



AGRICULTURE POLICY LANDSCAPE SYMPOSIUM



SUMMARY REPORT

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TABLE OF CONTENTS

INTRODUCTION	3
OPENING REMARKS	3
SESSION 1 - ECONOMIC SIGNIFICANCE OF AGRICULTURAL TRADE – NOW AND IN THE FUTURE	4
OVERVIEW	4
PRESENTATIONS.....	5
SESSION 2 - EVOLVING TRADING PATTERNS IN AGRICULTURE PRODUCTS.....	9
OVERVIEW	9
PRESENTATIONS.....	9
SESSION 3 - PRODUCTS, PRICES, AND MARKET PARTICIPATION	15
OVERVIEW	15
PRESENTATIONS.....	15
SESSION 4 - AGRICULTURE TRADE POLICY LANDSCAPE	22
OVERVIEW	22
PRESENTATIONS.....	22

INTRODUCTION

The Agriculture Policy Landscape symposium was organized by the World Trade Organization on 13 and 14 June. This symposium gathered experts from academia, international organizations, and think tanks to discuss the trends and future expectations of the global food and agriculture economy and the implications for farmers and agribusiness. Discussions were organized around four themes:

1. The economic significance of agricultural trade
2. Evolving trading patterns
3. Products, prices and markets
4. Agriculture trade policy landscape

The objective was to contribute to a global dialogue on how to collectively meet pressing challenges in the agriculture sector.

Discussions highlighted evolutions in food and agriculture in the past fifteen years. Developing countries play an increasingly important role in world agricultural markets, with five out of the six top producers being developing countries. Population growth in many countries, particularly developing countries, has been accompanied by growth in the middle class. With growing incomes, consumers increasingly demand high value products, including animal products. Consumer preferences for quality attributes, such as food safety and sustainably produced food, have also increased. Yield increases and expansion in cropped land area have led to increased production for many agriculture commodities. Trading patterns in agriculture have also changed - exports remain concentrated in a few supplying countries, while imports are more dispersed. In addition, the growth in trade of intermediate agro-food products reflects the increased importance of agro-food global value chains.

The stresses on the agro-food system are also expected to increase. As global population grows, the pressure on scarce natural resources, including arable land, are expected to mount. While the share of the world's population that is hungry and poor is falling, the absolute numbers are still unacceptable. Land and water constraints faced by countries vary. An increased likelihood of extreme weather events and the related changes in local water supplies, will alter the choices available to farmers.

Experts emphasized the evolution in policies implemented by countries that affect the agriculture and food sector over the past decade. Policy makers have a variety of tools at their disposal to ensure that their population has adequate food and that the enabling conditions for their agriculture and food sector are in place. Policy makers are increasingly prioritizing objectives and policies related to the environment, health and animal welfare. Policy decisions taken at the country level will impact the sustainability and health of the global food and agriculture system. While WTO's agriculture rules have minimised distortions in production and trade, there is room for improvement to enable the multilateral trading system to respond effectively to the transformation of the agriculture sector.

The full set of presentations is available at:

https://www.wto.org/english/tratop_e/agric_e/symposium_ag_policy_landscape_e.htm

OPENING REMARKS

Alan Wolff, Deputy Director-General, World Trade Organization

In his introductory remarks, Deputy Director-General Alan Wolff highlighted how the WTO could contribute to a more resilient, inclusive agricultural trading system, emphasizing the essential role of information sharing and transparency in levelling the playing field and supporting inclusive trade. Transparency is an integral aspect of the WTO rules and processes. Members notify to their trading partners the details of their domestic support to agriculture, tariff-rate quota imports, and export

competition policies. In the Agriculture Committee, Members ask each other questions on these notifications and on other issues related to the implementation of their WTO commitments. Through these exchanges, WTO Members can gain valuable insights into the policy landscapes of their trading partners.

DDG Wolff stressed the importance of building and maintaining broad perspectives, noting the need to balance divergent views and accommodate the interests of all, where possible. As the pace of change accelerates due to greater global interconnectedness, navigating through these changes will become more difficult. Policy decisions taken at the country level will have wide systemic effects – on economic outcomes, on agricultural outcomes, on environmental outcomes. Ultimately these choices will have an impact on the sustainability and health of the global agri-food system.

He noted that the symposium provided an opportunity to better understand the ways these complex systems interact and the way that policy decisions shape farmers' decisions, firms' decisions, and consumers' decisions. While WTO rules were created to minimize the potential negative impacts from trade-distorting policies, DDG Wolff noted that there was room for improvement in the rules to enable the multilateral trading system to respond effectively to transformation in the agriculture sector to ensure that all countries benefit from the system.

DDG Wolff concluded by calling on WTO Members to commit to sharing information, broadening perspectives and engaging with each other with open minds to build resilience in the global agri-food system. WTO Members can play an important role in identifying opportunities to strengthen the agriculture and food system and building sustainable solutions through their common efforts.

SESSION 1 - ECONOMIC SIGNIFICANCE OF AGRICULTURAL TRADE – NOW AND IN THE FUTURE

Moderator

Robert Koopman, Chief Economist, World Trade Organization

Panelists

Martin Piñeiro, Director, Committee on Agriculture, Argentine Council for Foreign Relations (CARI) and member of the GPS Network

Kofi Nouve, Program Leader Nigeria, Sustainable Development Practice Group, World Bank

Jing Zhu, College of Economics and Management, Nanjing Agricultural University, China

Discussants

Santiago Bertoni, President of the Paraguayan Institute of Agriculture Technology

Aisha Moriani, Joint Secretary Foreign Trade, Ministry of Commerce, Pakistan

OVERVIEW

Agricultural trade is expected to grow more slowly than other sectors. At the same time, agricultural trade seems to be less sensitive to weak economic conditions than other sectors. While the rate of growth in agricultural consumption is expected to decrease over the next decade, the world's agriculture and food system will need to address growing demand from the increasing global population, which is estimated to reach 9 billion by 2050. The location of demand is changing due to growing and increasingly urbanized population, particularly in large developing countries. At the same time increasing incomes have led to higher consumption of animal products and demands for feedstock commodities for energy and other non-food uses. Agricultural production is facing new pressure from extreme weather and temperature is also likely to shift location. In addition, rural

populations in many regions are aging, creating new challenges in terms of sustaining adequate agricultural labour. The pace of these changes will differ across regions. Agricultural trade can provide a means of ensuring that agricultural production can move from areas of surplus to areas of deficit. Producers can increase their income from having access to markets outside their local area.

PRESENTATIONS

Agricultural global trade and food security: some major trends

Martin Piñeiro, Director, Committee on Agriculture, Argentine Council for Foreign Relations (CARI) and member of the GPS Network

In his introductory remarks, Mr. Piñeiro noted that agriculture trade had been a major element in global development and multilateralism and WTO had been playing an important role in ensuring the transparency and predictability of the system. However, the world was facing challenges due to global political developments and trade's weak position. Globalization was creating opportunities for emerging economies and developing economies to participate more fully in the global trading system, but unfortunately limited progress had been made in the agricultural negotiations since the Ministerial Conference in Buenos Aires in 2017. He stressed the need to look at the global political context to understand the changes that were taking place in the agricultural sector and with respect to agriculture trade to advance negotiations.

He presented some major structural trends in agricultural trade. First, with increasing food consumption trade would play an increasingly important role in achieving global food security. In addition, increasing south-south trade had changed the nature of the global trade system and increased the complexity of the agricultural trade policy environment. As noted above, this complex policy environment had created challenges for trade negotiations. Finally, food trade would be dominated by a small number of net food importing and net food exporting countries.

Dr Piñeiro noted that consumption patterns were evolving dramatically and substantial changes in the composition of trade were foreseen in the future. However, he noted that barriers to trade create uncertainties regarding how the trading system would respond to these changing patterns. Policies in importing countries might lead to tariff escalation. Substantial changes to domestic policies were needed to achieve potential gains and improved efficiency in the global trade system.

Emphasizing the importance of a well-functioning global food market for food security, he highlighted potential approaches to address the major structural trends. More effort was needed to convince countries to liberalize food trade markets and eliminate export restrictions to avoid unstable prices and uncertainty. He suggested that the group of countries with high concentration of exports and imports could collaborate to strengthen international food markets. Finally, he suggested that coalitions of WTO Members could work together to develop proposals to facilitate agricultural trade negotiations. In his view, these discussions could begin in a plurilateral setting as a precursor to reaching a multilateral agreement.

He concluded by stressing the importance of creating the conditions to ensure that trade could contribute to poverty alleviation. Countries could develop investment and infrastructure policies to address constraints to market integration. Under the right conditions, global agricultural trade could help address the food security risks associated with climate change. WTO Members should think creatively about developing a new environment for negotiating agriculture trade rules.

