GLOBAL AGRICULTURAL TRADE AND DEVELOPING COUNTRIES

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Global Agricultural Trade and Developing Countries

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Importance of Agriculture

- 63 percent of population and 73 percent of poor live in rural areas
- Broad agriculture accounts for 30-60 percent of GDP in developing countries
- More than 50% of the poor will still be in rural areas by 2035
- Agricultural reforms are key to the global trade negotiations

Main Messages

- Agricultural protection is complex and widespread. It varies across commodities and countries
- Ongoing reforms in most developing countries, little change in industrial and some middle income countries
- Protection by rich countries leads to reactive protection by other producers (e.g., sugar, cotton, wheat, rice)
- Supply expansion without trade reforms will lead to further price declines and pressures for greater protection

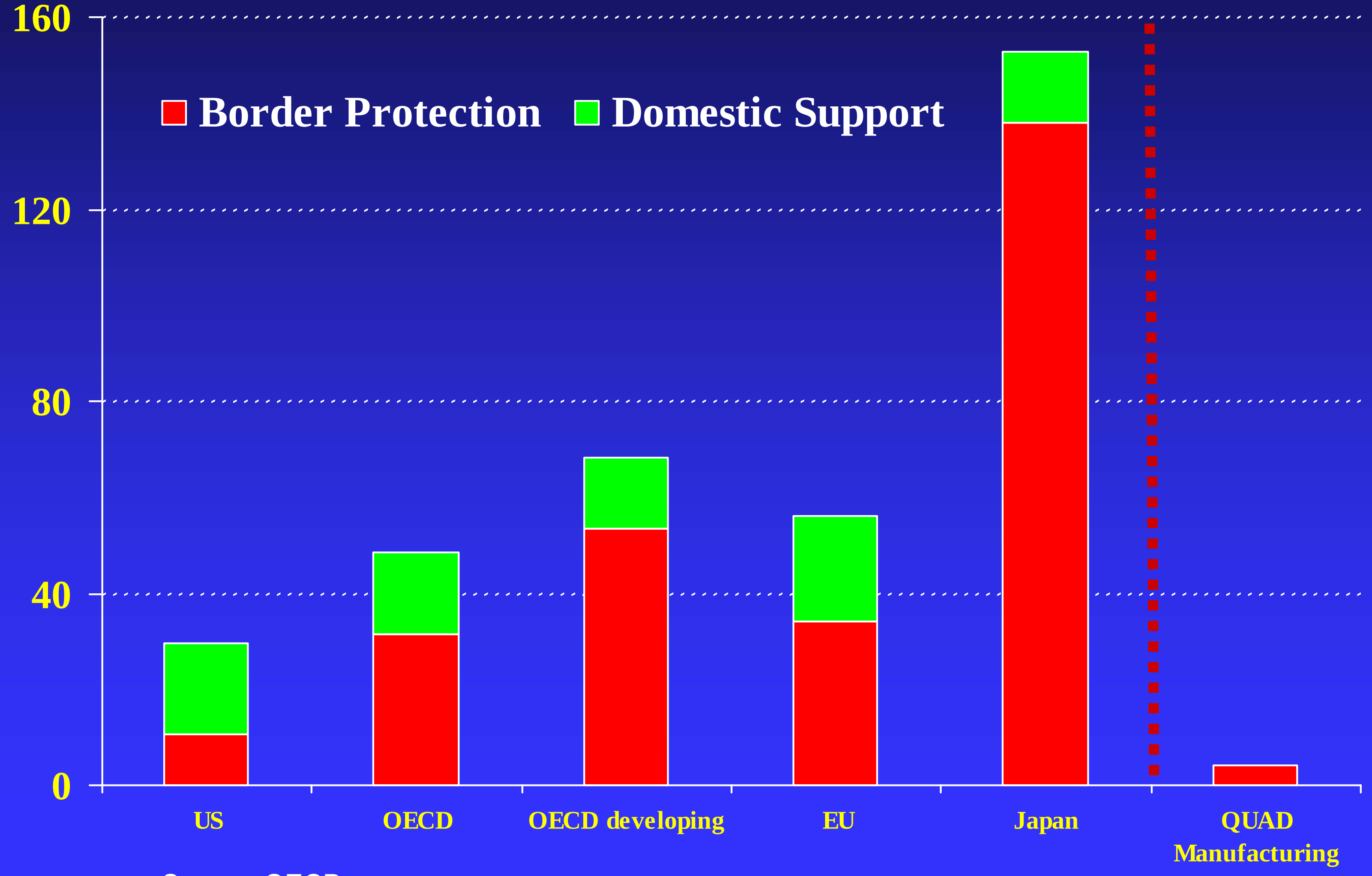
Main Messages (con't)

- **Most developing countries are constrained by global demand but some still have supply constraints (either policy- or technology-induced)**
- **<u>Global multilateral</u> trade reforms are expected to generate large welfare gains and even larger changes in output, exports and imports**
- **Impact of higher consumer prices smaller than expected but real in a few cases (rice, dairy)**

