TABLE OF CONTENTS

I. Programme 209

II. Presentations: Segment 1 213
   - Diagnostic Study 215
   - The Indian Ocean Islands 221
   - Barbados 225
   - The Windward Islands 233
   - The Ocean Pacific Islands 237

III. Presentations: Segment 2 243
    - Mr. Roman Grynberg (Commonwealth Secretariat) 245
    - Mr. Panos Konandreas Paper (FAO) 247
UNCTAD

Forum on Small Island Developing States and Agricultural Trade Liberalization

Organized by UNCTAD/Commercial Diplomacy Programme

Thursday, 7 November 2002

Conference Room XXV, Palais des Nations, Geneva

Opening
9:30 – 9:45
Ms. Lakshmi Puri, Director, Division on International Trade in Goods and Services, and Commodities, UNCTAD

Segment 1
Development issues for SIDS in the international trade agenda
9:45 – 10:00
Ms. Manuela Tortora (Commercial Diplomacy Programme, UNCTAD)
Ms. Miho Shirotori (UNCTAD)

10:00 – 11:30
Findings of Regional Studies
Case of the Indian Ocean region (Comoros, Mauritius and Seychelles)
Dr. J.-M. Salmon (Faculty of Law and Economics, Université des Antilles et de la Guayane)

Case of Barbados
Mr. Gregg Rawlins (Agricultural Planning Unit, Ministry of Agriculture, Barbados)

Case of the Windward Islands
Mr. Gary Melville (Agricultural Economics and Agribusiness Management, Sir Arthur Lewis Community College, St. Lucia)

Case of the Pacific Islands
Ms. Margaret B. Malua (Senior consultant, KVA Consultant Ltd)

11:30 – 12:00
Findings from the Diagnostic Study
Factors influencing SIDS agricultural trade and a quantitative assessment of impacts of the new round of multilateral agricultural liberalization
Mr. Michael Swidinsky (Agriculture and Agri-Food Canada), Mr. Luca Monge-Roffarello (UNCTAD)

12:00 – 13:30
Discussions
Mr. Géo Govinden (Mauritius Chamber of Agriculture, Mauritius Sugar Syndicate)
Pierre Encontre (UNCTAD)
Mr. Hiroshi Takahashi (International Affairs Department, Ministry of Agriculture, Forestry and Fisheries, Japan)
Mr. Panos Konandreas (FAO)
13:30 – 15:00 Lunch break

**Segment 2**

**Options for SIDS in regional and multilateral trade negotiations**

Moderator: Ms. Manuela Tortora (Coordinator, Commercial Diplomacy Programme, UNCTAD)

15:00 – 18:00

1. SIDS in the WTO Work Programme on Small Economies
   - Mr. Roman Grynberg (Commonwealth Secretariat)
   - Pierre Encontre (UNCTAD)

2. Options in terms of “modalities” under the WTO negotiations on agriculture
   - Ms. Miho Shirotori (UNCTAD)

**Discussions**

- Mr. Edwin Laurent (Ambassador, the Organization of Eastern Caribbean States)
- Mr. Henry Gill (Caribbean Regional Negotiating Machinery)
- Dr. Jean-Michel Salmon
- Ms. Margaret B. Malua
- Mr. Panos Konandreas (FAO)

18:00 - Reception at the Palais des Nations

---

1 Organized under an UNCTAD project “Analyzing SIDS-specific needs in multilateral liberalization in the agricultural sector” is being undertaken pursuant to the UNCTAD X Plan of Action (paragraphs 130 and 133), and funded by the Government of Japan.
PRESENTATIONS: SEGMENT 1
Agricultural trade liberalization and Small Island Developing States (SIDS)

By Luca Monge-Roffarello, Michael Swidinsky and David Vanzetti
Agricultural trade liberalization and Small Island Developing States (SIDS)

By Luca Monge-Roffarello, Michael Swidinsky and David Vanzetti

The ISSUE:

“SIDS are concerned that further trade liberalization in agriculture might not be beneficial”

- As net food importers, SIDS expect to pay a larger food import bill
- As beneficiaries of preferential trade arrangements, SIDS are concerned that these preferences will be eroded

Why SIDS ???

- SIDS economic structure and constraints (small size, insularity and remoteness) are well documented;
- the U.N. recognise SIDS: Programme of Action for the Sustainable Development of Small Islands Developing States in 1994; the recent 2002 WSSD called for an international meeting on the Sustainable Development of Small Island Developing States
- In the context of the WTO there is reference to Small Economies (par 35 of Doha Declaration) although “…not to create a sub-category of WTO Members”.

