birdsall**, even if trade liberalization in agriculture does not benefit all countries and even if it does not benefit all segments of society within countries, still it is important to benefit a huge number of poor people in developing countries.

And, of course, as Minister Kunast highlighted, agriculture is not all. A number of steps are necessary in the domestic front--good governance, education, health, economic stabilization and so on.

Point number two. Is agricultural trade liberalization by developing countries as well important to fighting hunger and poverty? Being a competitive agricultural producer, Brazil is very open in the agricultural sector. But at the same time, we do recognize the legitimacy of certain defensive concerns of specific developing countries, and so the message I wanted to convey in the second point is that Brazil recognizes those sensitivities, and we do have to work, taking them into account.

At the same time, it is also important to highlight that those sensitivities of some specific developing countries should not be used as an argument to impede agricultural reform in developed countries.

Point number three. The issue, the question the erosion of trade preferences, which was addressed by the three previous speakers. Brazil does think that this is a real concern, and it deserves full consideration. Concretely, what could be done. In one session, in the special session of the Council of Agriculture in February in Geneva, our chief trade negotiator made some proposals. He suggested, for instance that we should allow for transition periods for those special regimes. We--and during those transition periods, LDCs should receive adequate support to restructure, to become more productive and so on.

Mr. Mitchell mentioned in his text, in the book, he presented to us now that preferences are a very inefficient economic way of supporting LDCs. There are much more efficient ways to support them.

Point number four. A word on food security. Of course, food security concerns are legitimate. They are valid. They must be taken into account. But the point I would like to make here very briefly is that a lot of the protection and of the subsidies that we see in developed countries have

no relationship whatsoever with food security concerns. I could give you examples of barriers in the U.S. market that affect Brazilian exporters. For instance, ethanol. There is a very high specific duty on ethanol in this market, and, of course, there is no food security concern involved. The same with tobacco. There is an incredibly high out of quota tariff of 350 percent in the United States. So again, no food security concern. The same for orange juice, beef, even sugar, and so on.

Finally, just one message about subsidies. I think that there is no doubt about subsidies that the subsidies in developed countries they hurt developing countries as a whole, all developing countries, be it the LDCs, net food importing developing countries, or developing countries like Brazil that are food exporters. Cotton is a very clear example. Cotton subsidies in the United States, they hurt both the poor production countries in Africa, and they hurt Brazil as well.

Well, I think I could avoid the knocking by **Ms. Birdsall**. I'll just take advantage of the remaining time to give you one final figure that I think it is very telling.

Brazil's trade surplus last year was \$33 billion U.S. dollars. All of that trade surplus came from the agribusiness sector. And what was the amount of foreign debt amortizations paid by Brazil last year? Thirty-three billion U.S. dollars. So it is a coincidence, but it shows that it is important for developing countries to be able to export and to export agricultural products so to say to improve their social conditions, as all members of the panel said. And I must stress this message, there is no need to remind that there is no more effective way to generate or to produce poverty overnight than a balance of payments crisis. So exports of agricultural products are indeed very important or developing countries. Thank you very much.

[Applause.]

MS. BIRDSALL: Well, thank you very much. I'm going to try and get a little conversation started up here, and then turn to all of you. It's good we have over a half hour, so we can have a rich discussion. And I thought to start with my colleague, Bill Cline, who makes very compellingly the point that liberalization could liberate people and transform economies--liberate people from poverty. Could you talk a little bit, Bill about countries, let's say, for example, Vietnam, Malaysia with agricultural exports, I assume, that have succeeded anyway, and what do you see as the lessons for the dilemma that is--or the paradox possibly that's created by this reality that even under difficult conditions and lack of market access, a place like Vietnam has overwhelmed, say, in coffee. It's so much more competitive than Nicaragua, and so Nicaragua is now losing out.

MR. CLINE: Well, obviously, from country to county, it's going to depend on a whole array of things. The exchange rate is often one of the critical things. I'm not familiar enough with Vietnam to know whether there was some concerted government effort that went beyond that, but I mean Chile is, of course, you know, an example of a country that has done extremely well achieving development based on an agricultural upgrading.

But I think the basic point is that agricultural protection just makes it more difficult to--many countries can carry out policies that will somehow compensate, but it would just be more success stories if the liberalization is reduced--if the production is reduced.