I. Cross-Cutting Issues

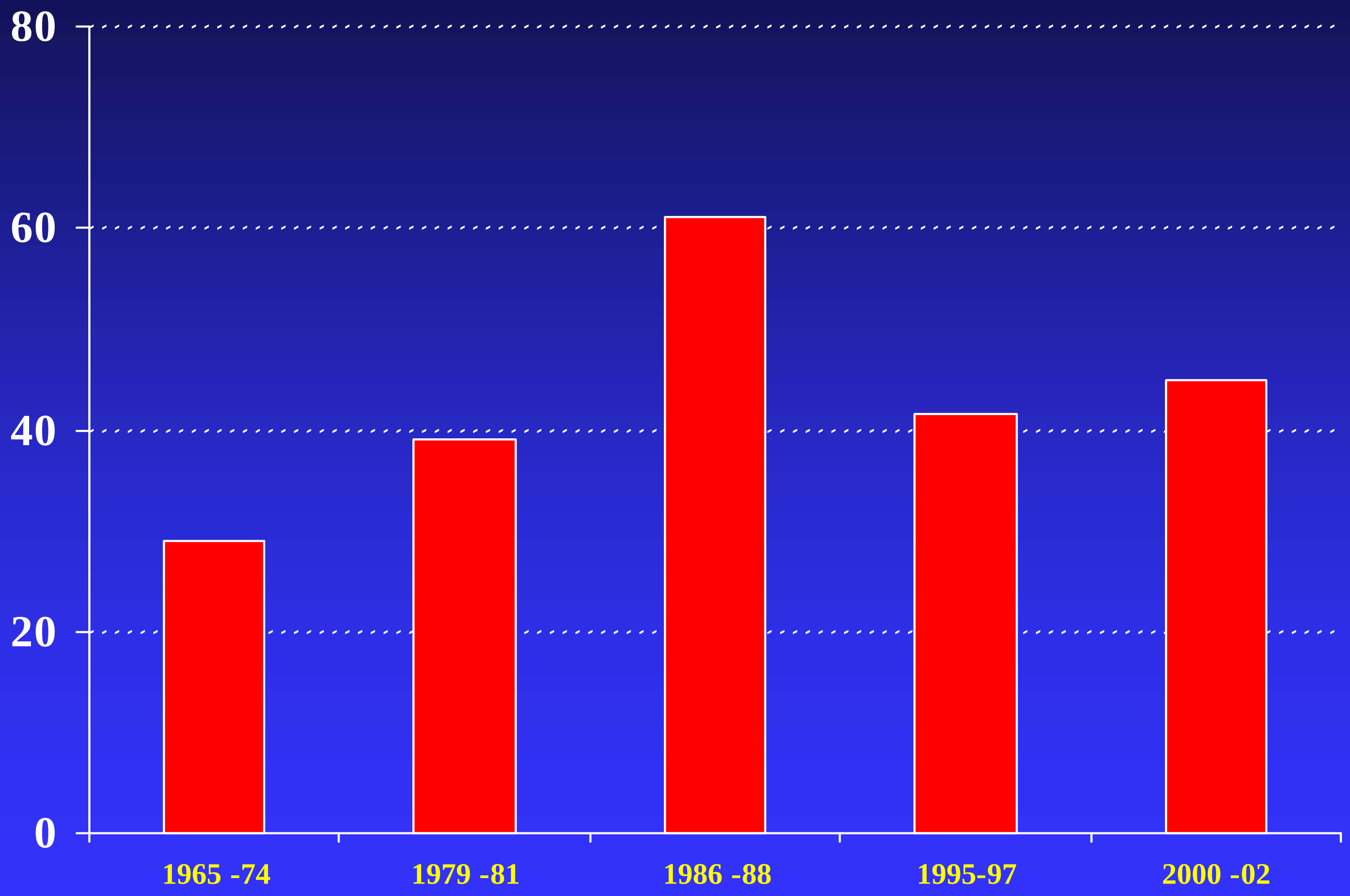
Protection is Still High and Mostly at the Border

(rate of protection, percent)