Why is agriculture important for them ?

- Why SIDS as a special case ?
- Why is agriculture important for them ?
- What is the value of their preferences ?
- What might be the impact of trade liberalisation?
- If negative, is there any possibility for compensation?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed</td>
<td>6.75%</td>
<td>6.53%</td>
<td>1.06</td>
<td>1.12%</td>
<td>2.92%</td>
</tr>
<tr>
<td>Developing (exc. LDCs)</td>
<td>7.20%</td>
<td>6.74%</td>
<td>0.98</td>
<td>2.78%</td>
<td>6.99%</td>
</tr>
<tr>
<td>LDCs</td>
<td>31.40%</td>
<td>16.41%</td>
<td>1.12</td>
<td>3.74%</td>
<td>7.35%</td>
</tr>
<tr>
<td>SIDS</td>
<td>24.00%</td>
<td>14.00%</td>
<td>2.50</td>
<td>7.48%</td>
<td>14.65%</td>
</tr>
</tbody>
</table>

Note: trade information from UN COMTRADE, GDP data are taken from the World Bank’s World Development Indicators; *Data on GDP only available for selected countries.

SDS Main Agricultural Exports (2000)

SDS Agricultural Exports Destinations (2000)

SDS/MFN Tariff Treatment in the QUAD

<table>
<thead>
<tr>
<th>SIDS Groupings</th>
<th>% of total SIDS export</th>
<th>African SIDS</th>
<th>Caribbean SIDS</th>
<th>Pacific SIDS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFN = 0%</td>
<td>19%</td>
<td>11%</td>
<td>14%</td>
<td>39%</td>
</tr>
<tr>
<td>0% &lt; MFN &lt;= 10%</td>
<td>42%</td>
<td>6%</td>
<td>52%</td>
<td>32%</td>
</tr>
<tr>
<td>10% &lt; MFN &lt;= 20%</td>
<td>5%</td>
<td>1%</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>MFN &gt; 20%</td>
<td>31%</td>
<td>81%</td>
<td>23%</td>
<td>28%</td>
</tr>
<tr>
<td>MFN AVE not available</td>
<td>5%</td>
<td>2%</td>
<td>6%</td>
<td>1%</td>
</tr>
<tr>
<td>Total QUAD</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>% in Total SIDS exports</td>
<td>84%</td>
<td>93%</td>
<td>86%</td>
<td>74%</td>
</tr>
</tbody>
</table>
Trade Preferences in the QUAD

EU accounts for more than 50% of SIDS exports

<table>
<thead>
<tr>
<th>Rates and Margins</th>
<th>% of SIDS exports</th>
<th>MFN Rate</th>
<th>Preferential rate</th>
<th>MFN minus Pref. Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>MFN = 0%</td>
<td>14%</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>0% &lt; MFN &lt;= 10%</td>
<td>35%</td>
<td>6</td>
<td>3.8</td>
<td>0.2</td>
</tr>
<tr>
<td>10% &lt; MFN &lt;= 20%</td>
<td>2%</td>
<td>14.8</td>
<td>10</td>
<td>0.1</td>
</tr>
<tr>
<td>MFN &gt; 20%</td>
<td>48%</td>
<td>39.9</td>
<td>19.2</td>
<td>0</td>
</tr>
<tr>
<td>MFN AVE Not available</td>
<td></td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

The UNCTAD’s Agricultural Trade Policy Simulation Model (ATPSM)

- To assess the potential impacts of agricultural liberalization on SIDS, UNCTAD’s Agricultural Trade Policy Simulation Model (ATPSM) is used.
- ATPSM is a partial equilibrium model that can be used to evaluate agricultural trade policy changes in the main areas covered by the URAA – market access, export subsidies and domestic support.
- There are 161 countries in the model, including 25 of the 32 SIDS members. In addition, the 36 commodities covered include numerous tropical products.
- ATPSM solution gives estimates of changes in trade volumes, prices and welfare, including quota rents.

Quota rents with binding out-quota tariff

- Unlike a general equilibrium model, ATPSM is confined to the agricultural sector and does not model interactions with other sectors of the economy.
- It is assumed that, for sugar, as the most important product for SIDS, quota rent accrues to producers in exporting countries. For all other quotas, rents are shared equally among importing and exporting countries.
- ATPSM allocates quota among suppliers using bilateral trade flows. In addition, ATPSM assumes that quota is filled and that the out-quota tariff (or applied tariffs) determines the domestic price.
- The main drawback to using ATPSM for this study is that it does not include bilateral tariff data and cannot capture trade diversion and creation effects from changes in preferential arrangements.