MS. BIRDSALL: Maybe we could go then to Donald. You might want to comment on this point because you thought a lot about the commodities that different countries rely on for their exports. But what I really wanted to remind everyone is that Donald made the point that preferences are not the solution, clearly not in the long run.

At the same time, we see that a lot of countries that are benefiting from preferences now are really concerned about the potential impact of preference erosion. And you mentioned that what's needed is to help them diversify. You come from the World Bank. Maybe you could say a little bit more about that. Is there a way to inject that point not only in the work of the traditional agencies that do transfers, but to somehow get it in some way into the WTO context that is perhaps more binding, more realistic for those countries assuming there is what we want in a sense more rapid multilateral liberalization. How to help these countries that we see their preferences eroding diversify?

MR. MITCHELL: Okay. So there's two different questions. What about the countries that are losing their preferences. What should they do?

Most of them have been in these commodities for along time. They have often had government managed sectors. They've become increasingly inefficient over time. Their costs of production have increased. If you look at the Caribbean countries, they sell sugar to the European Union at 25 to 30 cents, and they produce sugar at 30 to 40 cents.

That's not a winning game. Imagine what happens if the price is no longer 30 cents in the European Union.

So they have been in an industry that they should have diversified out of. The preferences have prevented that. In many cases, those industries are government run and organized and that adds to the inefficiencies. So the reduction of preferences, while they don't see it as a good thing, would force them to do what they need to do which is to become more efficient, to diversify into other things, and to get out of this one commodity beats all approach and to diversify into the high value commodities which have a future.

Now the high value commodities also have tariffs on imports and restrictions on imports, and the U.S. certainly has all kinds of restrictions on what you can import and at what time of the year.

So again, one of the things that would help them the most is to give them better access to the industrial countries. That would help a great deal. In addition to that, you know, they need to begin to introduce policies to invest in research, improve the infrastructure and take the necessary improvements and standards to be able to meet the rapidly growing part of the market, which is the fruits and vegetables and the high valued stuff. So they've got to make a commitment. I think the multilateral organizations like the World Bank are very happy to help them to try to make that transition from one to the other, but I'm certainly not in a position to promise money to anybody. But I think the World Bank would be very much willing and able to participate in that discussion how they should go about doing it.

But they need to get out of sugar and out of bananas and into other high value commodities.

MS. BIRDSALL: Bill, want to?

MR. CLINE: I just want to come in on the preferences thing. I do think that in terms of negotiations, the consensus requirement makes it a risk that countries that are concerned about losing their preferences could at the end of the day block an overall agreement. And I think it makes sense from that standpoint in terms of in addition to just having a balanced outcome to compensate loss of preferences to some extent by having the immediate free entry for least developed countries that the Minister was talking about; that basically middle income countries would now open their markets to quota-free, duty-free entry from the least developed countries so the opening of new markets, where there's no preferential access--and I would argue also some of the liberalization of their own markets

is part of the overall package--would provide benefits that typically are not captured when people worry about preference losses.

MS. BIRDSALL: So that goes right to Evandro Didonet. It was good to hear again about Brazil's concern on the issue for the least developed countries, reflecting the fact that Brazil is now in that great middle place between the rich world and the poor world, particularly in terms of agricultural competitiveness. Would you imagine that Brazil would at some point come to the negotiations offering for a selected group of least developed countries or these selected groups duty-free, quota-free access to Brazil's market?

MR. DIDONET: In a way, Brazil has been doing that, in a way, because, first, our agricultural tariffs are very low. Our applied average agricultural tariffs are lower than the tariffs in the U.S. not to mention the European Union and Japan and other countries.

A second point. Brazil took the lead in launching last year, as you aware of, a new round of trade preferences among developing countries. And so there you will have, let's say, a mechanism, an avenue, to negotiate free trade, more free trade, between developing countries. And I can only assume that Brazil be ready to make concessions to least developed countries in this context.

MS. BIRDSALL: Very good. Very good. So but the point I guess you're making is that the margin is already fairly low for those countries in the Brazilian market.

