

Executive summary

Since the latest round of WTO negotiations began in 2001, world agricultural markets have evolved significantly. Production, prices and trade flows have been transformed while over the same period countries have also altered their agricultural trade and domestic support policies substantially. This study focuses on developments in world agricultural markets and in the policies (defined as domestic support policies and trade policies) of major agricultural producing regions that have occurred since 2000. World agricultural markets continue to face significant distortions from government interventions in the sector. While some of these are targeted towards correcting market failures, others are not and have the potential to distort incomes and welfare, reducing the potential benefits that are derived from the sector, the efficiency of global food production and the benefits from trade in its production (as a means of balancing food surplus and deficit regions at least cost to consumers).

The impacts of government policies on global production, trade and welfare (proxied by private household consumption) are assessed in this study along with the effects of possible multilateral trade reform scenarios. This study provides an update on past work through analysing the impacts of current policies and reform with reference to changes that have occurred in markets and policies since 2000. The assessments are made through an application of the OECD's computable general equilibrium model, METRO, in conjunction with the AGLINK-COSIMO outlook model. What is not modelled is the range of non-tariff and behind the border barriers that can also influence trading patterns and therefore production and prices. These remain an area for future research.

The results from this study show that the current suite of agricultural policies has a significant and negative effect on agro-food trade. Overall, trade in all agro-food commodities would be higher if current policies were removed. Policies limit both trade in intermediate products and in final consumption goods, suggesting that the development of global value chains (GVCs) in the agro-food sector, which have the potential to raise agricultural incomes and sector productivity, have been hampered by current policy arrangements.

A significant finding is that while many trade and domestic support policies are aimed at increasing food production, from a global perspective they do not. If policies were not in place, the level of global agricultural production would be virtually unchanged. In fact, when broadening the lens to also include food production, current policies appear to have a negative overall effect. What policies do is to alter both the relative mix of products grown and the location of production activities. Policies promote staple products such as rice and wheat at the expense of other production activities. Notably, the production of and trade in meat and dairy products are hindered by current policy settings. These products are also those for which future demand is projected to grow the strongest (in per capita terms), suggesting that the costs from these distortions if left unchanged will increase over time.

For agricultural products, current policies are likely to depress international prices, but the effects are relatively small. Further, for some products (such as wheat and oilseeds), prices may actually fall if the current suite of policies were removed.

Importantly, current policies negatively affect global welfare. This study finds that the negative effect on welfare, proxied by private household consumption, of current policies is more uniform across countries and regions than what has been found before. Both policy changes and changes in markets that have occurred since 2000 help explain these results. In particular, developed regions have reduced

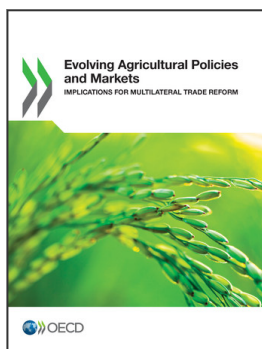
and changed the nature of their support; the European Union no longer makes use of export subsidies, and developing countries trade much more with other developing countries.

The impacts of current support policies have a number of implications for future multilateral agreements on agricultural trade and domestic support policy reform. First, they suggest that there is still something to be gained from all regions in pursuing lower tariffs and less distortive domestic support. Second, current policies particularly affect sectors for which demand and trade is projected to grow strongly into the future, for example dairy and meat, suggesting that the costs of these distortions are likely to increase over time. Third, noting differences across countries, from a *global* production perspective, policies are not promoting production, and indeed, looking at agricultural and food production together, could be reducing it. Fourth, for particular regions, the results suggest that calls for increased isolation or constraints on integration in regional or global markets are also likely to be counterproductive. Increased interdependency means such an approach imposes costs on both domestic markets and those of their trading partners, including developing countries. The rise of south-south trade means that an increasing part of the effects of agro-food policies on developing countries are from policies in other developing countries. Fifth, the world price effects of current policy measures are relatively small, suggesting that trade reform is likely to have fairly limited effects on some of the world's poorer populations. That said, prices in the absence of current policies would, in general, still be expected to rise and thus the food security and general welfare of these groups should remain a policy priority globally. But given the potential benefits from reform, it suggests that protection through tariffs and quotas is not the answer to problems of food insecurity. Instead, policies that promote productivity and flexibility in production systems; enable market engagement by producers (particularly small producers); and provide safety nets for vulnerable households provide better alternatives.

Removing all agro-food tariffs and all agricultural domestic support would be ambitious and is expected to be a gradual and iterative process at the World Trade Organization (WTO). That said, information on the current impacts of policies remains a critical input into trade policy debates and helps demonstrate that further efforts are still worthwhile. To explore possible trade reforms, this study also looked at reform scenarios that may be more achievable. These took two forms: first, agreement on some level of liberalisation (to varying levels) as based on a stylised representation of a modest level of commitments by all countries. Second, maintenance of the status quo but exploring this relative to potential “policy-drifts” that could occur.

The results from these scenarios suggest there are still unrealised gains, suggesting there are benefits in concluding multilateral negotiations. Overall, a modest reform scenario appears to offer only modest total gains both globally and to the countries involved. For developing countries, however, the benefits are more critically linked to the actions of other developing countries than those by developed countries. Indeed, the effects for developing countries from their own liberalisation and actions from other developing countries have a greater impact than do the effects of reforms in developed country. Critically, the results suggest that the development of global value chains in these countries could be significantly hampered by current policies. Despite the small welfare gains from modest reform efforts, simulations of possible policy drifts, based on trends that have already been observed, show that inaction can lead to losses. There is potentially more value in being able to lock-in the current set of policies than in reaching agreement on small decreases in protection. This is not to say that reforming agricultural protection arrangements should not be pursued, but rather that, instead of further delays, reaching a binding agreement that “locks in” current practices is of value. The recent WTO agreement reached in Nairobi in 2015 takes some steps in this direction, but more are needed.

The results of the policy drift scenarios also highlight that those most affected by increases in protection are the countries which impose such increases. For one country, modelling increases in protection in line with current practice also decreases total agricultural production. This has implications for policies targeted at achieving food security through self-sufficiency. The actions taken have been in the name of increasing self-sufficiency as a vehicle to deliver greater food security. However, as seen in the results, total agricultural production falls and so does income. These effects will work against the food security of households, in particular those in rural areas.



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