Quantitative assessment

- Presumed that SIDS, as net food importers and exporters of a narrow range of tropical products are unlikely to benefit directly from further agricultural trade liberalization.
- It is thought that world prices of temperate agricultural products would rise, increasing the food import bill for SIDS. In addition, SIDS are anticipated to lose out due to the erosion of tariff preferences (effect on the term of trade).

The UNCTAD’s Agricultural Trade Policy Simulation Model (ATPSM) con’t

- Preferences on some 50% of SIDS exports (70% for Caribbean) are "empty" or diluted;
- African SIDS enjoy the highest level of preferences;
- The impact of liberalisation on preferences depends on whether preferential tariffs are "linked" or "de-linked" to MFN rates;
- Recent initiatives in market access have yet to fully materialize their effects;
- Current preferences could be still expanded
Turning losses into gains: SIDS and multilateral trade liberalisation in agriculture

ATPSM commodity aggregation (1)
- Bovine meat
- Sheep meat
- Pigmeat
- Poultry
- Milk, fresh
- Milk, conc.
- Butter
- Cheese
- Wheat
- Maize
- Sorghum
- Barley
- Rice
- Sugar
- Oil seeds
- Vegetable oils
- Pulses
- Roots, tubers

ATPSM commodity aggregation (2)
- Tomatoes
- Non-tropical fruits
- Citrus fruits
- Bananas
- Other tropical fruits
- Coffee green bags
- Coffee roasted
- Coffee extracts
- Cocoa beans
- Cocoa butter
- Cocoa powder
- Chocolate
- Tea
- Tobacco leaves
- Cigars
- Cigarettes
- Other tobacco - mfr.
- Cotton linters

Five scenarios are simulated...
1) Ambitious. Across the board out-quota bound tariff reductions following the Swiss formula with a maximum of 25 per cent, and elimination of export subsidies and production-distorting domestic support.
2) Conservative. 36 per cent cut in out-quota bound tariffs and export subsidy equivalents and 20 per cent cut in domestic support in developed countries. Two thirds of these reductions in developing countries and no reductions in least developed countries.
3) Tariff50. 50 per cent cut in out-quota bound tariffs in all countries.
4) Preferential. Scenario 3 plus removal of in-quota tariffs on SIDS exports under quota.
5) Compensatory. Scenario 3 plus removal of all tariffs on all SIDS exports.

The rationale behind these scenarios
- Scenario 1 reflects agricultural exporters’ proposals such as those of United States and some Cairns Group members. A Swiss tariff cutting formula is aimed at reducing the peaks. A Swiss coefficient of 25, the US proposal, reflects a very heavy cuts;
- Scenario 2 is a repeat of the Uruguay Round formula;
- Scenario 3 reflects a reasonable middle ground and serves as a benchmark for comparison;
- Scenarios 4 and 5 are aimed at assessing whether the SIDS could be compensated for the losses stemming from preference erosion by changes in other policy variables, such as the size of the in-quota tariff or the tariff rate quota;

Results of the simulation: prices

Result: Prices
- Price changes are correlated with the level of distortions removed and are also a broad indicator of how price-taking countries are likely to be affected.
- Price changes are positive and in the range of 0 to 27 percent and are lower for tropical than temperate products.
- Price changes are moderate for the 50 percent linear tariff cut scenario, including those commodities of interest to SIDS like sugar and bananas.

Result - Export and government revenue
- As expected, SIDS exports increase following liberalization, in proportion to the increased market access.
- SIDS export revenues rise following a global 50 percent tariff cut from $2.2 billion to $2.4 billion, an increase of $191 million or 9 percent. Major beneficiaries are sugar ($67 m), other tropical fruits ($26 m), citrus ($20 m), bananas ($17 m) and vegetable oils ($13 m).
- Tariff revenue is an important source of government revenue for many developing countries, including SIDS. This is one argument against trade reform, as developing countries would be compelled to seek other sources of tax revenue.
- In SIDS, a 50 percent reduction in agricultural tariffs leads to a fall in tariff revenue from an estimated $425 million to $370 million, a reduction of 13 percent.
Result - Quota rent

- SIDS receive in quota rent $183 million in the initial database, of which $170 million is from sugar.
- A reduction in rents of $106 million follows from a reduction of 50 percent in out-quota tariffs, of which $95 million can be attributed to sugar.
- Gains to SIDS from elimination of in-quota tariffs on their exports would not be sufficient to offset a 50 percent tariff reduction.
- For SIDS as a group the quota rent and welfare gains are $23 million. Sugar ($13 million) and bananas ($10 million) make up the major components.