Let me ask one other question while we have you on the hot seat. In the context of the negotiations between the rich country markets and a country like Brazil, do you, you know, give us some inside baseball talk, to what extent is there hesitation at further liberalization on the manufacturing side in Brazil in order to retain the chip and chips that can be brought to the table in the context of the larger negotiations. Is that an issue or does Brazil and countries like it who are increasingly competitive anyway, do they see it as in their interests to do unilateral liberalization?

MR. DIDONET: Well, first of all, I must tell you that I know nothing about baseball.

MS. KUNAST: Can you speak a bit louder?

MS. BIRDSALL: Can you speak up a little?

MR. DIDONET: But well, this is a question in Brazil how we are going to address liberalization in manufacturing products. This is an issue in Brazil. There are a number of industries that have defensive concerns. This is well known. And but the way to liberalize trade in the manufacturing sector in Brazil is if you can show that we are going to have gains in other sectors--in agriculture. So there is no way that Brazil could open up more in the manufacturing sector without being able to show that we are going to have gains in agriculture.

MS. BIRDSALL: Right. Which goes back I think to one of Bill's points. Well, let me finally, with Madam Minister, someone mentioned in the presentation--I think it might have been Donald--the benefits of a one-time buyout for the most sensitive crops. This would be sugar, cotton, Donald. Is that on the table in the EU context that at some point there could be thought or in Germany to a one-time buyout. Maybe it's too dramatic a question for you, but I think the context for it is the concern amongst those who would like to see more liberalization, particularly that Europe and the U.S. hide behind the preference issue on crops like cotton and sugar--no, not really cotton, but on sugar--hide behind the preference issue to minimize their internal political risks.

MS. KUNAST: The easiest way to answer this question could I don't see that we can organize a majority in the European Union or the Council of the agricultural ministers, for example, to make a one-time buyout. It's just that in the situation now, we have proposals from the EU Commission

which to date and at this time do not have a majority in the Agriculture Council. You know, I'm optimistic because we always started without having majorities for reforms, and that is I think a typical way of negotiating, as we just heard our friend Evandro what he said about what is the way Brazil is dealing with--everyone is dealing and we do need this inside the EU also without, you know, giving the result at the beginning of the negotiating process.

But in the moment, we still have I think a lot of work to do to get a majority for the proposals the Commission made, which will lead to much lower prices, for example, which will have the result that only a few areas of beet sugar production will not be finished. There will be only some competitive regions in Europe that will still be able to effectively produce sugar, and the rest will have the point that they have, you know, build up something new, which brings me to the point, of course, all the states that have the duty to make agricultural reforms--and I'm also pressing for that--we still have a problem inside our country, which is not interesting for a global society, but we have a problem. That is unemployment. And this, you know, causes a lot of big internal discussions on sometimes, yeah, governments lose majorities or elections by that.

So we have to build up new possibilities of income, which will bring me to a totally different issue: how can we build up our societies and the capacities and [inaudible] and so on. Sometimes I think we cannot be so fast--you know, as fast that we are a bit in front of the possibilities China, for example, has. Because at the very end, we also have people that need jobs and income.

But to come back to your question, I think we have an awful lot to do with going on with our reform, which in the sugar market, for example, implements that we also discuss about and are working on an action plan that gives money to those countries that don't benefit more from their preferences; that have to build up new industries and new capacities.

MS. BIRDSALL: Developing countries?

MS. KUNAST: Developing countries, yes. That's at an [inaudible] gives money to them to build up this, because in the moment we have had a hearing having representatives of the different EBA--EBA countries I call them.

MS. BIRDSALL: Everything but Arms?

MS. KUNAST: Everything but Arms countries, which is a benefit from them, and we have, you know, a very [inaudible] opinion there. Some say, okay, we don't do any reform. We want to keep our preferences. We have, you know, organized ourselves and our state budgets on this. Others say it's okay. So it's very difficult. So that even we have problems inside the EU because Spain, for example, wrote a letter together with these developing countries that say don't make a sugar market reform. That's something wonderful if one member states makes papers with states outside. It's curious.

But we want to not change ABER (?), and we will go on the way of doing the reforms on the sugar market.

And as I said, you see in the speeches here a lot of other things have been mentioned. The tariff escalation, of course, is a point. Tariff escalation has to go down and, On the other hand, we need help for those countries to develop, to have education and all the other things--develop industries, processing, and so on.