Enhancing domestic drivers of competitiveness for improved agricultural trade performance in Sub-Saharan Africa

Kofi Nouve, Program Leader Nigeria, Sustainable Development Practice Group, World Bank

Mr. Nouve commented on how regional and bilateral trade policies interact with food security and poverty reduction in Africa. Many countries faced constraints in accessing markets due to their domestic policy environment which might lead to decreased market competitiveness. Countries needed to have appropriate domestic trade policies to take advantage of opportunities provided by trade. Explaining the role that trade played as a major driver in the region in terms of raising real incomes in agriculture sector, increasing productivity and food security, he emphasized that the rules based multilateral trading system had helped countries to take advantage of opportunities for foods exports and imports. He also noted that trade could facilitate more efficient use of agricultural inputs, thereby leading to more sustainable global food production systems. Despite the large benefits of trade in agriculture for the Sub-Saharan Africa, major concerns remained; including (i) depressed world prices related to subsidized production in large countries; (ii) increasing risk of malnutrition, food insecurity, and weakened rural development in low-income farmers, as well as; (iii) difficult domestic political economy; and (iv) stagnation of reform efforts.

Dr Nuove presented case studies on how domestic policies affect the drivers of competitiveness, and underlined the importance of trade and agricultural policies for a dynamic rural development and national economic development. The World Bank had put in place a framework to support some of the drivers of competitiveness known as *Maximizing Finance Development*, a joint partnership between the private and public sector.

Recent work by the World Bank showcased the potential of the agriculture and agribusiness sector in Africa, highlighting the major contributions agriculture could make in Sub-Saharan Africa economies. To address distortions in the agriculture sector, the World Bank supported the WTO's efforts in delivering outcomes for agricultural trade, in advocating for developing country interest and in implementing commitments of multilateral agreements consistent with the Doha Round.

He concluded his presentation by stressing the need to unlock the potential of agricultural trade in the region to achieve sustainable agricultural transformation in SSA. In this respect he recommended (i) Stimulating domestic and international trade in agriculture for food security and poverty reduction strategies in SSA; (ii) Pursuing reforms at WTO and making the global trade inclusive on a win-win basis; (iii) Maximizing benefits from trade, enhancing food and nutritional security and accelerating poverty reduction; and (iv) Enhancing the domestic drivers of internal, regional and international competitiveness in agriculture.

The contribution and challenges of agricultural trade to food security in China

Jing Zhu, College of Economics and Management, Nanjing Agricultural University, China.

Dr. Zhu emphasized the major role agriculture trade had been playing in China's food security. As the world's most populous nation, China's growing demand for food affected an interconnected global economy. To meet domestic demand, China had made great progress in (i) boosting agricultural output; (ii) improving food standards and quality; and (iii) developing technology to meet the nutritional needs of its growing population. According to her view, the dramatic improvement in China food security had been achieved through China's increased domestic production.

Dr. Zhu gave an overview of the evolution of China's agricultural trade which began from a low level and subsequently increased after China's accession to the World Trade organization in 2001. In its accession China committed to tariff cuts, the establishment of the Tariff Rate Quota (TRQ) import

system, and the reduction the export subsidies and agricultural support. Since 2001 China had experienced an impressive increase in trade volumes.

According to Dr. Zhu, agricultural trade contributes to China's food security by improving the diversity of food, quality in standards, and access to resources outside the country. However, she noted persistent concerns in China regarding the impact agricultural trade may have on the self-sufficiency of grains, farm employment, rural livelihoods, and conservation.

She concluded by noting that China's food demand was still growing due to rising population and incomes. Chinese agriculture production was moving towards sustainable methods. In addition, China was improving its agricultural competitiveness by reducing production costs, reforming the domestic support policies and reducing market access barriers to achieve food security in China.

Discussant's Comments

Santiago Bertoni, President of the Paraguayan Institute of Agriculture Technology

Mr. Bertoni highlighted key messages from the previous speakers' remarks. DDG Wolff had highlighted the complexity of the agricultural policy landscape particularly in multilateral context and stressed that despite this situation, agricultural trade was continuously growing. Mr. Martin Piñeiro had described the new developments in world agricultural trade and advised that export countries should consider what was necessary for sustainable agriculture. Mr. Nogue had stressed the importance of the domestic policy environment for sub-Saharan African countries to move away from being net importers and to benefit from opportunities on the regional and international markets. Dr. Zhu had described the important role China plays in the global agriculture economy as one of the biggest markets for agricultural products and highlighted the significant changes in agricultural trade for China in the past decade.

Mr Bertoni then gave some examples from Paraguay's experience as a net exporting, landlocked country. Since its accession to the WTO, the local agriculture production had increased along with agricultural exports. The level of industrialization had increased as well. He noted that due to a stable domestic policy environment that was coherent with other macroeconomic policies, Paraguay was gaining access to diverse markets and competing effectively in the international markets. He concluded by emphasizing the importance of the global business environment and the need to ensure that there was adequate production to be able to feed the world.

Aisha Moriani, Joint Secretary Foreign Trade, Ministry of Commerce, Pakistan

Ms Moriani recalled some highlights of the first presentation by Mr. Martin Piñeiro on the global political context and the importance trade agreements to support policy decisions that do not distort trade. She advised that plurilateral initiatives needed to be executed in a transparent and open manner so that import and export opportunities would be available to all players.

Referring to the presentation by Mr. Nogue, she stated that the WTO as a rule-based organization provides an opportunity for collective efforts to continue the reform process. Although the presenter highlighted the importance of political economy factors and the difficulties involved in the reforms, she added that these reforms played a crucial role in changing the lives of poor farmers, and therefore it was important to explain how reform can bring prosperity to farmers if social safety nets are in place.

She highlighted some additional challenges for sustaining competitiveness including low levels of public investment in research and development particularly as it relates to sustainability, weak value chains and lack of farmers' associations.

She concluded by emphasizing the importance of policy makers making smart decisions, and smart policies. (S for *Sustainability*, M for *Market* friendly approach, A for *Access* and *Availability* and R for *Responsiveness* to farmers and consumers needs and T for *Trade*, *Technology* and *Trade* off).

DISCUSSION

Participants raised many questions that sparked multiple interventions from the floor and among panellists.

- **Bob Koopman, the chief economist at the WTO, asked a question related to CFTA and the potential implications for the Sub-Saharan Africa countries as regional or continental integration.** Mr. Nouve recalled the importance of the initiative and the high commitment among African leaders to move forward in eliminating trade barriers. However, according to him, in the African context, these trade blocs faced several challenges which might mean that they did not necessarily lead to significant increases in intra-regional trade.
- **Another question posed to Mr. Nouve related to the correlation between internal markets for domestic competitiveness and government structure and other type of factors.** According to the Mr Nouve, the goal was to develop simple predictable ways of creating a policy environment in which the private sector would thrive. He considered that power was one of the major constraints that businesses face in Africa. He said when the cost of electricity was high it was difficult to maintain efficient processing industries. Many African countries still had weak fiscal systems and depend on tariff incomes. Weak infrastructure and product specialization issues in the regional markets were also challenges. He concluded by highlighting solutions including an enabling business environment to private sector actors in agriculture, creating incentives for farmers, and having a predictable set of policies to unlock businesses in promoting the development of the sector.
- **Terry Townsend, Chair, DNFI raised a question on enforcement of agreements and the incentives that can be used to encourage exporting countries to allow markets forces to prevail even during time of shortages.** To shed light on the enforcement of agreements, Mr. Piñeiro discussed three reasons why countries have imposed export restrictions. These were (i) to manipulate the internal prices; (ii) to address tariff escalation in importing countries and support the development of processing activities; and (iii) to address situations of extreme shortages caused by shocks such as climate change and conflict. He then argued that the first two should not be allowed in the WTO context because they created market instability, were harmful to producers in their own country and were not suitable for a resilient food production system.
- **One participant asked for more clarification on domestic support policy in China.** Dr. Zhu first highlighted the major reforms that China was currently undergoing with the aim to move away from the target price system. She said that the government was trying to set the price in line with the international market while providing incentives to farmers to produce more. This was a complicated task but the government was committed to working on these issues to come up with effective solutions.

SESSION 2 - EVOLVING TRADING PATTERNS IN AGRICULTURE PRODUCTS

Moderator

Christiane Wolff, Counsellor, World Trade Organization

Panellists

Joe Glauber, Senior Research Fellow, International Food Policy Research Institute;

Miriam Omolo, Director of Programmes at the African Policy Research Institute (APRI)

Alessandro Nicita, Economist at the United Nation Conference for Trade and Development, (UNCTAD)

Discussant

Peter Gooday, Assistant Secretary and Chief Commodity Analyst, Australian Bureau of Agricultural and Resource Economics and Sciences.