Result - Quota rent (con.t)

- While SIDS lose from reductions in quota rents associated with global tariff reform, they can be more than compensated if over-quota exports are allowed in duty free.
- The quota rents transferred to SIDS amount to $70 million, with the elimination of out-quota tariffs more than sufficient to offset the $106 million in losses from quota rents due to lower out-quota tariffs in importing countries.

Result - Welfare

- A 50 percent global cut in over-quota tariffs leads to a welfare loss for SIDS of $96 million. Loss of quota rent for sugar and to a lesser extent higher prices for imports of wheat, dairy products and sheep meat are the major factors. The major losers are Mauritius, Jamaica and Fiji.
- Extending compensation to SIDS tends to make non-SIDS worse off. The major costs are imposed on the developed countries providing the compensation through extended preferential access, predominately the European Union and the United States. Non-SIDS developing exporters are slightly worse off.

Limitations

- Limitations:
  1. lack of knowledge of the distribution of quota
  2. assumption that quota is filled and that out-quota tariffs (or applied tariffs) drive prices
  3. model doesn’t account for switching between tariff regimes
  4. assumption that producers don’t respond to changes in rents, implying no trade diversion

CONCLUSIONS

- trade liberalization will lead to some erosion of these preferences. This will have a significant impact in some cases, particularly for those SIDS currently enjoying quota rents, being the highest in the "Ambitious" scenario and the lowest in the "Conservative one".
- there is scope for these countries to be compensated, if was considered desirable, in two distinctive ways:

Compensation 1:

To provide in-quota duty-free treatment for all those SIDS exports already benefiting from quotas

- Gains are still insufficient to compensate entirely for the rents losses;
- Individual SIDS currently not capturing quota rents that may be inclined to favor liberalization as there are positive net benefits from improved market access and efficiency gains from domestic reform;
- Low cost SIDS producers may find themselves shut out of markets by the import quota system and may be favoured by the erosion of preferences.

Compensation 2:

To expand import duty-free quotas to cover all SIDS exports

- this would entirely compensate for losses in the rents;
- preferential quotas appear to guard beneficiaries against the erosion of preferential tariff margins and quota rents;
- it assumes that beneficiary countries' supply is capable to keep filling the additional quotas

Compensation 1&2:

- As a possible modality to "compensate" SIDS, compensation would have no or very limited effects on the welfare gains of developing countries.
- It might be sought both within the WTO framework and bilaterally;
- Given the high geographical concentration of SIDS exports in few markets, there can be scope for improving the effectiveness of non-reciprocal preferential market access.
THANK YOU!!!

Any question??
ANALYZING SIDS SPECIFIC NEEDS IN MULTILATERAL LIBERALIZATION IN THE AGRICULTURAL SECTOR

*The Indian Ocean Case Study*
*(Comoros, Mauritius, Seychelles)*

Jean-Michel SALMON,
Indian Ocean Commission Consultant &
CEREGMIA/French West Indies University
(Martinique)
Turning losses into gains: SIDS and multilateral trade liberalisation in agriculture

**Analyzing SIDS Specific Needs in Multilateral Liberalization in the Agricultural Sector**

*The Indian Ocean Case Study (Comoros, Mauritius, Seychelles)*

Jean-Michel Salmon, Indian Ocean Commission Consultant & CEREGMIA/French West Indies University (Martinique)

**Introduction**

- Smallness, Remoteness, Vulnerability and Proneness to natural disasters in IOC SIDS: a short look at several figures
- Scale economies, regional integration and EPA negotiations
- Agriculture diversification efforts towards better P/M ratios

---

### Main domestic agri. Interests in Mauritius (WTO member)

- Food import bill and Food balance
- 8 products (items with an important production volume); among which:
  - 2 with STE & NTB (potato, onion), one clear success (onion), one more ambiguous (potato)
  - 2 competitive (tomato, carrot), with strong growth (carrot) or fluctuation (tomato)
  - 2 competitive (pineapple, banana), but hard to export (pineapple) or no export (banana)
  - 1 clear success under protection (poultry)
  - 1 failure (tea): bad price-competitiveness? Or rather simply not profitable enough

### Main agri. Domestic interests in Comoros (not WTO member)

- LDC of three main islands, political instability, and production crises (1999+)
- Great importance of agriculture, mainly subsistence/micro farmers (estimates)
- Food import bill doubled 90s, but self sufficiency in fish products
- Open agri import regime (SAP), and local foodcrops face hard competition with rice imports (with STE and 33% duty)