This is one of a lot of points. These export subsidies must be abolished, and I use the possibilities here always to say even the export credits and the way the United States gives them of food aid have to be cut down, because it is at the very end the same. And I think no country should

give food aid just because of the prices they have internally. They should be--there are lot of U.N. or FAO organizations that know there is hunger and now they need food without looking at the prices.

MS. BIRDSALL: Okay. Well, I don't know. Donald, you want to say something about one-time buyouts? How they work here?

MR. MITCHELL: I do. Please. Please.

MS. BIRDSALL: Politically how do they work if you can?

MR. MITCHELL: Well, the tobacco one in the U.S. is I think an interesting example because what happened there is that the support price was double the world market. As part of the buyout, the price was reduced. Basically, the support price was cut in half. Producers were given other compensation for that, and the producers agreed to the buyout, so they accepted the offer.

And at the end of the buyout, the market was essentially free and there were no longer any production quotas. There was no high support prices. There were still some other countercyclical measures that I recall, but basically what happened is the government paid the producers for their right to the very lucrative U.S. program.

Now, my personal opinion is that that is a way that most of these commodities are going to have to be reformed because there are such strong vested interests built up over such a long period of time, and their ability to influence policy makers is so great that it is pretty unrealistic to think that they are just going to go away. It cost a lot of money to get into this mess. It's going to cost a lot of money to get out of this mess. And I think you're going to have to subsidize producers to get out of this mess.

But at the end of the day what you should do is not just perpetuate the current system. I mean you should--if you're going to pay the price at least get out as they did in tobacco.

Now, I want to comment on the sugar reform that's proposed in the EU, because I think it's really a very good one. The critics will always say it's not enough, but, nevertheless, I think it's a very good proposal. In a sense, it has a buyout implied in it, because quotas can be traded among EU producers. So essentially, a sugar beet producer in a non-competitive area can sell that to another producer and get some compensation for this. So there is somewhat of an implied buyout or a transfer of production quota within the system. And sugar mill are going to be compensated to diversify into other activities whatever that might be. So there is compensation for that.

So, in a way, it has a partial buyout implied in it. And I think that that's basically the way that these things are going to have to be done.

And the ACP producers who object to the erosion of preferences one of the solutions to help them is to allow them to sell the preferences to other ACP or non-ACP producers. That will give them a way of buying out or getting out of the business for the ones that are high cost and no longer competitive. And that's been discussed, so that's another possibility of kind of easing the transition.

MS. KUNAST: May I say one sentence to this, because we are--I just said that I'm not sure how we build up the majorities we need in November, so I'm not sure if we get this system of buying out, cross-border buying out or if we end up in a different system, which means, for example, doing something like a restructural fund, because it's difficult for every minister to go home and say I succeeded. A big success. I get some money for, you know, killing new production next week.

Maybe the instrument or the tool will a bit smoother. So we are discussing about alternatives. But, as I said, the end will be that there are only a few sugar producing--very competitive regions that produce sugar, and I think this at the end is the sense.

MS. BIRDSALL: So it's difficult to diversify if you're a European producer, and it's difficult to diversify if you're a Caribbean producer. What strikes me about the conversation is my suspicion that the amount of money, even in the yet to be articulated reform, to compensate the European and American producers of any of these crops is no doubt much greater even in terms of average levels of income than any amounts of money that have yet been on the table to help developing countries diversify. That's the kind of the development dilemma; is that we haven't yet found a way to put that sort of issue into the reciprocity, mercantilist negotiation process.

Let us turn to those of you out there with questions and concerns. Please.

If you could please introduce yourself and try to keep your questions as short as possible. We're hoping that there are many of you who want to pose questions, and it's better if they're crisp.

MR. TACKEN: Thank you. My name is Wilhelm Tacken. I'm agricultural counselor for the Netherlands here in D.C. I want to come back to Donald's intervention. You were talking about tobacco, but I guess you meant peanuts. In tobacco, the buyout--

MR. MITCHELL: I meant peanuts. I'm sorry. I'm sorry.