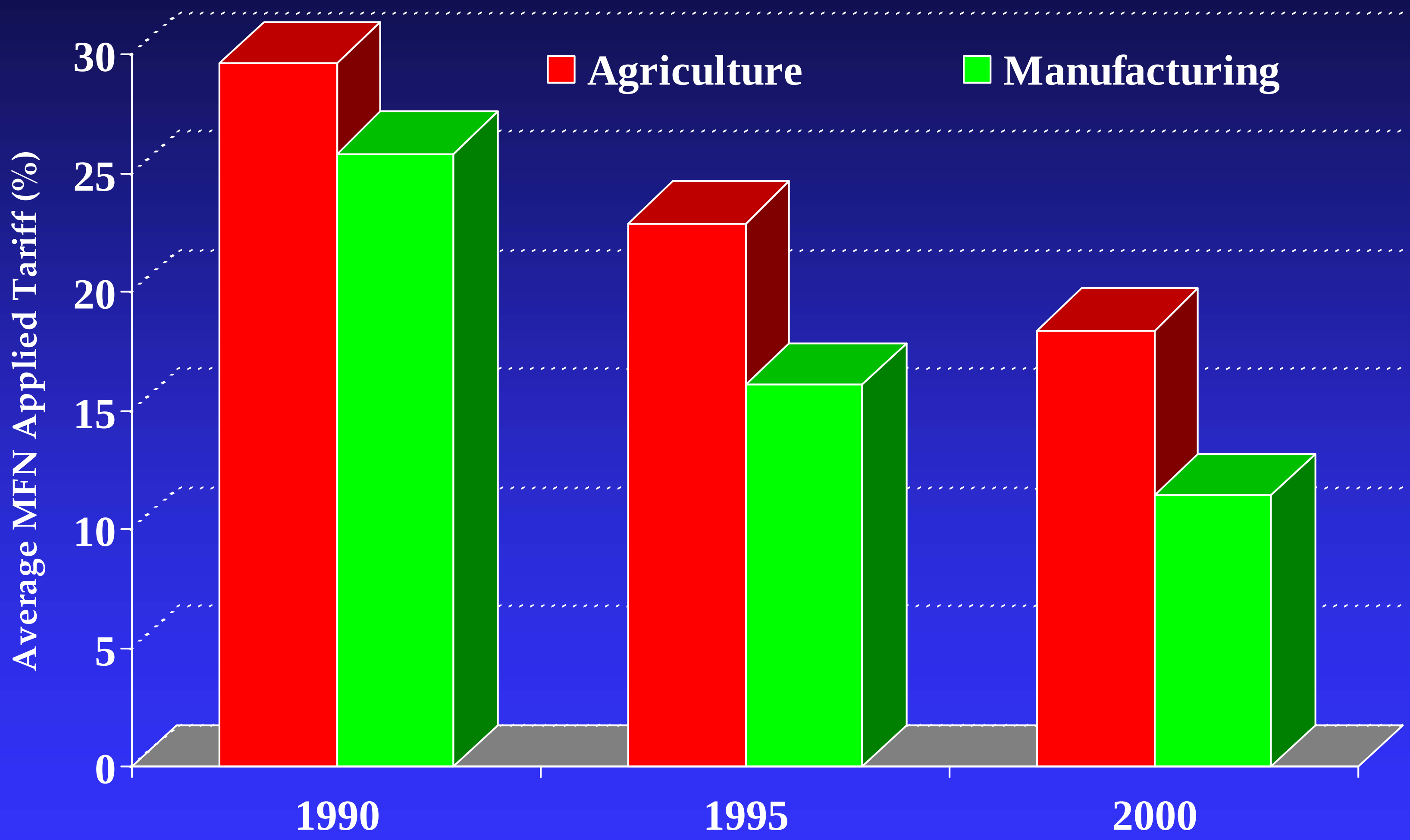
Source: OECD

OECD Protection is still High (percent)



Source: OECD protection estimates (except ABARE for 1965-1974, Author’s calculation for 2000-2002).

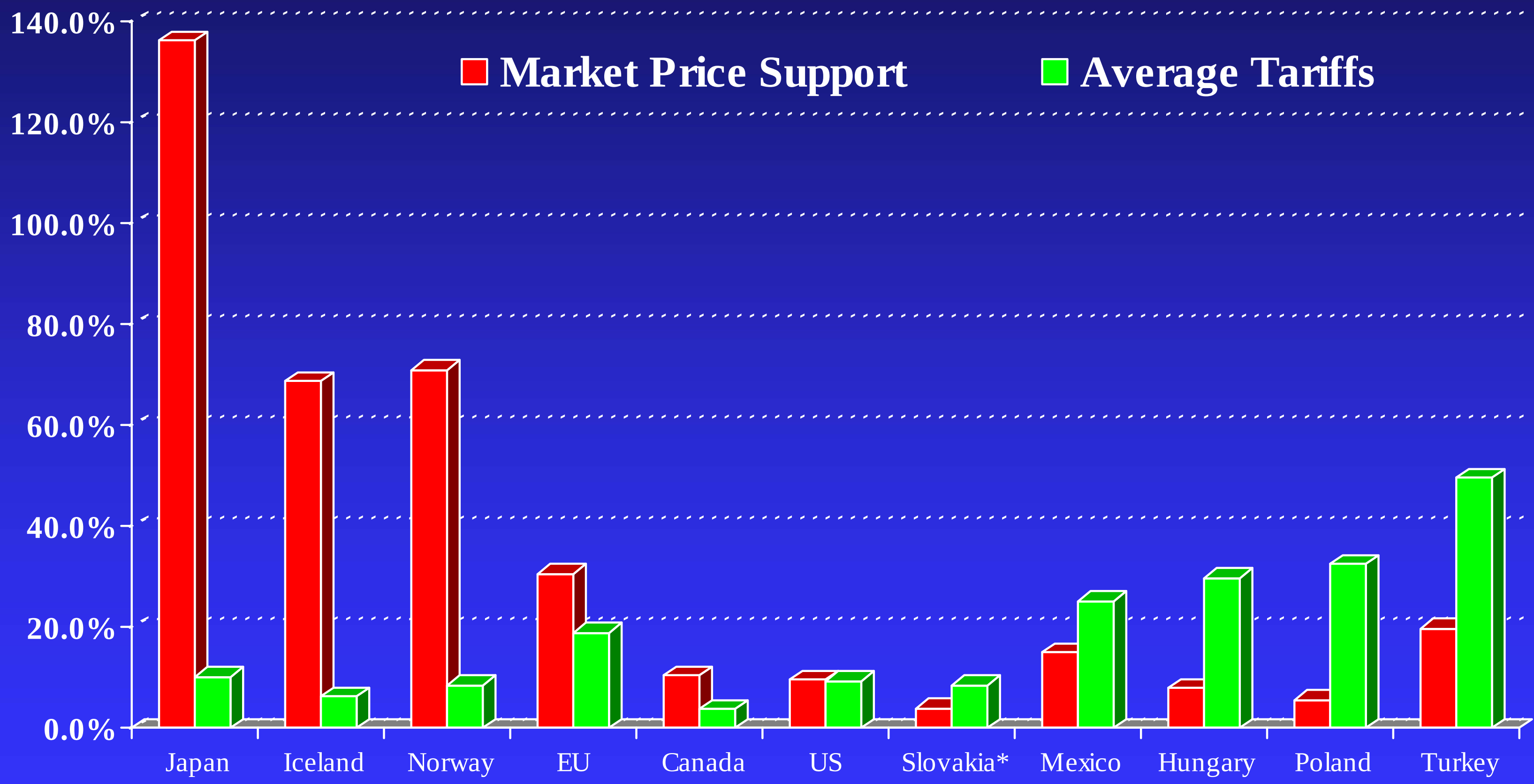
Developing Countries' Tariffs Have Decreased