OVERVIEW

The objectives of this session included assessing shifts in trading patterns in the past and possible predictions for the future, evaluating effects of global value chains on trading patterns, analyzing effects of climate change on trade and identifying bottlenecks in international trading systems in order to address trade-distorting constraints. Agricultural exports remain concentrated in a few supplying countries while agricultural imports are more widely dispersed. Some countries depend upon trade to satisfy growing demand because they have insufficient natural resources for growing food domestically. In other cases, countries may depend upon agricultural imports because, despite their natural endowments, population growth has not been matched by growth in agricultural production. In addition, the changing trading patterns have been complimented by changing production patters that tend to operate through value chains at the global, national and local levels.

Over time, changes in consumer preferences and income levels have also led to variations in the range of products traded affecting production decisions. Agricultural exports have moved away from bulk crops to processed food and horticultural products. However, with occurrences of extreme whether events across the world, there have been impact on agriculture production that becomes crucial factor in undertaking informed policy decisions. Therefore, changes in trading patterns, producer and consumer preferences and extreme weather events have led to bottlenecks at various levels of supply chain management which require careful examination, in order to minimize trade barriers and constraints.

PRESENTATIONS

The evolution of global trading patterns and its implications for the WTO

Joe Glauber, Senior Research Fellow, International Food Policy Research Institute

Dr Glauber described the evolution of global trading patterns and its implications for the WTO. The volume of global agriculture trade had been growing since the 1950s. However there had been episodes when the value of agriculture trade had decreased due to falling market prices. He also noted that the annual global consumption growth rate remained above the global population growth, particularly for oil seeds owing to shifts in diets to complex protein products. Therefore, the import penetration was projected to grow across variety of products. For example, 45% of soybean consumption currently was facilitated through imports.

Harvested area of major field crops was projected to increase substantially in developing countries due to increased yield growth and productivity. At present, the developing countries accounted for nearly 40% of world food trade both in terms of exports and imports. Evidence suggested that crop area in Brazil and Sub-Saharan African countries would increase in the future. In the short run, relatively larger growth in crop area was projected for protein rich crops and oilseeds such as soybeans. In addition, increased productivity and growth of export and import shares would lead to shifts in trade patterns. South-South trade accounted for about 25% of the global food exports. The share of the North-North trade had been falling from 50% in 2000 to current levels of about 40%. The North-South and South-North trade shares had also declined over the past decade to nearly 20% each. Similarly, the share of developing countries in global imports had increased from about 25% in 1995 to about 40% in 2016. The share of China's import growth among developing countries had been significant in this regard, with an increase from about 10% in 1995 to 20% in 2016.

An in-depth examination of growth in food exports by category showed a decline in exports of bulk, intermediate products as well as consumer-ready products. Relative to their exports, there had been an increase in consumer-ready food exports by traditional economies due to increase in demand for dairy and processed products.

At a regional level, the intra-regional trade as a share of total regional food exports was still the highest within Europe, followed by Asia, America and Africa. The African region accounted for a small proportion of total regional food exports. However, the current data did not include information on informal trade within Africa which could potentially affect the measurement of overall share of the trade in the region.

Regarding the tariff structure, Dr Glauber highlighted variation among countries in their average bound tariffs for agriculture products. The average bound tariff rates varied from as high as nearly 200% to very low levels. However, the range of average applied tariff rate was significantly lower with the highest being about 60%. This 'tariff overhang' had been instrumental in driving trade across countries. However, in some sensitive sectors such as sugar, meat, and rice, the maximum applied tariff rates for major importers was still as high as 500 to 1000%.

After multilateral negotiations stalled in 2008, there had been an increase in mega-regional and preferential trade agreements that had led to dramatic decreases in tariffs and improved market access. For instance, in NAFTA, most products had tariff rates of close to zero%. Within Sub-Saharan Africa, SADC captured the highest percentage of total food exports. Empirical research showed more than 90% of the welfare gains from trade over 1990-2010 were a consequence of the reduction in MFN tariffs. Since 2001 multilateral trade had played smaller role than unilateral trade in dismantling tariffs and gains from locking in the existing reforms should not be discounted. In some cases, the changes in agricultural applied tariffs between 2001 and 2013 had been caused by WTO commitments, including accession commitments, and regional trade agreements. However, in other cases unilateral liberalization and dismantling of tariffs had been the key driver.

In conclusion, Dr Glauber noted that developing countries were catalysing growth in world agricultural trade—both as importers and exporters. This trend was likely to continue as population and income growth in these countries continued to rise. In addition, most of the increases in productive capacity would likely come from developing and transition economies. Furthermore, preferential trade agreements would drive future liberalization but potentially to the exclusion of some Members. Large potential benefits could be gained by locking in lower applied tariff rates through multilateral negotiation.

Trading in Agricultural Products: Past Future Opportunities The African Perspective

Miriam Omolo, African Policy Research Institute

Dr Omolo presented an overview of trade in agriculture products, focusing on the African experience in agricultural commodity trade. She noted that according to the WTO Agreement on Agriculture which defined the product coverage of the agreement, some agricultural commodities were sources of food (grain, livestock, dairy) and some, such as wool or latex, are industrial products. Some other agricultural commodities, like maize, could be both an industrial and a food product.

Dr Omolo noted that the financial crisis had drastically affected agricultural commodity trade growth. In the pre-financial crisis (2001-2008) era, the total agricultural trade growth rate averaged 14.1%. This figure declined considerably to 4.6% in the post financial crisis period (2009-2017). The growth rate of total agricultural commodities exports and imports was recorded at 7.7% and 7.5% respectively. In Africa, the total agricultural commodities exports and imports grew by 8.7% and 9.4% respectively. Despite growth in the market share of some emerging economies, the United States remained the market leader in both agricultural commodity exports and imports, particularly of food products. Dr Omolo identified the United States, Netherlands and Germany as the leading exporters in global food trade, including products of meat, dairy and vegetables. The United States, China and Germany were leading importers, particularly with respect to imports of beverages, spirits, fruits and vegetables. In the light of the above figures, Dr Omolo noted that the top ten agricultural commodity importers and exporters had approximately 50% of the import market and were supplying to the same top importers.

The average growth rates for agricultural commodity imports were highest in France, China, Italy and Canada. Even though the United States was the top importer of agricultural commodities, the growth rate of US agricultural imports was quite low at 2.3%. Assuming that the growth rates for imports remained constant, Germany would be the top agricultural commodity importer by 2023; United States would fall to second position while the Netherlands would rank third. Similarly, in the export market, the top ten agricultural commodity exporters captured approximately 54% of the market share. For both exports and imports, proximity to other countries played an important role in determining trading partners.

Total agricultural commodity trade within the African continent constituted 4% of the world's total trade. This proportion had remained relatively constant from 2001 to 2017. The leading exporters are South Africa, Cote d'Ivoire; Egypt, Morocco and Kenya and their exports included cocoa, fruits, nuts, beverages and tobacco. Whereas, the top importers of agricultural commodities were Egypt, Algeria, South Africa, Morocco and Nigeria. Nigeria mainly imported cereals, animal and vegetable oils, sugar, dairy and meat products. Egypt, with the highest importing market share in the region of 17.5%, imported mainly from Brazil, Russia, Ukraine and Argentina. Whereas, South Africa captured the highest market share in the region for exports, and most of the export destinations were in Netherlands, UK, Namibia and Botswana.

Dr Omolo argued that given this deeper integration, a careful examination of intra-Africa trade was crucial. In 2017, total African trade increased to USD 126 billion, of which intra-African trade was valued at USD 20 billion. The top commodities traded within Africa included sugar, beverages, vegetables and cereals. Leading importers in the region included South Africa, Kenya, Namibia, Botswana and Zimbabwe. South Africa, Egypt, Uganda, Kenya and Morocco were top African exporters.

Dr Omolo shed light on elements of global value chains (GVC) within Africa. The GVC framework included production, processing, distribution and marketing. At each level of value chain, different stakeholders were involved and hence the issues of governance varied. The buyer-driven chains consisted of retailers, traders or large processors who determined the division of labour in the value chain, and hence their actions had implications on levels of gains of new entrants. On the other hand, the producer driven value chains were characterized by barriers to entry in the production chain and economies of scale. In this regard, African countries had made efforts towards gaining competitiveness in value addition to enhance their position in the value chains and to move from their traditional role of raw commodity suppliers.

Dr Omolo cited a study conducted on the cut flower production chain to demonstrate the value chain complexity. Growers and exporters reached the market by selling directly to auctions, by selling to agents who sell to auctions and handle the related logistics, by selling to an import wholesaler or by selling directly to retailers or supermarket stores. The increased demand for exotic flower varieties and pressure for product diversification had resulted in greater competition and an increasing vertically integrated flower market. In response to the increased competition, companies needed to establish commercial presence in their export destination to manage and market their flowers. For example, cut flower firms from Colombia and Ecuador established bases in the Miami flower market in the United States to meet the demand for flower varieties and improve their competitiveness.