MR. TACKEN: --was from the industry, and, as a consequence, as far as I understand, actual market prices are now less than the money the industry is paying to the farmers. But nevertheless, that is a one-time buyout of production rights. I would like to ask you, Donald, another question that is relating to your capacity in the World Bank. Since diversification is so necessary, how come that the amount of money the World Bank is spending on agricultural products is coming down year after year still even today? If you feel diversification is that important, why don't you spend more money or relatively more money on agriculture? But I don't see that in practice. Thank you.

MS. KUNAST: Would you allow me to add the question why don't you spend more money to rural development, which is a special point to fight against poverty and hunger and fight for diversification?

MR. MITCHELL: Okay.

[Laughter.]

MR. MITCHELL: There is an answer. The decision of what to invest in was moved to the country level about five years ago? I'm not sure how long ago. Maybe longer than that. And so the decision of what we invest in is not a--is no longer sector driven and no longer centrally driven. It is now the decision of the country director in each country, of course, in cooperation with their various staff members, to decide what would be the most important thing to help the development of the country. And agricultural projects generally have not had high rates of return, probably because commodity prices keep declining and industrial countries keep protecting, but nevertheless. The rate of return on agricultural products has not been competitive with other kinds of investments and directors do not want to enter into projects which are going to become unsuccessful in the future. So that has been a gradual decline in the proportion of the portfolio that has gone [sic] into agricultural products. And this has been going on--the decline has been going on for at least two decades, and the more recent movement of the decision making authority to the directors in the individual countries has not reverse that and, if anything, it may have even increased it.

So while we are very much devoted to trying to reduce poverty, and part of that is rural poverty, we don't have the instrument to go in and invest a lot of money in agriculture at this point. And, of course, it isn't a viable option when the international prices keep falling anyway, so, you know, they just--it doesn't make economic sense.

MS. BIRDSALL: Yeah. I'm a former World Bank staff member, and I think I'd be saying the same thing if I can add to that for a moment. You know, I do think there's a sense out there that the World Bank can tell countries what to borrow for, and that suggests that it's a powerful institution. In a sense, its power lies not in pushing out the money ironically but in the policy work and the dialogue.

And I think the real problem with the World Bank's not doing more in rural development is that there is a crisis of confidence in the development community as a whole, including in developing countries, about whether it's possible to invest money effectively, which is what you were saying in rural development, which goes back many decades to the failures of the past in doing integrated rural development projects.

In a sense that only underlines the need to create the incentives locally, including through liberalization of markets that would trigger the kinds of changes that we're talking about. So liberalization has to be thought of as one of the critical tools.

MR. GANNETT: My Paul is Paul Gannett [ph.]. I'm with Deloitte Emerging Markets Group, and I just wanted to ask the panel to comment on a question related to that that Dr. Birdsall mentioned at the beginning that with liberalization within countries who will be winners and losers. Don't you see that with liberalization and an increasing reliance on standards and commercial markets that the small farmers in the developing countries are increasingly at risk of being disenfranchised and sort of left out as the cold market comes to play? Would you comment on that?

MS. BIRDSALL: Evandro, maybe you could tell us in the soya area something about the distribution of the production across large and small producers.

MR. DIDONET: Let me begin by saying that Brazil everyone knows has a very unfair distribution of income, and this is also present in the agricultural sector. But having said that, I do think that--and there is widespread consensus in Brazil--that liberalization in agricultural products in developed countries would benefit the country as a whole, even if it benefits more some sectors of our society--those that happen to be the sectors which have a higher income nowadays.

The question of crops, let's say soybeans, for each product, there is a different situation. I would rather speak about tobacco. Tobacco has a very high rate of protection in the United States. In Brazil, tobacco is mainly farmed by small farmers in the south of Brazil. It is very pretty clearly something that benefits small farmers. So it changes from crop to crop. If we take sugar, according to the data from sugar producers in Brazil, the average wage paid to sugar workers in the sugar industry is two to three times higher than the minimum wage in the country.

So, again, you will have different numbers for different sectors, but the message is even if the gains from agricultural liberalization are not widespread in the Brazilian society and they probably wouldn't be because of our income distribution pattern, society as a whole would benefit.

MS. BIRDSALL: Bill, do you want to make a comparison to a different country where the distribution of income is less unequal using your poverty intensity?