### Main export interests in Mauritius and Seychelles

- 2 products highly sensitive to trade preferences:
  - Sugar (Protocol): complex perspectives
  - canned tuna: margin of 24% (MFN) or 21.5% (GSP)
- Very important contribution:
  - to the economic take off, the social fabrics and now non-trade concerns (multi-functionality) in Mauritius,
  - to the BoP in the Seychelles, a Single Commodity Exporter (and Single Firm) case
- Other attempts in Mauritius are Anthurium and Pineapple: some limited results

### Exports in Comoros

- 3 products (vanilla, ylang, gloves) = 95% of total exports, vanilla = 60%
- Restructuration and reform of the producer price policy: from one tenth of the FOB export price to one half since 2002.
- Diversification projects with many difficulties

### WTO Negotiations best modalities: the IOC SIDS viewpoint

- Be cautious with intertwined modalities and complex issues, as in the sugar case:
  - uncertainties as regards the effectiveness (extent) and speed of the cost adjustment process in Mauritius viz the foreseen reduction of the EU price (liberalization effects Borrell and Unctad studies to be discussed later on)
- Non-trade concerns would lead only domestic support issues (green vs amber box measures)? But what for the ‘non-rich enough’ countries? Doesn’t it then concern also market access issues (protection devices)? Or is it a OECD privilege?
Big issues from the analysis (1)

- **Market access (SIDS market):** STE and NTB in Mauritius and Seychelles, STE and infant industry protection devices in Comoros; (tari: reduction commitments in non-LDC SIDS to be eased or exempted? No evidence yet in Mauritius and Sey.)
- **Market access (EU):** importance of the protocol. Preference margins (tuna) to be eroded? So expand the TRQ system

[NB : and may be build and add a specific price or income support mechanism (such as decoupled aid?) if needed (in case prices plummet)]

Big issues from the analysis (2)

- **Domestic support:** at present, a SIDS S&D seems less needed, but think of offensive (future) interests, or future needs to stabilize producer prices (which increases AMS). Hence increase the de minimis limit. Also relax the conditions of exceptional support in case of natural disaster
- **Export subsidies:** extend the period of exemption provided in article 9.4. (permanent basis); Avoid a formula which would reduce OECD export subsidies too fast; SIDS hurt twice (quota-rent and NFIDCs). In the context of CAP reform, Think of a new price support mechanism for SIDS exports (within the quota rate), or income support.
ANALYZING SIDS SPECIFIC NEEDS IN MULTILATERAL LIBERALIZATION IN THE AGRICULTURAL SECTOR

A CASE STUDY ON BARBADOS

PREPARED BY

GREGG C.E. RAWLINS
PLANNING UNIT, MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT, BARBADOS
A PROFILE OF BARBADOS

- IS ENCOM PasSED BY A COASTLINE 95 KILOMETERS LONG
- WITH A POPULATION OF APPROXIMATELY 268,000
- BARBADOS POSSESSES MANY OF THE TYPICAL CHARACTERISTICS OF SIDS

TYPICAL SIDS CHARACTERISTICS

- VULNERABILITY TO NATURAL DISASTERS SUCH AS HURRICANES
- RELIANCE ON A MONO-CROP – SUGAR – WITHIN THE AGRICULTURAL SECTOR AS THE MAJOR SOURCE OF FOREIGN EXCHANGE
- A HIGHLY OPEN ECONOMY WITH HEAVY DEPENDENCE ON IMPORTS

TYPICAL SIDS CHARACTERISTICS

- EXISTENCE OF PRODUCTION SYSTEMS WHICH ARE RELATIVELY HIGH COST AND UNCOMPETITIVE
- LIMITED PRODUCTION AND CONSUMPTION CAPACITY

THE ROLE OF AGRICULTURE

- DESPITE DECLINING CONTRIBUTION TO KEY INDICATORS (GDP, EMPLOYMENT, EXPORT EARNINGS) AGRICULTURAL SECTOR CONTINUES TO PLAY AN IMPORTANT MULTIFUNCTIONAL ROLE
- FOOD AND NUTRITION SECURITY, RURAL DEVELOPMENT, POVERTY ALLEVIGATION AND ENVIRONMENTAL PROTECTION, INCLUDING THE PRESERVATION OF BIODIVERSITY, ARE KEY NON-TRADE CONCERNS OF BARBADOS

Major issues/concerns of Barbados with respect to trade liberalization

- Lack of competitiveness
- Increased competition from imports – Food Security concerns
- Erosion of Preferences for commodities like sugar
- Limited capacity to exploit market access opportunities for non-traditional exports
COMPETITIVENESS ISSUES: A MAJOR CHALLENGE

- Several factors, directly related to Barbados’ small area, limited market size and other inherent structural weaknesses, have had profound negative effects on the production and competitiveness of domestically produced agricultural products.