Source: TRAINS

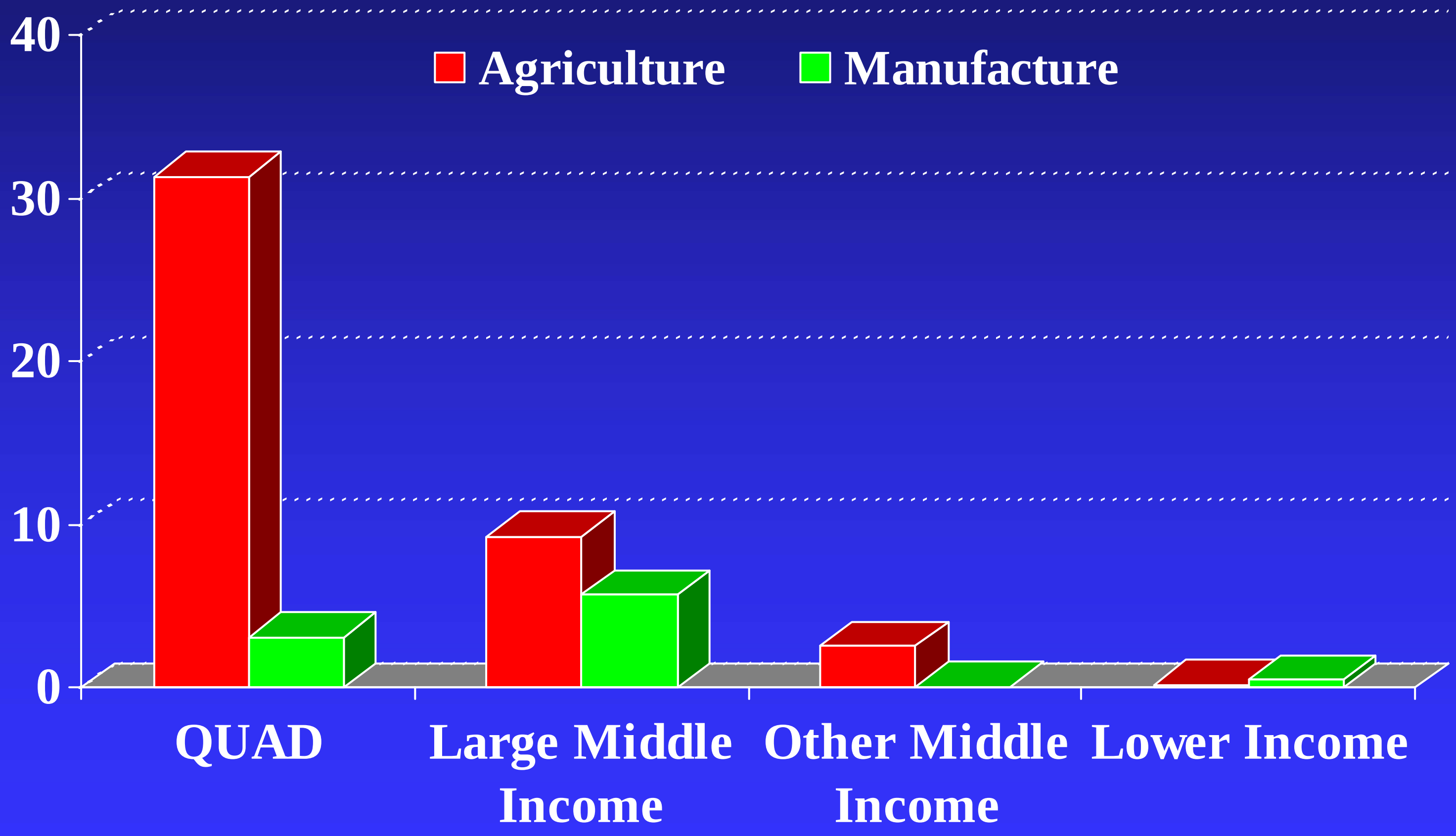
Average tariffs mask the protection in industrial countries and overstate in developing ones