MR. CLINE: Well, I mean--let me just back up for a second on the underlying question. I mean I think there is a tendency to think well, it would just be the big, you know, agrobusinesses and so it never reaches the poor. But nonetheless, you are going to be increasing the demand for the labor that those agrobusinesses use, and the reasonable assumption is that you are, in fact, going to push up unskilled wages. The--you know, I think that it's, you know, it's mistaken to think that the benefits

would not sort of percolate through at least according to the original distribution of income and of factor prices from the increased export opportunities.

But yeah, I mean. It is true that, as I said, the general impact of growth opportunities on reduction of poverty is greater where the distribution of income is more equal.

MS. BIRDSALL: Which would include many of the poorer middle income and least developed?

MR. CLINE: It's actually kind of curious because the poorest countries there's two things that work in opposite directions. The other thing is the ratio of the average income to the poverty threshold, and the closer those two are together, the lower that elasticity is. So it tends to go the other way. But for Asia, where that gap is higher and the income is more equally distributed--

MS. BIRDSALL: That's the [inaudible].

MR. CLINE: --you get a high leverage.

MS. BIRDSALL: Once again, Asia is in the right--has the right situation. Other questions? Yes?

Welcome. Please identify yourself. Nice to see you.

MR. LANKES: Thank you, Nancy. I'm Hans Peter Lankes with the IMF. And thanks for a very stimulating debate. I have one question. Minister Kunast really had two--if I simplify it a bit--two answers to the question that was raised. And one was relating to market access and the liberalization of agricultural trade in industrial countries. The other was related to what was best for developing countries to do and to talk about these smaller ones the issue of special products was raised. So the question implicit that it may be better in fighting hunger and poverty to allow poor countries to protect certain agricultural sectors.

And I think that part of the debate hasn't really been dealt with very much, and I'd be quite interested to hear the answer. In fact, we've heard the opposite answer in some of the simulations that Bill Cline was presenting where it is implicit that liberalization of the countries themselves does them a lot of good. But it would be interesting to hear.

And secondly, also part of that question, it's often explicit or implicit in the debate about hunger and food security that the best way to deal with it is to ensure that a country produces as much as it can in the agricultural sector--as much food as it can, and that protection is a powerful way of achieving that. So protection as a way of achieving food security that's a very explicit point on the agenda in DOHA. But I have also heard views I think going back to [inaudible] that the hunger and certainly famines are not really related to the availability of food but to the ability to buy food and so that incomes are far more important than the physical production of agriculture in the country. And these two things can be pulling in opposing directions, and I actually thought seeing the title of this today that we would hear something about this question. Thank you.

MS. BIRDSALL: Can I, Hans Peter, just ask if it's right as an example on your first question for me to invoke the example of southern Mexico and Central America? I think it goes a little bit to what Donald was saying and the difference between or Bill and Donald are together on liberalize. That will push countries to diversify. That will improve everyone's welfare.

You are raising a question about well--I think that's the question you're raising. Is the evidence there that, say in Mexico, with NAFTA, it worked for the poorest farmers or do we need to have some adjustment mechanism for that?

MR. LANKES: Would it help the farm sector in Central America if under CAFTA tariffs on maize imports were eliminated?

MS. BIRDSALL: Right. Thank you. Much more elegantly and succinctly put. Who wants to take? Donald?

MR. MITCHELL: I'll answer the question on Kenya, because that's a country I've worked on recently and know pretty well. And there the debate is very much along that line. Should we maintain a high tariff on maize imports and wheat imports to protect the producer or should we maintain a low tariff to protect the consumer?

The studies have shown that most of the surplus maize comes from large farmers and that most of the small farmers, the relatively small land holders, do not sell maize at all or sell very little, and the consumers, who are the predominate number of people, would be net buyers in all cases. So the only group that benefits consistently from high maize tariffs are the relatively large maize producers who are the surplus producers and the ones who market into the domestic market.

And the numbers, if my memory is fairly close, is something like 85 percent of the market in maize comes from only 15 percent of the farmers. So the answer there is unequivocally--and I don't know how true this is in other countries, but I suspect it's quite common--unequivocally by maintaining high maize prices, which is the basic staple in Kenya, what you are doing is hurting most of the consumers, most of the small holders, and most of the--and all of the landless and probably all of the landless workers as well, rural workers as well.

So the only benefit is to a very small set of relatively well off farmers. And I think that is a common case.