Lastly, Dr Omolo argued that while there is an increasing reliance on food imports to meet domestic demands and address unstable food supply, climate change led to a reduction in food availability

and increase in prices. Climate change affected the production processes particularly in developing economies due to their reliance on natural resources and rain-fed agriculture. These factors caused countries to adjust to scarcity by increasing food imports or by imposing export restrictions.

However, climate change had different effects on agricultural production across countries and regions due to variations in demand responses that determine levels of trade. Dr Omolo mentioned her 2017 study¹ that had examined the effects of climate change in the East African Community's four countries (Kenya, Uganda, Tanzania, and Rwanda). The study examined changes in demand, exports, domestic sales and imports in response to climate change. The results showed that demand adjustments to changes in output due to climate change vary greatly across countries. Countries such as Kenya, Uganda and Tanzania showed reduction in agriculture output with increased exports, decreased domestic sales and increased imports. On the other hand, Rwanda indicated considerable increase in agriculture output, with decreased exports, increased domestic sales and decreased imports.

In conclusion, Dr. Omolo highlighted that agricultural commodity trade was concentrated among leading exporters and importers and this trade was likely to grow, particularly in the context of emerging mega-regionals and regional trade agreements. The intra-African trade growth was expected to grow relatively slowly. However, given the limited data on informal trade which dominated trade within the African region, these projections did not capture the full picture. Moreover, climate change had effects on trade patterns which were not homogenous across countries and regions due to variations in demand and price elasticities.

Agricultural trade patterns

Alessandro Nicita, UNCTAD

Dr Nicita highlighted market trends that were characterized by shifting consumer preferences for certain product categories and noted that this information could be used to maximize gains from agriculture trade. Agriculture trade consisted of two diverse markets. The unprocessed and semi-processed agriculture commodity markets were characterized by low value added, commodity cycles, and volatility. Comparative advantage in these markets came from variation in land and geographical conditions. On the other hand, higher value added processed agriculture goods were characterized by competitive markets and were dominated by global and regional value chains.

Since 2002, trade in processed commodities that were almost ready for consumption had tripled, compared to trade in unprocessed or minimally processed commodities that increased by 2.5 times. Trade in processed commodities held a relatively higher importance in high income countries compared to low income countries where the share of processed versus unprocessed commodity trade had been nearly equal over time. However, trade in unprocessed commodities was more volatile and sensitive to financial crisis compared to trade in processed goods which was more dynamic.

Based on an in-depth examination of regional preferences for processed and unprocessed goods, he argued that with an exception of South Asia, most regional markets were increasingly trading processed goods. Hence regional trade policies were more crucial for processed agriculture commodities compared to unprocessed goods. Brazil had gained the highest market share in trade of unprocessed commodities since 2002. India, Ukraine and Russia had also increased their market share. For processed commodities, China had the largest increases in market share, followed by India and Vietnam.

Countries had responded in different ways to shifts in trading patterns pertaining to unprocessed and processed commodities. Countries like Canada, Argentina, Egypt and Indonesia had moved into agriculture commodities whereas Chile, Australia, Namibia were moving away from agriculture commodities. Further, Mexico, Peru, South Africa and India were moving towards processed commodities while Brazil, Tanzania and Kazakhstan were moving more towards trading unprocessed commodities.

¹ Omolo M.W. O. (2017) "Assessing the Impact of Climate Change on Agricultural Production, Trade and Food Security in the East Africa Community: The Trade Model" KIPPRA Working Paper 28.

Shifts in trade patterns had implications on trade policies at both domestic and international level. Dr Nicita noted that most agriculture trade was duty free, due to preferential trade agreements. The average tariff on trade for processed agriculture commodities facing tariffs was about 20%. Moreover, processed commodities were also subject to non-tariff measures, such as SPS and TBT, to a relatively greater extent compared to unprocessed agriculture commodities.

Dr Nicita referred to a study conducted to examine trade diversion effects of the European Union's SPS regulations on some low-income countries. The study had found that commodities such as beverages, spices and fish, that constituted the greatest share of exports to the EU from these low-income countries, were affected the most in terms of export losses due to EU SPS regulations. Subsidies and tariffs affected the unprocessed commodity trade however the processed commodity trade had undergone a relatively larger distortion due to changes in trade policies.

Various factors, such as population growth, determined shifts in trading patterns. Comparative advantage and global value chains, income growth and productive capacity of a country also affected trading patterns. In addition to domestic and international trade policy tools such as tariffs and preferential treatment, non-tariff measures played a key role. In conclusion Dr Nicita noted that, changing consumer preferences, consumer perception of quality and external shocks explained some of the shifts in trading patterns that had occurred in past decade.

Discussant

Peter Gooday, Assistant Secretary and Chief Commodity Analyst, Australian Bureau of Agriculture and Resource Economics and Sciences

In summarizing the key arguments presented by the Speakers, Mr Gooday drew lessons from the Australian agriculture landscape over the past decade. He noted that Asia has acquired the largest market share of Australian exports (about 60%). China and India represent the biggest proportion within the Asian markets. This shift had been facilitated by increased demand in Asia, population growth, income growth, and greater liberalization accompanied by shifts in urban diets. He reiterated that in the past decade, the emerging economies had been characterized by enhanced production capacity to meet domestic and international demands and that the trade flows would inevitably increase, despite increasing costs of production. Furthermore, these emerging economies were catching up through technology transfers to increase productivity and meet relevant regulatory standards.

In addition, changes in consumer preferences had played a pivotal role in directing trade patterns. Producers chose their strategies based on consumer needs. Given, this growing connectivity between the producers and the consumers, traceability and transparency had become important market tools.

With respect to global value chains, increase in output in one region could affect the rest of the supply chain. Policies targeting specific industries could have consequences elsewhere. Hence, producers had become responsive because they were directly exposed to the variability of adaptation responses from the consumers.

Furthermore, informed policy decisions required the identification of the bottlenecks in trade, including tariff and non-tariff barriers. Non-tariff measures were essential for doing business, however it was also important to identify and minimize those that were trade distorting in nature.

DISCUSSION

One participant raised a question regarding policies to help producers benefit from real price gains. In response, the speakers pointed out that yield area expansion could ensure increased productivity gains. Moreover, to ensure productivity growth through appropriate incentives, it was crucial to increase the efficiency of the production to enhance overall competitiveness. The speakers also emphasized that productivity gains would be the most important way of meeting global food needs. In doing so, policies needed to enable technology transfers, particularly to those regions where the yield gap was large and where there was a lack research and development resources. To maximize benefits, the technology transfer needed to be complemented by structural changes within the farm sector to establish a level playing field among farmers and minimize impediments to farm expansion.

Another participant raised concerns regarding the unequal distribution of gains in the global value chains, particularly regarding negative effects for farmers. The speakers highlighted the need for domestic policies to elevate farmers in the production chain, and the need for efforts to assist farmers in meeting private standards to extract a greater share in value chains. One speaker also noted that while the farm share of food had been declining overall, this did not necessarily imply an absolute reduction in consumption.

A participant raised concerns regarding the extent to which the value chains were shaped by SPS and TBT standards and how these NTMs affected South-South trade. One of the speakers cited examples within Africa to demonstrate that in most cases, farmers had succeeded in the value chains through technical assistance from cooperatives. Since market standards were not harmonized across countries and searching for this information implies additional costs, this technical assistance played an important role in ensuring that farmers had access to the necessary information. Harmonization of standards would also benefit farmers by reducing the diversity of requirements among export markets.

Lastly, some participants initiated a discussion on the growing influx of regional trade agreements which had benefited some countries more than the others. There was further discussion on the role of the WTO in mitigating the consequences of preferential trade agreements. The discussants argued that the WTO could encourage the Members to liberalize trade to overcome tariff barriers and to harmonize regulations to meet global standards. In doing so, the WTO could promote best practices that could foster good will among the Members to develop policies supporting inclusive trade and to adopt least trade distorting policies.

SESSION 3 - PRODUCTS, PRICES, AND MARKET PARTICIPATION

Invited speaker

Qu Dongyu, Vice Minister for Agriculture, Ministry of Agriculture and Rural Affairs, P.R. China.

Moderator

Marion Jansen, Chief Economist, International Trade Center

Panellists

George Rapsomanikis, Food and Agriculture Organization;

Marion Jansen, Chief Economist, International Trade Centre;

Terry Townsend, Chair of the Discover Natural Fibres Initiative;

Matthias Knappe, Programme Manager, Fibres, Textiles and Clothing, Division of Enterprises and Institutions, ITC.