(percent)

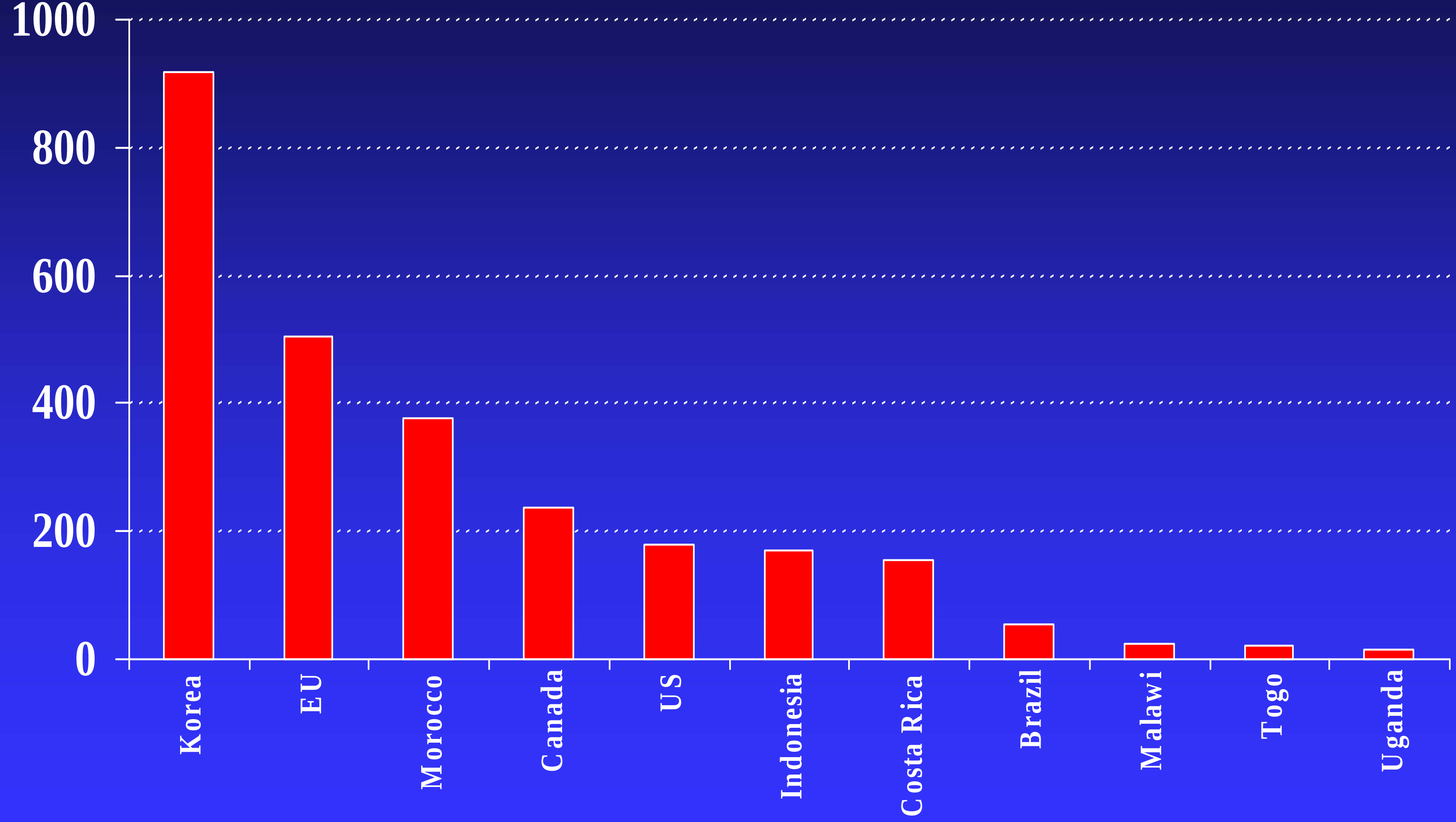


Source: OECD and WTO IDB (MFN applied tariffs)
Note: MPS figures are calculated using 2000 and 2001 average except Slovakia