And your other point. It is--you know, the argument that's been made for many, many years--does increased food production increase food security? The answer is unquestionably no. The answer is that increased incomes increase food security.

Now, if you have a national shortage and have to import at very high prices or there are high tariffs, that exacerbates the problem. But the evidence over the last 30 or so years of research is that incomes are what insure food security, and if you can get an off farm job and you're in the rural sector, that's your best chance to increase your income and improve your food security.

And that links back to the question of agricultural trade. So the way that the small producers and the landless workers in rural areas are going to benefit is through jobs. They don't have the resources to produce themselves out of poverty. So what they're going to do, if there is increased trade and access to markets, is get a job. And that's what they need. They'll still have their little farm. They'll still produce what they can, but the real critical thing for them is off farm employment.

And in almost all developing countries now, off farm employment, in rural areas accounts for more than half of incomes. So it's already going that way and that's really the way to improve their food security.

MS. BIRDSALL: Okay. I see a few more hands. Why don't we take any additional questions to go ahead, and then I'll turn to the panel for any last closing remarks.

MR. SUMIBRAM: Thank you, Madam. My name is Sam Sumibram [ph.] from the University of Ghana in West Africa. I'm working for a few days with the Partnership to Cut Hunger in Africa here in Washington, D.C.

Madam, I think that most of the presenters have done a very good job in emphasizing--
[TAPE FLIP.]

MR. SUMIBRAM: --reduce tariffs. But I see another subtle way which is the issue of providing sanitary conditions, which are more stringent. And even if the tariffs get reduced, then different countries have different [inaudible] conditions and those get escalated and we go back to square one. The things will not be imported by the developed countries because of these conditions. I don't know whether the debate should not at this time include standardizing [inaudible] sanitary conditions and finding a way to reducing them so that once we get tariffs reduced, there will be no way of shifting the game and the goal posts by pushing the problem into [inaudible] conditions. Thank you.

MR. REMES: Fear that they'll keep raising the bar. I think we should ask the Minister to take that question and make any other comments and then perhaps we give you a moment and turn for any closing views from Evandro.

MR. DIDONET: Well, as closing view, very briefly. I think that the panel shows that well, yes, we must take into account the sensitivities of LDCs. We must take into account the sensitivities of net food importing countries and food security concerns. But all this should not be an impediment to very much needed agricultural reform in developed countries.

MS. BIRDSALL: Donald?

MR. MITCHELL: I've already said too much. I should probably just quit.

MS. BIRDSALL: Bill?

MR. CLINE: I want to ask Evandro whether he thinks that the blue box that Europe has put under the Christmas tree is true blue, because if it is we've had this massive agricultural liberalization by the European Union which should gladden the hearts of the developing countries—the Brazils—and all that's left is whittling down the U.S. ag subsidies.

But are these reforms in European ag subsidies truly of a nature that totally disassociates the receipt of the subsidy from any incentive to produce?

MS. BIRDSALL: Is decoupling working?

MR. DIDONET: Well, what I can tell you is that Brazil definitely we don't like the idea of block shifting, and we will try to work—you know Brazil insisted that we have very strict criteria for the blue box, and we will see in the negotiations that those subsidies are not price distorted or have no distortion effects on price and production as far as we can. That's a goal in the negotiations. It's a central goal for Brazil. We were one of the countries that insisted on having more strict criteria for the blue box in the mandate for these negotiations. We will work along those lines.

MS. BIRDSALL: Madam Minister, you have the last word, if you can address the question about phylo sanitary standards in particular, which you mentioned, and you are the Minister for Consumer Protection. Can you see if you can get together with your European colleagues on a common standard that then will be locked into place? I think that was the question.

MS. KUNAST: Let me start with the [inaudible] of sanitary problems, and put the finger on one problem. And public opinion and in all the discussions we have with environmental or consumer protection NGOs, we are discussing what is the right point about residues in food. And this is not only a joke because residues in food are problem for health. And even if we have thresholds, I think the thresholds is just the minimum you have to be under. But it's never good that in our food are a lot of residues whatever it is, because, you know, as God created the world, he didn't decide that I eat this ore. And my machine is not prepared for this. Something goes wrong afterward.