LAND/FARM SIZE ISSUES

- With a total land area of 43,176 hectares, land is a very limited resource.
- Total land area available to agriculture is now estimated to be less than 20,000 hectares.
- High demand due to competing uses such as housing, social and recreational facilities, alternative economic uses such as golf courses and tourism related projects.

LAND/FARM SIZE ISSUES

- Agricultural land being held for speculative purposes.
- The Scotland district (which extends to one seventh of the total area of the island) – is prone to severe land slippage and erosion.
- Unavailability of adequately sized tracts of land for commercial farming.

LAND/FARM SIZE ISSUES

- Landless farmers, classified as those with holdings of less than 0.025 hectare, accounted for approximately 24% (4,161) of the total number of holdings.
- This has serious implications for the capacity of these operations to benefit from economies of scale with obvious consequences for relative cost of production levels.

WATER CONSTRAINTS

- Barbados has an estimated 300 cubic metres of water per citizen, and is ranked among the world’s fifteen most water scarce countries.
- Rainfall for the period 1991 – 2000 averaged an annual of 1360 millimetres per parish.
- Most of this rainfall occurs during the latter half of the year.

WATER CONSTRAINTS

- Water rates for the government managed scheme are, 44 cents per cubic meter, except in the spring Hall land lease programme, which carries a rate of 33 cents per cubic meter.
- Farmers outside the scheme face the domestic rate of BDS$2.12 per cubic meter, which makes agricultural production, using domestic water, more costly.

WATER CONSTRAINTS

- Given the topography of the island, and the lack of rivers and lakes, a high proportion of this rainfall runs off into the sea.
- Severe dry spells do occur - forced to make force majure claims for sugar exports below quota levels in 1995 and 2002.
- Barbados water resources study estimates that water available for irrigation is sufficient to supply about 1600 hectares of land annually.
LIMITED DOMESTIC MARKET

- Total Domestic Consumption Levels for Major Agricultural Commodities are insignificant in global terms.
- The small domestic demand base makes it extremely difficult to produce at sufficiently high levels to achieve economies of scale.

LIMITED DOMESTIC MARKET

- Total consumption of poultry meat in Barbados is estimated at 15,000 tonnes per annum, which is miniscule when compared with consumption in other countries e.g. over 13 million tonnes in US.
- The smallest plant in the USA processes approximately 600,000 birds per week, compared to the throughput in the largest plant in Barbados, which is estimated at 80,000 birds per week.

LIMITED DOMESTIC MARKET

- Situation compounded by limited export competitiveness and value-added processing.
- Scope for investing in large-scale production operations and processing plants is severely constrained with consequences for the technologies employed and efficiencies realized.

INPUT SUPPLY CONSTRAINTS

- Small domestic production sector makes it unattractive for investors to undertake production of key agricultural inputs.
- In the case of animal feeds, where there is a single manufacturer in Barbados, the operation suffers from diseconomies of scale.
- The agricultural sector is therefore heavily dependent on imported inputs, which makes the sector extremely vulnerable to external developments.

COMPETITIVENESS OF DOMESTIC PRODUCTION

- Only a few select agricultural commodities have a competitive advantage in Barbados.
- FAO commissioned report reveals that only okras and hot peppers are produced competitively in Barbados.
- Key commodities are only competitive with the application of the bound rates of duty (Appendix 2).

INCREASED IMPORTS - FOOD SECURITY CONCERNS

- The need to ensure an acceptable level of food security, at the national and household levels, based on an optimal combination of domestic production and imports, has therefore served as a major policy objective guiding the development of the agricultural sector in Barbados.

FOOD SECURITY

- Over 70% of food is imported.
- Imports are increasing and amounted to BDS$478.6 million in 2000 (changing composition of imports associated with higher disposable incomes).
- Tourist demand often overestimated.
- Domestic production for many commodities is in decline.
FOOD SECURITY

- GOVERNMENT OF BARBADOS RECOGNIZES THAT TOTAL SELF-SUFFICIENCY IN FOOD PRODUCTION IS UNATTAINABLE AND THAT BARBADOS WILL ALWAYS BE RELIANT ON REGIONAL AND INTERNATIONAL MARKETS TO PROCURE A SIGNIFICANT PROPORTION OF FOOD SUPPLIES.