OVERVIEW

PRESENTATIONS

Agricultural Development through ICT Application: China's Case

Qu Dongyu, Vice Minister for Agriculture, Ministry of Agriculture and Rural Affairs, China

Mr. Qu outlined three issues faced by China's agricultural sector as top priority for the Chinese government: agriculture, farmers and rural areas. China's agricultural sector was one of the largest in the world and the sector was dominated by smallholders. China had the largest population in the world but its resources, including cultivated land and freshwater, were limited. Mr. Xi pointed out that the Chinese government had made significant reform efforts to support the development of rural areas and the rural economy. In this regard Mr. Qu summarized the following major achievements made in the past five years.

- (1) Advancement in agricultural supply-side structural reform.** Mr. Qu noted that China had worked on maintaining a steady supply of professional farmers. In the past five years annual grain production had been stable and the supply of agricultural products had been abundant. China also witnessed continuous growth of new types of agribusinesses, including farm cooperatives and family farms.
- (2) Breakthroughs in rural reform.** Mr. Qu noted that China had abolished state stockpiling and adopted a market-based pricing system for cotton, soybean, rapeseed, sugar and maize. Regarding its rural land system, China had been advancing reforms to land ownership rules, contracting and collective management, with a view to protecting ownership rights, stabilizing contracts and liberalizing the transfer of management rights. Innovation and entrepreneurship in rural areas were also encouraged. Many new industries and business models such as recreational agriculture, rural e-commerce and rural tourism were flourishing, making rural areas popular destinations for business start-ups and investment.
- (3) Integrated urban-rural development.** Mr. Qu noted that rural residents had seen faster income growth than urban residents and their living standards had been improving steadily.

(4) Improvement in rural public service and social undertakings. Mr. Qu stated that comprehensive improvement in rural infrastructure such as road expansions and renovation of rural houses had been made over the past 5 years. China had also started to unify pension schemes for rural and non-working urban residents. Social security and major disease insurance were increasingly available for rural populations.

(5) Progress in poverty alleviation. Mr. Qu underlined the significant progress made in this regard through development of local industries, education and healthcare, and development and conservation of local ecological resources.

(6) A new high in agricultural trade. Highlighting a few trade statistics, Mr. Qu pointed out that China was the second largest trader in agricultural products and one of the most open markets in the world despite being a developing country.

Mr. Qu noted that these historical achievements in agricultural and rural development were propelled by three engines: policy, technology, and investment. In particular, Mr. Qu recognized the significant contribution ICT innovation has made. Five developments of ICT application in agriculture and rural areas were underscored.

(1) Strengthened internet infrastructure in rural areas. China had continued to improve rural internet infrastructure through the building of internet highway that covered all rural areas.

(2) Thriving e-commerce in rural areas. In recent years China had experienced an increase in e-commerce which enabled the flow of manufactured goods to rural areas and farm produce to urban areas. Mr. Qu noted that e-commerce also contributed to poverty reduction. For example, local farmers in Longnan city in Gansu Province, one of the poorest areas in China, had benefitted from e-commerce to sell their products at significant higher prices than offline sales.

(3) Upgraded rural information service. Thanks to upgraded government websites, farmers could easily access information regarding government policies, forecasts on markets, etc., to help them make better decisions.

(4) Solid progress in IoT (Internet of things) application. China in recent year has focused on R&D and application of IoT to reduce cost and improve efficiency in agriculture.

(5) Rapid development of big data technology. China was advancing two major tasks: 1) integration of administrative information to develop a catalogue of information resources on agricultural and rural areas and a data-sharing platform that would bring together data from all agricultural agencies, and 2) the implementation of a pilot scheme for big data application.

Mr. Qu noted that the development of ICT presented remarkable opportunities for the whole world and its application in China could provide an example for other developing countries. Mr. Qu also noted that thanks to digital economy, China's market would become increasingly open, creating opportunities for exporters.

Comments, Questions and Answers

A question was raised regarding how to manage harmonization among urbanization and industrialization policies, agriculture policy development and farmer income stabilization.

Mr. Qu noted that in addition to learning from history, it was also important for country leaders to understand agricultural issues and ensure coordination at the highest level.

In a second question Mr. Qu was asked, based on his own experience, to give three suggestions to developing countries to make full use of ICT for the benefits of their farmers. Mr. Qu replied that it was important (1) to standardize good agriculture practice at the farm level; (2) to establish on-farm cold storage facility so that agricultural products after post-harvest treatment could be transferred immediately to other countries; and (3) to take advantage of third-party logistics service.

A third questioner asked Mr. Qu to give specific examples of application of IoT in China's agricultural sector, such as the use of sensors and big data analysis to improve

productivity. Mr. Qu noted that IoT was first applied to horticulture and now was being used in the production of products such as fruits, vegetables, flowers and Chinese medicine to ensure all elements such as soil humidity and temperature were favourable at crops' different growth stage.

A fourth question was about which market-oriented policies China adopted to support wheat and rice production given it had moved away market price support. Mr. Qu noted that farmers were encouraged to produce high quality wheat and rice such as bread or noodle wheat for which demand and prices were higher.

Agricultural Markets: Challenges and Policies

George Rapsomanikis, Food and Agriculture Organization

Mr. Rapsomanikis outlined two main challenges that agricultural markets would face: (1) population growth, with the majority of growth being in Asia and Africa; and (2) climate change which would affect all dimensions of food security. These dimensions include availability (food production in low-latitude countries would be significantly affected), accessibility (rural incomes would be reduced), stability (frequency of extreme weather events would increase) and utilization (nutritional properties of food would be affected).

To respond to these challenges, Mr. Rapsomanikis noted the importance of increased production of nutritious food to meet growing demand and ensure food security. More jobs should be created in agriculture to improve incomes and contribute to poverty eradication and rural economic growth. The agriculture sector should adapt to climate change and play a major role in the sustainable management of natural resources.

Mr. Rapsomanikis noted that agriculture trade could contribute to promoting food security in the context of climate change. It could act as an adaptation instrument, transferring food from surplus to deficit regions, and stabilizing prices. Further, trade policy could strengthen this adaptation role of trade by moderating the impacts of climate change on agricultural prices, welfare and food security. Deeper market integration and free trade could contribute towards food security. Mr. Rapsomanikis added that market integration would also improve global welfare and stable global markets. In this regard, the impact of export restrictions on international price instability should be examined, particularly if these are imposed when world prices increase. Sustained implementation of export bans by major exporters would render the world market unreliable as a source of food, harming net food importers and traditional trading partners.

Turning to market integration and policy innovations, Mr. Rapsomanikis noted that most farmers were smallholders who operated in an environment where markets did not function well and were subject to risks. Modernization of marketing systems, such as increased sales through sophisticated channels, would present a challenge for smallholders as it would require greater managerial skills and an ability to provide continuity in the supply of larger volumes and meet food safety, certification and quality requirements. Forming cooperatives to collectively increase the scale of farm operations could help smallholders enter markets. Smallholders could also minimize their exposure to risk, such as price shocks, by diversifying the crops they grew.

Mr. Rapsomanikis noted that smallholder farmers' decisions regarding what and how much to produce and consume were constrained. Smallholders produced food to consume most of it, as food markets were missing or the costs of market participation are high. Access to markets could increase farmers' income and choices by boosting productivity and employment and integrating smallholders into value chains. In this regard, innovative business models such as the "bundling" model, including bundling of agricultural services and of measures could improve market access. This approach involved fully integrating finance, production, procurement, delivery and payment processes, and bundling production-enhancing inputs with financial instruments and extension services which could promote food safety and quality requirements.

Cotton in the World Economy

Terry Townsend, Chair of the Discover Natural Fibres Initiative

Mr. Townsend noted that in many regions, cotton was the only viable economic activity available and provided incomes to millions. Mr. Townsend noted that, world cotton production seemed to be increasing steadily in the long run and there had been distinct periods of plateaus. In particular, Mr. Townsend pointed out that the current plateau began in 2004/05 when the cumulative impacts of the adoption of biotechnology in agriculture, incremental advances in traditional varietal breeding and the application of information technology to crop management led to a jump in world production.

Mr. Townsend highlighted a few figures showing that cotton consumption had been growing but there had been a recession in the 2008/09 season. Competition from synthetic fibres, such as polyester, could influence cotton use. He noted that polyester consumption had grown continuously during the 70s-90s, and by 2010 synthetic fibres had finally surpassed cotton as the largest fibre used in the world. Mr. Townsend noted that after the recession, cotton consumption had fully recovered. With increasing consumption, trade in cotton was also growing.

Regarding cotton producers, Mr. Townsend estimated that 35-60 million households in the world were producing cotton, including 3-4 million households in Sub-Saharan Africa. The average gross revenue of household producing cotton was USD 1000 but the range of revenue was huge (USD 400 to USD 50 million). A typical smallholder in Sub-Saharan Africa would earn gross revenue of USD 400-1000 with USD 125-300 net revenue.

Mr. Townsend noted that compared to the 1990/91 planting season, in 2017/18, cotton production area had increased but yield had decreased. With area expanding, production and exports had also increased. Sub-Saharan Africa now accounted for 14% of world trade in cotton, with exports exceeding 1 million tonnes. Mr. Townsend stated that the yields were low and falling in Africa due to the inadequate use of fertilizer.