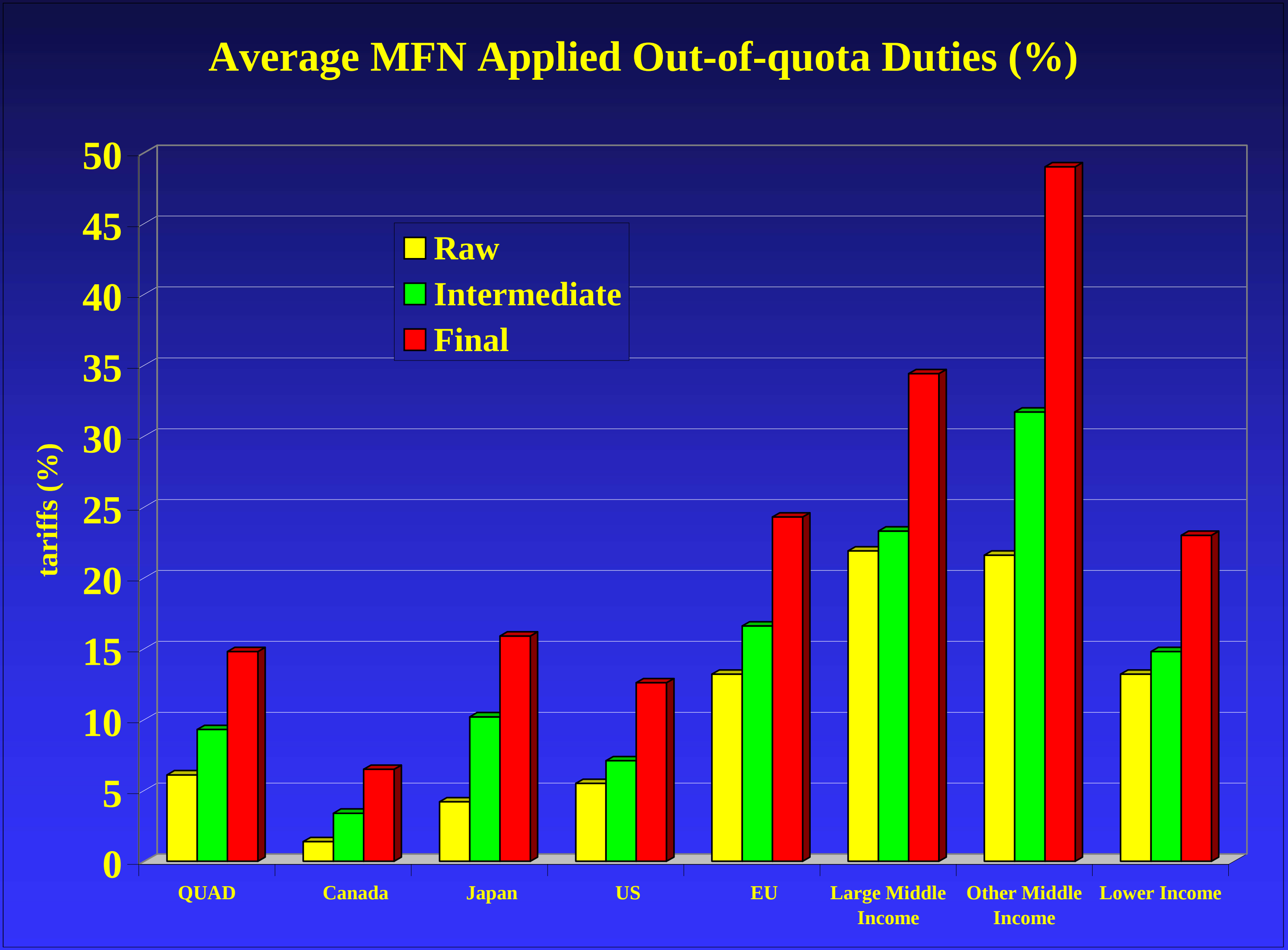
Border Protection is non-Transparent (Tariff lines that are not Ad-Valorem, percent of total tariff lines)



Tariff Peaks Are Very High
(Maximum Tariff, percent)



Tariffs Escalate in Final Products



Source: WTO IDB (MFN Applied Duties)

Examples of Tariff Escalation

Average MFN Applied Out-of-quota Duties (%)	EU	US	Japan
Tropical Products			
Coffee			
raw	7.3	0.1	6.0
final	12.1	10.1	18.8
Cocoa			
raw	0.5	0.0	0.0
intermediate	9.7	0.2	7.0
final	30.6	15.3	21.7
Expanding Commodities			
Fruits			
raw	9.2	4.6	8.7
intermediate	13.3	5.5	13.2
final	22.5	10.2	16.7
Vegetables			
raw	9.9	4.4	5.0
intermediate	18.5	4.4	10.6
final	18.0	6.5	11.6
Seafood			
raw	11.5	0.6	4.9
intermediate	5.1	3.2	4.3
final	16.2	3.5	9.1

Source: WTO IDB

Some Progress with Reform through Decoupled Support

- Move to reduce production subsidies (and to a lesser degree tariffs) and replace them with decoupled support
- Examples are US (1996 *Farm Bill*); EU (1992 and 2002 CAP reform); Mexico (1994 Procampo); Turkey (2001 DIS)
- However …
  - Not all support was replaced by decoupled payments
  - No limits on the time horizon
  - Requirement that resources remain in agriculture use
- One time buyouts – peanuts, tobacco, exit grants in New Zealand, transportation in Canada – more successful

Little Impact of Preferences

- The benefits are limited because exported products either have zero/low tariffs or are excluded from preferences
- Small number of products (mostly in EU) have large benefits (sugar, bananas) but to a very limited number of countries
- Products and rules by major industrial countries are very different, so global benefits are limited
- No major structural change or diversification has taken place as a result of preferences
- In Caribbean the preferences have held back diversification