It's always an important point, and I think it's for industrialized countries and is or will be for the developing countries the more—or the countries—the medium developed countries—the more they go in agriculture and, you know, go to the chemical industry on this.

But I just mentioned this because the funny point is that all the NGOs mostly discuss about this and don't discuss about the other problem. These are all [inaudible] sanitary problems. They are much bigger and are bigger harm for people's and humans' health.

We have a lot of problems starting with mycotoxin—as little—it's another word for little mushrooms—no, not—fungus, yes. Yes, that's fungus.

You see that is a problem which really harms the health of people and even if someone—it's not only for Ghana and all these developing countries. When you are on the way to be par of international trade, these [inaudible] sanitary problems are a real problem for the people that eat the food, for example. And so we don't want to start new protectionism. It's just a real hard problem which is, in truth, bigger, a bigger hard problem than these residues are, which are critically looking at. The answer cannot be abolish future sanitary and high standards. The answer must be help the states to have a good hygiene system; help the states to educate their people to fulfill and work with this level.

That's why I'm talking about if we give, as donor countries, money to them, we always have to look at what did we give it for and what did we give the [inaudible] for. It does not make sense to say okay, reduce the tariff escalation. This is only one point. If you are not able to meet the standards, which are good for the health of your people and all the export country people. So there's a lot of work to do.

But I would like to add one sentence to the question of the blue box, and with my blue eyes, I tell you this is a blue box. Germany is in the excellent luxury situation that we did a flat rate with all this so over some years we'll—in a process of some years—every farmer will get for the hectare the same amount of money whatever he does—produces on it, which means that the ones who benefited extremely like the corn—the ones who grow corn that they have to reduce the money they get and give it to grasslands, for example, which fulfils also some other aspects and [inaudible] questions or biodiversity questions, for example.

And as far as I discussed with my colleagues, Furlan and Rodrigues from Brazil, I thought it is accepted that we are on the way to really making a blue box and with our decoupling, and you'll see that we'll follow the same way with the sugar market reform.

May I add one last sentence to all this. When we talk about liberalization and that it is so good and that there are two ways of earning for the people in the poor countries; the one is that they directly earn the money or that they are employees of maybe a big buyer or a sugar producer more money and this gives them other possibilities. But besides all this, I'm still looking at environmental questions, which is not a luxury question. It's the question of the health of the people living there.

If you look at China or other areas, we see what problems they have. If you go massively in agriculture, they should do it. It's their right. But never forget the problems we have besides all this, and this is the point what is about agriculture and using chemicals. Oh, I'm getting a good paper. It's—thank you. Yeah.

And, now I forgot my line. You have to look at all this environmental questions which are beside. Al Gore wrote a book. His book—they said the solution is the new problem. And sometimes going into agriculture—more and more agriculture and having the benefits of this and the earnings of

this—could cause the new problem, which could be how do they deal with chemicals, what is about the soil, the water, the air, what is about the health situation of the workers, and so on.

The next point is food sovereignty. I'm not—my dream is not that in 20 years everyone is eating the same corn, the same whatever, having global tastes and global food. I think that food sovereignty and biodiversity is also something we should have in our hands. And so by all liberalization, look at this. Brazil, for example, has really, with the Amazonia regions, you know, you have the treasure?

MS. BIRDSALL: Mm hmm.

MS. KUNAST: The treasure of this world. That's—you see it when the pharmaceutical industry is coming and trying to get your things. And agriculture should not develop in a way that this all destroyed, and we all have some patterns of, you know, one to two sorts of corn, two sorts of this, but [inaudible] GMO and that's all. That's not my dream of the world, and I think that would not be healthy for all the people, poor people, we discuss now. We have to have that as a rest in our head.

And now, there is one very intelligent employee I have here, which puts me on the point that with my blue eyes, our decoupled premiers are not blue box. They are green. So I have to change the color of my eyes. Thank you.

MS. BIRDSALL: Let me start by saying a special word of thanks to Minister Kunast for being willing to be put on the hot spot and for so brilliantly, like a good politician, summing up many points in answering one question at the end.

And let us all thank her and our three panelists for helping us think through this very tough, but very central issue, bringing real evidence and serious frank discussion to the point. Thank you to all of you.

[Applause.]

[END OF TAPED RECORDING.]

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