FOOD SECURITY

- IMMEDIATELY AFTER THE EVENTS OF 11TH SEPTEMBER 2001, THE ISSUE OF FOOD AVAILABILITY TOOK PARTICULAR IMPORTANCE IN BARBADOS.
- BARBADOS THEREFORE CONSIDERS FOOD SECURITY TO EXTEND BEYOND THE CAPACITY TO MERELY SOURCE FOOD THROUGH IMPORTS.

THE IMPACT OF RECENT MARKET LIBERALIZATION

- BARBADOS IMPLEMENTED ITS WTO COMPLIANT TARIFF ONLY REGIME IN APRIL 2000.
- HAS NEGATIVELY IMPACTED ON DOMESTIC PRODUCTION IN A NUMBER OF KEY INDUSTRIES – poultry, pork, selected vegetables (e.g cabbages, carrots etc), onions.

THE IMPACT OF RECENT MARKET LIBERALIZATION

- THE RATIO OF IMPORTS TO DOMESTIC PRODUCTION HAS INCREASED SINCE 2000, PLACING DOMESTIC PRODUCTION, FARM INCOME AND FOOD SECURITY AT RISK.
- THIS HAS OCCURRED DESPITE APPLICATION OF BOUND RATES.
- SSG IMPLEMENTED RECENTLY WITH MIXED RESULTS.

EXPERIENCE WITH THE SSG

- PROVED TO BE EXTREMELY DIFFICULT TO IMPLEMENT ADMINISTRATIVELY/TECHNICALLY.
- PRICE BASED SSG CHOSEN OVER VOLUME BASED DUE TO HIGH VOLUMES AND LIMITED TARIFF PROTECTION.
- PRICE BASED SSG HOWEVER TO MUCH DEPENDENT ON ABSOLUTE LEVEL OF TRIGGER PRICES (E.G ONIONS).

EXPERIENCE WITH THE SSG

- EVEN WHERE TRIGGER PRICES ARE RELATIVELY HIGH, SSG INEFFECTIVE WHERE IMPORT PRICES ARE ARTIFICIALLY LOW (POULTRY LEG QUARTERS).
- SSG TYPE INSTRUMENT WILL HOWEVER BE CRITICAL FOR SAFEGUARDING SENSITIVE COMMODITIES IN THE FUTURE.

LESSONS FROM THE LIBERALIZATION EXPERIENCE

- FURTHER LIBERALIZATION IN THE ABSENCE OF MEASURES WHICH ALLOW SIDS TO SAFEGUARD SENSITIVE COMMODITIES WILL THREATEN DOMESTIC PRODUCTION AND FOOD SECURITY.

EXPORT CONCERNS – EROSION OF PREFERENCES

- SUGAR HAS TRADITIONALLY BEEN, AND CONTINUES TO BE, THE PREDOMINANT AGRICULTURAL EXPORT CROP.
- SUGAR EXPORTS OVER THE PERIOD HAVE BEEN MIXED, WITH A PERIOD HIGH OF 65.7 THOUSAND TONNES IN 1991 AND A PERIOD LOW OF 38.5 THOUSAND TONNES IN 1995.
THE ROLE OF SUGAR

- AN EXCELLENT EXAMPLE OF THE LINKAGE BETWEEN AGRICULTURE AND OTHER SECTORS CAN BE FOUND IN THE SUGAR INDUSTRY
- CONTRIBUTES IN LARGE MEASURE TO THE AESTHETIC APPEAL OF THE RURAL LANDSCAPE AND PRESERVATION OF THE ENVIRONMENT WITH OBVIOUS IMPLICATIONS FOR THE TOURISM PRODUCT (OCCUPIES 20% OF TOTAL LAND AREA)

EXPERIMENT PERFORMANCE

- EXPORT EARNINGS FROM SUGAR HAVE, WITH THE EXCEPTION DURING 1996 AND 1997, BEEN ON THE DECLINE

TRADE PREFERENCES

- PREFERENTIAL MARKET ACCESS ARRANGEMENTS CONTINUE TO BE EXTREMELY IMPORTANT AND RELEVANT
- THERE ARE A NUMBER OF FACTORS THAT COULD RESULT IN SIGNIFICANT REFORM OF EU’S SUGAR REGIME WITH NEGATIVE CONSEQUENCES FOR TRADITIONAL ACP SUPPLIERS LIKE BARBADOS