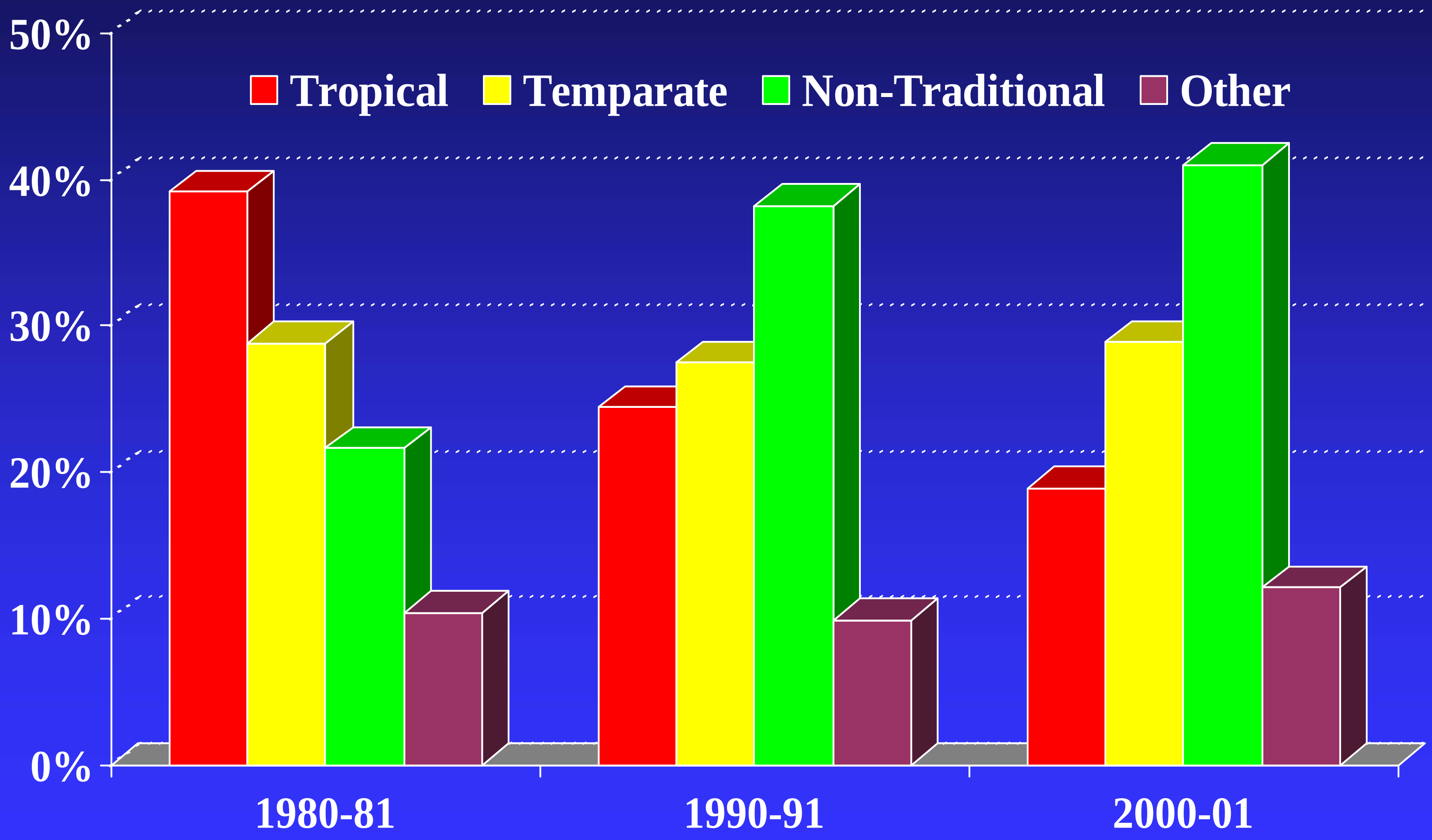
Standards are Here to Stay

- Proliferation and tightening of standards, both official and private sector
- Rising level of border rejections due to tighter standards and much greater enforcement
- Yet, there is no scope for ‘special and differential treatment’ or for slowing the trend toward higher standards

New Standards: Demanding but Manageable

- Application of high standards tends to amplify underlying strengths and weaknesses in agro-food supply chains
- The ‘costs of compliance’ depend upon the starting point, size of the sector, and available support systems
- New demands are manageable and/or beneficial to middle-income countries and well organized industries in poorer countries

Despite Tightening Standards, Developing Country Exports have Surged in Non-Traditional Products



II. Commodity Studies

Sugar

- World average tariff: 26.6 percent (sugar and confectionery); OECD support $5.2 billion
- High domestic support and trade policies in EU, US, Japan, including TRQs, and export subsidies
- “Reactive” support caused by low prices
- 80% of production & 60% of trade at prices higher than the world price. Preferential regimes affect trade patterns

Sugar (con't)

- Removing all distortions would increase world prices by 20 to 40%, with aggregate welfare gains of $4.7 billion and up
- Who would gain? Producers in Brazil, Thailand, Latin America, Africa and Australia; consumers in US, Japan, and the EU
- Who would have to adjust? Producers in US, EU, Japan, and all northern developing countries. Import quota license holders, but partial compensation of lost quota rent by world price increase.