Finally, Mr. Townsend noted that world cotton market remained highly distorted. According to statistics on government measures from the International Cotton Advisory Committee (ICAC), for the current season 2017/18, total cotton support was estimated at USD 6 billion, which represented 12% of total value of cotton production. China provided most of that support (border protection was included), about 75%, followed by the US, Turkey, Greece, Spain, and a few other countries. In terms of support per pound of production, farmers in Spain and Greece received the highest support, about USD 50 cents per pound of cotton production. Chinese farmers received support, including border protection, of about USD 30 cents per pound. Turkish and U.S. farmers received USD 10 cents per pound.

Cotton policies differ across countries. China generally supported cotton producers in three ways: import quotas and tariffs; buffer stocks or strategic reserves; and direct payments. In the case of the United States, support was provided through revenue and yield insurance (STAX and Crop Insurance) where government subsidized insurance premiums, price floor (Marketing Loan) which had not been effective in recent years given the floor had been below market price, and direct payments (Ginning Cost Share programme) in the last two years. The United States had enacted legislation, which would start in 2019, eliminating revenue insurance (STAX) direct payments (Ginning Cost Share programme) and reverting to direct payments against reference prices which had been used prior to the 2014 Farm Bill. In the case of Turkey and the European Union, cotton producers were supported through direct payments.

Developing Countries within Agricultural Value Chains

Marion Jansen, Chief Economist, International Trade Centre

Dr Jansen gave a presentation on developing countries' participation in the agricultural value chains, based on her experience at International Trade Centre (ITC) working with small and medium firms to help them take advantage from opening to trade. Based on evidence on cotton, sunflower oil and pulses exporters in Ethiopia, Tanzania and Uganda, Dr Jansen noted that most small or medium firms in Africa were typically at the lower end of value chain and most of them were selling through

global value chains rather than regional value chains. In the rest of the world most business activities were regional other than global.

Dr Jansen noted that one way for those small firms to move up the value chain was to comply with international standards or get into niche market where certificates were often required. Results from a survey carried out in francophone African countries where over 9000 companies were interviewed, indicated that most of these companies did not hold international certificates (sustainability, safety, quality and other type of certificates). Dr Jansen noted that without international certificates it would be difficult to move up the value chain or gain access to niche markets.

From the same survey, Dr Jansen noted that, the bottlenecks for meeting international standards were not related to the challenges of meeting the standards but rather were due to the lack of knowledge regarding which standards to meet. Over 70% of the companies responded that they had no idea which standards to comply with. Over half of the enterprises noted that certification bodies were too costly for them.

Dr Jansen also noted that information was important when small holders entered value chains. Very often when small companies dealt with large companies they would sign contracts they could not understand, putting themselves at risk. She noted that her work at the ITC also helped small and medium firms to understand what it would mean to be part of value chain and to sign a contract and what they could do achieve a better position when they entered the value chain.

In closing, Dr Jansen noted that although being part of the value chain could be interesting, getting in was not easy in light of all the requirements including obtaining certificates. Dr Jansen noted that staying within the value chain could also be difficult. Companies would need to remain competitive to meet various standards, reduce prices and obtain information to defend their interests.

Market Entry Constraints for African Cotton

Matthias Knappe, Programme Manager, Fibres, Textiles and Clothing, Division of Enterprises and Institutions, ITC

Mr. Knappe noted that Sub-Saharan African (SSA) cotton was usually sold out every year and over 80% was exported. Nevertheless, improvements could be made to market and brand this cotton more effectively. Mr. Knappe in his presentation identified obstacles that hindered a more effective market entry for African cotton and gave a few recommendations to overcome those obstacles.

Mr. Knappe first noted a few market developments that would require African stakeholders to react and adapt. There was a clear global movement towards using more sustainable cotton. One third of SSA cotton was certified sustainable. These certifications included organic cottons, fair trade cottons, Better Cotton Initiative (BCI) and Cotton made in Africa (CmiA). Mr. Knappe noted that SSA cotton clearly needed better branding and promotion within the textile industry.

The second constraint SSA cotton faced to enter the market was manual grading versus machine grading. Since instrument testing had become the commercial standard, non-instrument-tested African cotton was penalized by a de-facto price discount. Mr. Knappe stressed the need for an enhanced quality assurance system for SSA cotton as product quality varied even within individual bales.

Mr. Knappe's third point was on bale marking. He noted that the grade of cotton contained in the bales of African cotton was not indicated. Clear bale-marking could ensure that cotton delivered to the spinners by traders was meeting the contract requirements and importing spinners could provide feedback more easily on the cotton quality received.

Mr. Knappe also noted that handpicked cotton needed some branding efforts. Hand-picked cotton had higher intrinsic quality than machine-picked cotton, nevertheless hand-picked cotton was traded at a discount since machine-picked cotton had gained a strong reputation as cotton of better quality (less contamination) because of marketing efforts. Policies needed to address an erroneous perception that hand-picked cotton suffered from a contamination.

Mr. Knappe outlined several internal constraints in African cotton industry. SSA cotton producers had few links with spinning mills and therefore could not get feedback on the cotton quality to help them improve operations. The following aspects could impede trade: trading language (French versus English), trading currencies (CFA francs versus USD), units of weight (kg versus lb), the different laws cotton sales contracts were based on (Règlement Général Européen (RGE) as opposed to the International Cotton Association (ICA) bylaws and rules), as well as cost and freight demand (African cotton companies did not cover sea shipment to the port of destination). Finally, small ginneries in a few African countries did not have the trade finance in place to directly market their cotton and engage in long-term relationships with spinners given the ginneries had limited access to competitive trade finance and no risk management tools were available.

Finally, Mr. Knappe pointed out a few policies that could increase cotton value addition in Africa, underlining the importance of promoting handloom development to provide new income earning opportunities. Investment in cotton by-products such as cottonseed oil, hulls, cake, linters, stalks could potentially provide an important complementary source of revenue for cotton growers. There was need for upgrading existing technology, providing policy guidance on the development of both the edible oil and meal production industry with a conducive tax regime, and giving policy incentives to encourage investment in or adoption of technologies to add value to linters and cotton stalks.

DISCUSSION

Noting the economic and strategic importance of cotton, **the C-4 raised the following questions: (1) how the panellists see development of domestic support measures at a time when protectionism was on the rise; (2) what would be the impact of U.S. new law which would enable direct payments against reference prices to cotton producers in cotton markets, particularly to C4; and (3) whether there would be hope of continuing trade negotiations on cotton and whether the domestic support could be finally addressed.**

Burkina Faso underlined a few efforts C-4 countries had made to increase the value-added to cotton through developing textile industries, improving artisanal production. Burkino Faso producers had encountered difficulties in complying with business standards and most of the profits went to intermediaries. Mr. Knappe stated that the African cotton standards, developed by African Cotton Association were mostly used by West Central African. These standards were not updated regularly and were not communicated to the market. In contrast, the standards in the US, Brazil or Asia were communicated twice a year to spinning factories and included information on the type and quantities of cotton offered by cotton producers in those countries. Mr. Knappe underlined the importance of better communication between cotton producers and the market on a regular basis. Secondly, Mr. Knappe pointed to the importance of cotton certification such as BCI for establishing standards. However, he noted that it was difficult to get BCI certification in Africa because it was a farmer certification and in Africa there are millions of smallholder farmers.

In connection to Mr. Townsend's presentation, a question was raised regarding whether the estimated support amount he showed included tariffs. A second question was on the impact of tariff and subsidy reduction in boosting production, particularly for developing countries. Mr. Townsend confirmed that the USD 6 billion global support provided to cotton producers included border protection such as tariffs and quotas. On the second question, Mr. Townsend noted that the impact of eliminating tariffs and subsidies would depend on whether the negotiated results affected all agricultural products or only cotton. He cited the United States as an example where cotton producers successfully lobbied their government to reverse cotton support measures back to the those in place prior to 2014 Farm Bill. Mr. Townsend noted that if support on all agricultural products were eliminated, based on his 35-year experience on cotton, he estimated that cotton prices would be about USD 10 cents higher than they were now. Mr. Rapsomanikis noted that FAO's trade models projected agriculture outlook in the medium term and the next 10 years for many crops but the impact of policy changes such as elimination of border measures and domestic support were not simulated.

Mali's representative noted that its government made significant efforts to ensure sufficient fertilizers but it had been always challenging for farmers to access fertilizers given the long-existing security problems in the country and the difficulty and high costs associated with transporting the fertilizers to the landlocked country. The representative's final point was about organic and fair trade. She

noted that Malian cotton had been certified as organic since 2004. Malian cotton was also certified as fair-trade cotton since 40% of women worked in cotton sector. Mr. Townsend noted that organic and fair trade was indeed growing in Mali. He did not know the specific quantities of the cotton certified by these two standards but it was no more than a few thousand tonnes. Mr. Townsend also stressed that cotton producers, despite the work required, should get their cotton certified in light of the opportunities and benefits it brought.

