



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

BIAC Discussion Paper

Consultation with the OECD Committee for Agriculture 26 April 2004

Reforming agricultural trade: Towards an open agricultural market and sustainable growth

Introduction

Greater market access and freer trade in food and agricultural products are major BIAC goals for the Doha Development Agenda. However, the advance to completing the Doha Agenda on time, by January 2005, was stalled by a disappointing setback at the Cancún ministerial conference in September 2003, although the potential gains from agricultural trade reforms remain large. OECD's studies suggest that the global economic effect of further agricultural trade liberalization is estimated to be around \$60 billion, with benefits shared by net importers of agricultural products as well as exporters.¹ BIAC believes WTO should reinforce its efforts to narrow the areas of divergence among various countries and press forward with more ambitious agricultural trade liberalization. In this regard, the positive tone perceived at the recent consultations on agriculture at WTO held in Geneva in 22-26 March offers optimism for reaching a "framework agreement" on agriculture by the end of July.

The case for trade liberalization and economic growth

Trade distortions in the agricultural sector harm stakeholders in both developed and developing countries. In particular different kinds of export support tend to reduce markets in developing countries by driving down prices to levels that rule out competition by local farmers. Although developing countries argue that liberalization of international trade has not yet benefited them to the same extent as developed countries, trade barriers in the agriculture sector adversely affect *all* countries by limiting innovation, investment and economic growth. Economic growth in the agricultural sector provides opportunities for the poor in developing countries by offering increased access to food, land, income, employment, financial services, technology, and capital for community services and education.

We therefore encourage all governments to impose a significant reduction of import barriers and to adopt policies, to progressively reduce, and over the longer term, to eliminate all kinds of trade-distorting subsidies to the agricultural sector. This should apply to all products and policies.

¹ *Economic Benefits of the Doha-Round: A Quantitative Study by LEI and Tinbergen Institute*, OECD 2003

BIAC views on agricultural trade were submitted to the High-Level Meeting of the OECD Committee for Agriculture in September 2001, and the recommendations include:

- All kinds of import barriers be reduced;
- Tariff peaks and tariff escalation should be eliminated;
- Additional tariff reductions should begin from applied rather than bound rates;
- Elimination or further liberalization of tariff rate quotas;
- Progressive reduction and ultimate elimination of all kinds of export supports on primary agricultural products that distort international trade;
- Further substantial reductions in domestic support programs.

Governments should supplement such reductions by setting a sound structural adjustment policy that promotes private sector initiatives in open markets. All commitments should be phased in over time to allow communities, businesses and markets time to take full advantage of the benefits derived from a smoothly operating open market. Consideration should also be given to the difficulties that developing countries or small businesses might encounter in this adjustment process.

Farmers are no longer the only commercial interests with stakes in the agriculture negotiations. Under current trade policies trade in processed products has increased relative to primary commodities. While the share of primary commodities in total exports decreased from 5.6% in 1986-1988 to 3.7% in 1999 in OECD countries, the share of processed products increased from 2.5% to 2.6% in the same period. In addition, processed and semi-processed foods now account for over two thirds of total agricultural trade.

Because of the close relationship between the production of raw materials and value-added food products, the effect that changes in agricultural support mechanisms have on processed food products should be taken into account. BIAC believes that liberalization of trade in processed foods must also become a top priority during the agricultural negotiations. There are a number of factors that can slow the growth of global trade in the processed food sector, including tariff peaks (atypically high tariff rates); tariff escalation (higher tariffs on processed foods than their commodity components); Tariff Rate Quotas (TRQs) with prohibitive over-quota rates and inefficient administration; and export and all other trade-distorting subsidies as well as domestic support measures. Increased market access and equitable trade liberalization for processed food products should play a key role in current WTO agriculture negotiations.

A role for the OECD

A fair and open trading system, which ensures benefits for both developed and developing countries, is necessary to achieve the economic, social and environmental benefits of sustainable agriculture. An additional benefit of such trade policy is that it provides agri-business with the financial resources to undertake voluntary initiatives and form partnerships that promote sustainable agriculture. The failure at Cancún calls for an increasingly prominent role of the OECD in supporting free trade and more open market in agriculture. The OECD, with outstanding analytical capacity and economic resources, is well equipped to enhance its role in the agricultural trade reform process.

Given the enormous growth in trade in high-value products globally, we recommend the OECD continue quantitative analysis on the impacts of further trade liberalization, and in particular, an analysis of the economic effects of tariff and non-tariff barriers to trade in the processed food and beverage sector. This analysis should include:

- A description of the tariff and non-tariff barriers affecting trade in the processed food and beverage sectors, including complex tariffs, export quotas, tariff-rate quotas, regional trade agreements, licensing arrangements, certification and registration requirements, and variable levies;
- An evaluation of the prevalence of tariff escalation for processed food and beverage products; and
- An analysis of the impact of tariff and non-tariff barriers on trade and investment in the processed food and beverage sectors. This work could include analysing the impact of subsidies and price support as well as the consequences of the social and environmental regulations for the producers and consumers.

In addition we encourage the OECD Agriculture Directorate to enhance its co-operation with other inter-governmental organisations and to assist in capacity building efforts where appropriate. BIAC values OECD's high-quality analytical studies and sees a major role for the Organisation in providing consensual fact-based policy recommendations to current international discussions.

An efficient and sustainable agricultural system

Trade in agricultural products, at the local, regional, national, and international level can to some degree lead to economic viability and help to achieve the goal of sustainable agriculture. In addition to liberalization and market access provisions at the WTO, BIAC recommends that governments:

- Encourage investment in the agri-business sector through non-price and non-trade distorting policies;
- Work towards harmonization of food regulatory, customs, safety and other control systems;
- Promote best farming practices, and develop and adopt cost effective, scientifically sound and environmentally sustainable policies for food products and production techniques;
- Develop an infrastructure that ensures the safe and efficient production, processing, and transportation of food within and between countries.