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**ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT (OECD)**

Statement by the Honourable Donald J. Johnston
Secretary-General
*(Speaking As an Observer)*

I would like to say a few words about the context of this meeting, the substance of the negotiations and finally what I would call "complementary undertakings".

**The Context**

This Meeting occurs at a time of pronounced uncertainty about prospects for the world economy and the international environment for peace and security.

It takes place against a backdrop of major inequalities in levels of income and well-being throughout the world.

In such circumstances, it is the special responsibility of OECD members to show leadership in ensuring the successful conclusion of the Doha Development Agenda (DDA) - as a single undertaking.

This is also a shared undertaking. Developing countries and economies in transition have a stake, not least because of the opportunities for trade among themselves. They should be ready to make meaningful commitments, though with differing rhythms to match differing circumstances.

Crucially, our undertaking must remain multilateral. I worry that, more and more, key trade policy makers reason that if the multilateral trading system does not yield the results they seek, they will turn to regional deals. Since the disappointment of the Seattle Ministerial, regional trade agreements have grown in number by more than one third to 142. We expect that by 2005 they will cover 55 per cent of world trade. But these arrangements can make a positive contribution to the trading system only if the multilateral trading system itself is strong, fostering steady, non-discriminatory liberalization and bolstered rules - as addressed in the Doha Declaration.

**The Heart of the DDA: Market Access**

Market access is at the heart of the DDA and agriculture is at the heart of market access. Agricultural tariffs are still very high. Tariff escalation abounds. Export subsidies are still legal for agriculture, whereas they have long been prohibited in other sectors.

Trade in agriculture has crucial importance for developing countries; it is pivotal to the negotiations; and many agriculture policies that distort trade are stark failures, even in terms of their own objectives.

Let me begin by debunking a destructive myth, which is that OECD countries must support their agriculture so it can produce food for the hungry in the third world. This argument is fundamentally wrong. Hunger is not caused by a global scarcity of food. The world can easily produce enough to feed everyone, without any government support. Where people go hungry, this is because they do not have access to food - sometimes for reasons of war or politics, most often because of poverty. Producing more food in the OECD area, on the back of government support, does not solve these problems. On the contrary, it creates other destructive problems.

Many of the poor in developing countries live by agriculture. These farmers urgently need better chances to earn income: first by being allowed to sell on their own home markets in an environment of fair competition. They can be competitive and can enjoy comparative advantage. But they cannot beat the prices of imported subsidized agriculture. Developing country farmers should also be given the chance to compete - fairly - on world markets, including OECD markets. Their governments do not have the deep pockets to match the subsidies of many OECD country farmers. When will developing country farmers get their fair chance?

At the same time, tariffs and export subsidies boost domestic prices in the countries that support agriculture. In the OECD area the average domestic price of agricultural products is more than 30 per cent higher than price levels in international trade. Agricultural support costs the average household in the EU, US and Japan more than one thousand US dollars every year.

Do these costly agricultural support policies meet their objective of supporting small farmers? No. In The OECD area one dollar spent on price support adds a mere 25 cents to farm income. Because domestic support is still "coupled" to production, most of the benefits accrue to very large, wealthy operations, not to the small farmers. As a general rule, about 75 per cent of support goes to the top richest 25 per cent of farmers.

I add that agriculture support causes much damage to the environment.

I have to conclude that it is in the interest of the people of OECD countries to reduce, and even eliminate, tariffs and export subsidies in agriculture. And by permitting developing countries to expand their agricultural exports, reform of support for agriculture in OECD countries can help lift millions of people out of poverty.

Agriculture is central to overcoming poverty in developing countries. A <u>Development</u> Round without a quantum leap on agriculture would not deserve the name.

In the area of non-agricultural market access, the textiles and clothing sector is of particular importance - because of the scale of potential gains from liberalization, but also because of the important structural adjustment that liberalization will entail.

All studies foresee that elimination of the Multifbre Arrangement will increase global welfare by permitting many developing countries to seize their comparative advantage. But the gains will not be evenly spread. As MFA quotas are phased out, some low-cost countries that have excelled as offshore assembly centres on the basis of MFA quota allocations will face difficult competition.

This is not an argument for not liberalizing. But it is an argument for sound policies of structural adjustment. I shall return to this towards the end of my remarks.

Trade in services gives rise to some crucial market access issues. Recent OECD analysis throws light on the considerable role that developing countries now play - or have the potential to play - as exporters of services. They are also among the major beneficiaries of services liberalization, with the biggest gains going to those with the highest barriers.

Despite the benefits of services trade liberalization, many voices are expressing concerns about the GATS and its supposed threat to the provision of public services and to the ability of governments to regulate. The concerns are genuinely held, but misconceived. The goal of the GATS is the progressive liberalization of services trade - not deregulation. Indeed services liberalization often necessitates regulation or re-regulation.

**Trade is not a panacea: the need for complementary undertakings**

Though essential, multilateral trade policy is not a panacea.

For liberalization to work, countries have to be ready and able to increase their trade. Domestically, this means having or putting into place a sound economic and social policy framework; a sound regulatory environment; and sustained efforts - by both government and business - towards improved governance. In the context of the DDA, there must be increased and better targeted provision of development assistance and capacity-building, focused on those most in need.

Governments also must be ready to take actions to facilitate the structural adjustments that liberalization will stimulate and to minimize the costs and hardships of those adjustments. This is true for developed and developing countries alike. I mentioned problems for some specialized producers of textiles. In agriculture, some net food-importing developing countries will see their food import bills rise and they may need short-term help. But problems such as these cannot be arguments against liberalization - which will bring important benefits to so many.

We are now at a crucial mid-point of the DDA. It should be clear to all of us that in order to realize the full potential of trade and investment as engines of growth, this meeting will need to be driven by political resolve, based on the consistent application of enlightened self-interest.

Working within the multilateral trading system, in the exercise of their own enlightened self-interest, all countries stand to win. We live in the age of globalization. Let us seize its opportunities.

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