Finally, the panellists were asked to assess the relative importance of polyester competition as compared to the trade measures and marketing challenges. The questioner noted that one problem for the cotton sector was the difficulty for consumers to find cotton textile given the concentration of polyester textile and asked the panellists to give their view on this issue. Mr. Townsend noted that based on his own assessment, the effects of growth of polyester in terms of markets and opportunities for producers including producers in SSA were far greater than trade measures and other marketing elements.

SESSION 4 - AGRICULTURE TRADE POLICY LANDSCAPE

Moderator

Christophe Bellman, Senior Resident Research Associate, International Centre for Trade and Sustainable Development

Panellists

Carmel Cahill, Deputy Director, Directorate for Trade and Agriculture, Organisation for Economic Co-operation and Development (OECD);

Lars Brink, Independent Advisor;

Siraj Hussain, Indian Council for Research on International Economic Relations;

Martha Byanyima, COMESA.

Discussants

Flavio Coturni, Head of the Policy Perspectives Unit, Directorate General for Agriculture and Rural Development, European Commission;

Jason Hafemeister, Trade Counsel to the Secretary at the U.S. Department of Agriculture (USDA);

Abhijit Das, Head of Centre for WTO Studies, Indian Institute of Foreign Trade;

Doug Forsyth, DG Trade Agreements and Negotiations Directorate at Agriculture and Agri-food.

OVERVIEW

In the past decade, agricultural production, prices and trade flows have been transformed and countries have altered their agricultural trade and domestic support policies. Nevertheless, many countries continue to provide direct support to producers in ways that distort production, markets and trade. While countries are investing in agricultural infrastructure and innovation systems, and inspection and control systems, typically the levels of investment are not adequate to ensure that the agro-food system will be able to respond to future challenges. In addition, at the global level the proliferation of regional trade agreements has created a complex system of agricultural tariffs and regulatory rules.

This session looked at the importance of agricultural trade and at the major trends over the last years. Speakers discussed the various trade policies and how they have evolved over time to respond to some of these trends. Speakers analyzed the concerns these policies tried to respond to, and what type of policy instruments were used. The session focused on trade related aspects of agricultural policies, including SPS and TBT measures and how these measures might affect agriculture trade.

PRESENTATIONS

The changing landscape of policies affecting trade in food and agriculture

Carmel Cahill, Organization for Economic Co-operation and Development (OECD)

Ms. Carmel Cahill provided information on the state of agricultural policies. The OECD's Producer Support Estimate (PSE) measured transfers to producers resulting from market interventions and budgetary expenditures. The average PSEs of OECD countries and emerging economies were converging. In contrast to the convergence seen in the PSE, large variations existed in the levels of PSE among countries. For most OECD countries the level of support had decreased, while the levels

of support had been increasing in emerging economies. For some of the OECD countries, a significant share of support was given in the form of "other support" (area payments), however for many OECD members the support was provided in the form of "most distorting support". There was significant discrepancy between what governments say their policy intentions were, and how they used them. The support provided by countries was skewed towards the largest producers since 80% of the support was absorbed by 20% of the producers.

With respect to market access, Ms. Cahill noted that given the reductions in applied tariffs, liberalization seemed to have continued after the conclusion of the Uruguay Round. Locking in those lower applied tariffs could reduce uncertainty in market access conditions. The Nominal Protection Coefficient (NPC) indicated the ratio of domestic prices to international prices. If the value was greater than one, it indicated price distortions. For countries that brought down their levels of support and moved away from distorting support, their NPCs had fallen considerably. This was the case for European Union and South Africa, where trade distortions had been reduced due to changes in the support structure.

Ms. Cahill noted that the current policies implemented by countries reduced trade, and that this was often the intention. This was the situation mostly in meat, livestock and dairy, which were the sectors that had the most potential for growth. According to Ms Cahill, these policies did not promote agro-food production, but rather shifted it to different locations. If interventions were removed, in all sectors, valued added would increase.

Ms. Cahill noted that policy makers often justified interventions, claiming these were intended to protect of consumers and food security. However, interventions that increased market price support also increased prices to consumers. When faced with events such as "El Niño", the effects were bigger, and the resilience lower, when countries implemented market price support policies. Many of the policies also had unintended negative effects on natural resources.

Ms. Cahill noted that studies comparing scenarios of reforms had concluded that liberalization created income and that everybody would benefit, with the smallest countries benefitting the most. Ms. Cahill considered that governments should dismantle domestic support policies which encourage damaging and unsustainable production practices, raise consumer prices, stifle innovation and competitiveness and impede trade. Ms. Cahill recommended that governments focus their policy efforts on investment in the enabling environment (roads, health, education, digital infrastructure); targeted food security and income support measures for those in need; strengthened agricultural innovation systems; risk management and resilience; environmental performance, resource conservation and climate change.

The domestic support landscape in agriculture: policy trends and emerging patterns

Lars Brink, Independent Advisor

Mr. Brink provided information on trends and patterns of domestic support landscape over the last 20 years noting that the geographical center of support was shifting towards the south and the east. There had been an observable shift from the use of Aggregate Measurement of Support (AMS) to article 6.2 and direct payments.

Mr. Brink stated that policy space for domestic support was large and increasing. The large increase in support measured by the PSE was due to increased support by China and Indonesia. There had been a decline in PSE in developed countries including the European Union, Korea and Japan. A similar shift could also be noticed in domestic support notifications to the WTO.

Mr. Brink stated that Members were increasing the use of exempted support under Article 6.2 of the Agreement on Agriculture. Forty-four Members had used this exemption by 2015, and by early 2018 this number had increased to 50 Members. A few Members such as Mexico, Brazil, Indonesia and Thailand provided significant support under Article 6.2. India accounted for 88% of all WTO Article 6.2 exemptions in 2010.

Regarding all types of domestic support, Mr. Brink stated that AMS expenditures had declined and that Article 6.2 expenditures had increased. Blue Box expenditures peaked 15 years ago, but they were now surpassed by Art. 6.2 support. Direct payments grew faster years ago but that the growth

of these payments was decreasing. The sum of these components had decreased for 7 years, and then increased in 2008, 2009 and 2010. Direct payments under green box had increased rapidly (the European Union accounted for most of these payments) and an increasing number of Members were exempting direct payments on green box grounds, including China.

India's Agriculture Trade Policy

Siraj Hussain, Indian Council for Research on International Economic Relations

Mr. Hussain noted that in the past serious droughts and starvation in India led to a strong view in the country of the importance of maintaining self-sufficiency. Mr. Hussain stated that India's population would rise to 1.7 billion people by 2060 and that it was important to maintain food security at all costs.

India had created two organizations to guarantee food security in grains and it had experienced a high growth in production of wheat, rice and other cereals. India was also self-sufficient in pulses, the second largest exporter of cotton and the largest producer of milk in the world. Even though producers in India were small, the cooperative mechanism of milk collection had been a success. India was also doing well in terms of horticulture, poultry and egg production.

India still faced challenges as 22% of population was estimated to be living below poverty line. Constraints included small and decreasing size of landholdings. Small holders were poorly placed to make required investments in farming, given limited access to bank credit. Surpluses were small, therefore in some years exports of wheat took place, whereas in other years wheat was imported.

Government policies were unpredictable and at times these policies discouraged agricultural exports. Exports of products, such as rice, which were usually received support through water and electricity subsidies, were not expected to continue in the absence of subsidies. Buffalo meat exports were also under threat without continued governmental intervention, like incentives to establish cold chains for meat. Mr. Hussain noted that when inflation increased, the government discouraged exports and due to this policy uncertainty, the private sector was reluctant to invest in creating value chains for pulses and other commodities. Staple foods would continue to attract restrictions from the government for exports and the current agri-export basket was under threat due to ground water depletion and restrictive domestic support. Export clusters might be useful, but would require the creation of infrastructure which would take time. Mr. Hussain stated that India did not pose a threat to major exporters, and that focus should be placed on India's food security. He concluded by noting that it would be difficult to convince policy makers to remove support policies directed at subsistence farmers.

How regulatory policies, such as SPS and TBT measures affect agricultural trade

Martha Byanyima, Common Market for Eastern and Southern Africa

Ms. Byanyima noted that the objective of SPS and TBT Agreements was to promote safe trade and fair trade. The SPS Agreement promoted safe trade through food safety, plant and animal health protection measures and the TBT Agreement promoted fair trade through technical standards, measurements, inspection, testing and certification. Ms. Byanyima noted that both Agreements contained key provisions that should inform countries' policies and institutional frameworks.