Wheat

- Slow trade and demand growth in wheat, greater growth in flour, pasta, and bakery and much value added created in retailing
- Reforms in many developing countries, but still high subsidies in US, EU and Japan ($17 billion of producer support for the OECD) and some developing countries
- Significant tariff escalation in flour, pasta, bakery products, so trade is only within trading blocks such as EU, and NAFTA

Wheat (con’t)

- **Global reforms will increase prices by only 10-15%**
- **Big gainers will be Argentina and CIS, some reduction by US and EU**
- **Low stocks, and export restrictions, in time of shortages push countries towards self-sufficiency**

Cotton

- Slow demand growth intense competition from synthetic fiber (currently 60% share)
- Low tariffs, significant US and EU production subsidies of $4.5 billion. “Reactive” support in many developing countries
- Removing US and EU production subsidies is key for growth, although reforms unlikely soon
- Eliminating distortions would increase world prices by 10-15%
- Expansion expected in West Africa, Central Asia, and Australia, contraction in EU, US
- Strong poverty links in low income countries

Rice (con’t)

- **Gainers will be millers in Thailand, Vietnam, and the US; competitive producers (Vietnam, China, Thailand); consumers in Indonesia, Bangladesh, Philippines, most of Africa….**
- **Losers will be producers in Japan and Korea; net importers of short/medium grain rice and their consumers, especially in unprotected Asia and Middle East**

Rice

- **Important market—staple food in Asia, small-holder production, potential trade growth**
- **World average tariffs of 43% (217% for short/ medium grain rice). Total OECD support of $24.3 billion**
- **Prohibitive tariffs in Japan, Korea, Taiwan, EU**
- **Tariff escalation by stage of milling in EU and Latin America**
- **High tariffs in Indonesia, India, and many net importing countries outside Middle East**

Dairy

- Highest OECD support ($42.1 billion), with high tariffs of 30% plus worldwide
- Numerous instruments (tariff, TRQ, export subsidy, price discrimination)
- Dynamic market globally fueled by fast-growing trade in components and Foreign Direct Investment
- New trade in casein, whey, and milk components with new technology, bypassing trade barriers
- Removing distortions would increase world prices by 20-40% and welfare by $3.5 billion
- Relocation of production would take place away from QUAD, and High-income Asia to CAIRNS (minus Canada), and India

Groundnuts

- Mature markets, cheaper vegetable oils have reduced peanut oil demand; expanding demand for confectionary nuts;
- Global tariffs around 13 % for groundnuts, 11 % for groundnut oil, and 5.8 % for cake
- In India tariffs of 45% on nuts and cakes, 70% on oil
- Tariff escalation in China: 9.7% in-quota for oil, 75% out-of quota oil tariff, but redundant tariffs for nuts; VAT not applied to domestic output

Groundnuts (con't)

- **Reduced US distortion with the 2002 *Farm Bill*, but redundant high tariff remaining. High tariffs in smaller Asian markets (Thailand, Korea)**
- **Removal of distortions would increase world prices by 15 to 20% for groundnuts, oil and cake**
- **Who would gain? Producers in West Africa (if quality issues are resolved), Argentina, South America, and the US**
- **Who would have to adjust? Chinese and Indian producers; EU and US consumers**

Fruits and Vegetables

- Second largest export after seafood, 19% of developing country exports
- Very dynamic market, decelerated in 1990 mostly due to stagnant EU demand
- Almost no subsidies but complex tariff structure
- 60% of EU tariff lines on fresh vegetables are between 21%-50%; 53% in processed fruits are above 50%.
- Each product export is dominated by a few developing countries
- Few successful developing countries, Mexico, Chile, Turkey, China

Fruits and Vegetables (con't)

- Threat of preference erosion for ACP countries; AGOA provides limited benefits due to sanitary requirements in US.
- Further tariff reform is necessary, especially in EU, but supply capacity is the key in low income countries

Seafood

- **Most traded food item with global exports of US$ 57 billion in 2001**
- **Now constitute 20% of Food & Agriculture exports of developing countries; more than all traditional exports put together**
- **Biggest item is shrimp with global exports of US$ 10 billion in 2001**
- **Now, 30% of seafood production is in aquaculture**
- **Low tariffs in most countries but subsidies to fleets of industrial countries**
- **Little management capacity in developing countries both for sustainability and higher value added**

Coffee

- No significant trade distortions
- Supply controls have not worked
- Slow demand growth, competition from soft drinks
- Demand expansion in the top (organic, fair trade, gourmet) and bottom end (robusta)
- New entrants, (Brazil, Vietnam) and limited exit
- Strong poverty links in low income countries

Implications

- The Uruguay Round, combined with commitments such as NAFTA and EBA, is bringing some discipline but deeper multilateral reform needed
- Multilateral solutions are key to overcoming the political economy of agricultural protection and sustainability issues in seafood markets
- Reduction of border protection is a crucial first step
- With large and increasing domestic subsidies, border reforms alone are not sufficient (cotton, wheat). Real reductions of domestic support needed—not just the "color box" game