Ms. Byanyima provided examples of SPS and TBT barriers in East and Southern Africa. Some of the challenges faced included the lack of proactivity of the private sector, the inability of the region to reach an understanding on bilateral import conditions and weak conformity assessment bodies. These challenges were mainly related to capacities. Ms. Byanyima noted that the existence of different standards could create high trading costs and that the multiplicity of regional trade agreements was constraining trade.

Regarding free trade agreements and agricultural trade, Ms. Byanyima noted that the regulatory bodies responsible for SPS and TBT measures tended to be more complex than necessary and that many of the controls sometimes did not serve specific health objectives. Ms. Byanyima noted the need to simplify SPS/TBT measures to reduce trading costs. The framework developed by the

Standards and Trade Development Facility (STDF) which had been used successfully in various countries provided a useful tool to engage policy makers and private sector. Going forward, Ms. Byanyima stated that the Continental Free Trade Area (CFTA) should be informed by lessons learned by regional trade agreements to increase the possibility of achieving positive results.

Discussants

Flavio Coturni, Directorate General for Agriculture and Rural Development, European Commission

Mr. Coturni briefed the audience on the EU's Common Agricultural Policy (CAP) proposal. The proposal sought to address a number of challenges including the pressure of natural resources, climate change and its impact on price and income volatility for farmers. There was further pressure in terms of budget and the relationship between Brussels and EU member states. There had been a strong call from the farming community and NGO's for the CAP to do more in terms of environmental outcomes.

Mr. Coturni noted that the proposed new CAP maintained some of the structure of the current policy. Green box support would remain, but with better targeted support. The proposed CAP would create a new relationship with EU member states at the national and regional levels. Mr. Coturni noted that the proposed CAP was environmentally more ambitious; it required farmers to deliver on specific benefits for the environment, and it contained an obligation on EU member states to use part of the direct payments on "eco-schemes".

Mr. Coturni noted that 50% of EU's support went to very small farmers (with farms less than 5 hectares). The proposed CAP sought to re-introduce the active farmer clause which meant that only those farmers that substantially engage in agriculture would benefit from direct payments. The proposed CAP directed payments to small and medium farms. The proposed CAP had the possibility to diversify payments to target regions for rural development and environmental and climate measures. Despite the reduction in resources of the proposed CAP, they expected to achieve results as it used a performance-based policy approach which was a shift from a compliance-based policy approach used in previous CAPs. He highlighted other elements of the proposed CAP such as the increased focus on knowledge and innovation, a technological shift that would allow sustainable production and new packages to keep rural areas attractive for the younger generations.

Jason Hafemeister, U.S. Department of Agriculture

Mr. Hafemeister highlighted the common threads identified by the various speakers: (i) More trade was better than less trade in agriculture; (ii) market oriented trade was desirable; this would address technology, productivity and sustainability challenges; (iii) there was a limit to what trade can change; and (iv) a lot of work remained to be done to liberalize agricultural trade. Challenges included the existence of many high tariffs, an increase in unjustified border NTMs, and the excessive use of the trade distorting domestic support. Mr. Hafemeister highlighted the need to prioritize which challenges to face, and to be guided in the negotiations by efficiency and fairness. To help solve these challenges, Mr. Hafemeister advocated fostering technology and innovation, rewarding sustainability, removing governmental interference and learning from the outcomes of FTAs.

Abhijit Das, Indian Institute of Foreign Trade

Mr. Das commented on SPS measures in the form of MRLs, noting that if MRLs were not set in accordance with international standards then they should be justified based on a risk assessment. Mr. Das noted that a number of countries, including Australia, the European Union and the United States, set MRLs at levels more stringent than those set by Codex. He was of the view that reform was needed with respect to SPS measures that inhibit agricultural trade.

Regarding Special Safeguard (SSG) measures justified under the AoA, Mr. Das noted that for successive years this safeguard had been used on a number of products. In some cases these measures had been in place for more than dozen years. Mr. Das advocated examining these SSG measures to determine whether they were used to insulate international price signals from permeating into domestic markets. Mr. Das also noted that non-ad valorem tariffs might be misused for protectionism. He noted that variable levies and minimum import prices were prohibited, but that

the way bound tariffs had been defined in some countries for fruits and vegetables and grains had a clear impact in that they allowed variable import levies and minimum import prices to continue.

Regarding domestic support, Mr. Das questioned whether green box support was not trade distorting. Noting that direct payments had increased, Mr. Das questioned whether it was necessary to look at how this type of payment was classified and how the relevant WTO disciplines applied. Mr. Das questioned whether direct payments with shifting historical base-periods were indeed decoupled.

Mr. Das noted that while AMS had been declining, product-specific support had been concentrated in just a handful of products. As an example, Mr. Das noted that in the United States 90% of product-specific AMS was concentrated on dairy and sugar. Product-specific support in the United States and European Union represented a large proportion of value of production for some products, such as rice, cotton, sugar, and canola in the US and white sugar, cucumbers, butter and rice in the European Union. Mr. Das noted that given that support was concentrated on a handful of products, it was necessary to look more closely on how to discipline this support.

Doug Forsyth, Directorate at Agriculture and Agri-food

Mr. Forsyth noted that agricultural trade policy was driven by the country's export interests and those of their domestic constituencies. Mr. Forsyth noted that the key global traders had changed and that the products that were traded had also changed. Mr. Forsyth highlighted three key points: (i) Canada believed and supported a rules-based trading system; (ii) there was a common interest in further strengthening international rules governing agricultural trade, particularly on domestic support; and (iii) that a more predictable, open and fair-trading environment based on rules and science was in the interest of all WTO Members.

Mr. Forsyth noted that Canada kept in mind international trade aspects when developing support programmes such as the new Canadian Agriculture Partnership (CAP). He noted that technical work on this topic through submission of analytical papers, technical workshops and other activities would create a common basis on which to have a serious discussion on domestic support disciplines. Domestic support was one pillar of the AoA, but that there was also other work that needed to be done on export competition and market access.

Mr. Forsyth stated that FTA's could be effective tools for tariff reduction, resulting in market access gains and more open trade at least among FTA partners. Another way to open trade was to unilaterally reduce tariffs, which Canada had done a couple of years ago by reducing tariffs for inputs for processing companies. Mr. Forsyth called on Members to consider the current market access landscape and how it had changed over the last ten years and to reexamine their market access positions from 10 years ago.

Mr. Forsyth stated that while tariffs had declined, NTMs had increased and that, although legitimate in many cases, NTMs sometimes impacted agriculture trade flows. Mr. Forsyth noted that Canada's position was to ensure that any NTM applied was necessary to fulfill a legitimate objective, that it was based on factual or scientific evidence, and it was not more trade restrictive than necessary.

DISCUSSION

Participants raised questions on direct payments reported under the green box and whether they impacted or not production or trade. Ms. Cahill noted that these types of payments were initially conceived in the negotiations as an escape route, as Members couldn't radically change their support from one day to another. Ms. Cahill noted that these payments had been found to have only a small impact on production, but that larger payments could potentially have greater impact. Ms. Cahill noted that these payments had the potential to dilute competitiveness, affect adjustment and, in the long-term, affect dynamism in the sector. Mr. Coturni, on the other hand, was of the view that decoupled subsidies were the least production and trade distorting support. Additionally, Mr. Coturni said that if these subsidies were to be removed, the big impact would be on natural resources noting that EU's decoupled payments were linked to requirements in terms of production standards under good environmental conditions. Some

participants were of the view that regardless of the classification of direct payments, there was a need for economic analysis of this type of payments.

There was also discussion on **the opportunity costs of policies** implemented by governments. Since resources were scarce, expending resources on policies that distorted markets meant that these resources could not be spent on policies that promoted sustainability and innovation which had bigger returns.

Participants also posed questions on **NTMs and their impact on trade while noting the existing rules set forth by the SPS and TBT Agreements**. Ms. Cahill noted that compliance with SPS and TBT measures provided assurance to consumers of the safety and quality of the product thereby enhancing trade. Some participants noted that some of their country's exports regularly faced NTMs. They questioned how importing countries ensured that these NTMs were science-based and not more trade restrictive than necessary. Mr. Hafemeister recognized that standards would get more stringent as consumers were more aware and detection levels were improving. He suggested that a good way forward to avoid NTMs being unnecessarily restrictive to trade was to strengthen the work of the three sisters recognized under the SPS agreement (Codex Alimentarius, the World Organization for Animal Health and the International Plant Protection Convention). Mr. Hafemeister noted the efforts the United States made on getting recognition of equivalence from other countries and how this had helped resolved some of the problems faced due to NTMs.

Participants noted that the lack of notifications constrained Members' ability to analyze current agricultural policies and to move forward in the agriculture negotiations. Additionally, participants stressed the need to have access to notified information in structured format. The on-line notification system being developed by the WTO Secretariat was expected to address this need.