NON-TRADITIONAL EXPORTS

- BENEFIT FROM PREFERENTIAL ACCESS THROUGH ACP/EU TRADE ARRANGEMENTS, CBI AND CARIBCAN
- HAVE NOT CAPITALIZED ON THE OPPORTUNITY DUE TO SUPPLY SIDE CONSTRAINTS, LIMITED EXPORT CAPACITY AND UNCOMPETITIVE NATURE OF PRODUCTION
- NEED FOR TECHNICAL AND FINANCIAL ASSISTANCE

Issues of concern in relation to WTO agricultural negotiations

- The one size fits all approach in relation to S&DT for developing countries – failure to recognise special requirements of SIDS/SDEs
- The need for a more integrated approach which links market access, domestic support and export competition commitments to provide for greater equity and balance
Annexes

Issues of concern

- Inadequate attention being given to building productive capacity in smallest and most vulnerable economies to facilitate their participation in global trade – need for technical and financial assistance
- Market access negotiations within the AoA will not address major difficulty facing SIDS – SPS and TBT measures since these fall outside the scope

Issues of concern

- Negotiations need to take into account both negative and positive effects of liberalization on SIDS – e.g. erosion of preferences, elimination of export subsidies on NFIDCs
- Market access commitments need to offer flexibility to SIDS/SDEs – apparent focus on substantial tariff reduction
- Current flexibility in the area of domestic support too great – need for strict disciplines

ECONOMIC ADJUSTMENT PROCESS
GOVERNMENT POLICIES AND PROGRAMMES

- Land for landless Programme
- Agricultural Development and Rural Enterprise Funds
- General Services – Research and development, training, extension, pest and disease control, market research and information
- Integrated Rural Development Scheme – Irrigation
- Revamped Incentive Scheme

GOVERNMENT POLICIES AND PROGRAMMES

- Up-front duty free concessions on inputs
- Input and investment subsidies of a product-specific and non-product specific nature
- Rationalization of sugar industry
- Cane replanting Incentive Scheme and deficiency payments for sugar cane producers
- Buy local campaign
- Procurement by Government Institutions
- Agricultural Plan for the Scotland District

GOVERNMENT POLICIES AND PROGRAMMES

- Supportive Trade Policy Regime – bound rates, SSG
- Promotion of inter-sectoral linkages (ago-industry, agro-tourism, craft, etc)
- Development and promotion of unique high quality products e.g. Barbados Blackbelly Sheep, West Sea Island Cotton.
- Export Incentives – rebates on freight costs, export credit

Necessary conditions

- HAVING FLEXIBILITY IN THE AREA OF MARKET ACCESS TO SAFEGUARD SENSITIVE COMMODITIES FOR FOOD SECURITY AND RURAL DEVELOPMENT PURPOSES
- Product exemptions, effective Special Safeguard Mechanism, effective tariff levels and implementation periods etc

Necessary Conditions

- DOMESTIC SUPPORT BECOMING MORE IMPORTANT TOOL TO BUILD DOMESTIC PRODUCTION CAPACITY in SIDS. NEED FOR INCREASED FLEXIBILITY IN THIS AREA
- Article 6.2 expansion, review de minimis, Annex 2
- Greater discipline for Developed countries – tightening green box

Necessary Conditions

- RENDER PREFERENCES STABLE AND PREDICTABLE
- Need to be preserved and incorporated into multilateral trading arrangements
- Adequate transition periods where there is phasing out
- Compensation to SIDS/SDEs for losses
- Provision of resources to support diversification
SIDS & Trade Liberalization

A Case Study of the Windward Islands
Turning losses into gains: SIDS and multilateral trade liberalisation in agriculture

**SIDs & Trade Liberalization**

A Case Study of the Windward Islands

---

**“Small Islandness”**

- Steep and difficult topography
- Narrow domestic market - pop 437,000
- Small skill pool
- High vulnerability
- Lack of economies of scale
- Net food importers (< .01 % of world trade)

---

**Vulnerability**

- 21 tropical storms in 20 years
- Losses in production & infrastructure
- 44% drop – drought in 2001
- 40-50% destruction of banana crop in 2002

---

**Characteristics of production & trade**

- Bananas – 50% land use,
- Small farm size, > 60% - 1 ha or less
- Low technological, high labour input
- High cost (US$ 520 vs $168-$240)
- Poor transportation arrangements (regional market)

---

**Agriculture & Trade Policy**

- Banana recovery: quality, increased productivity, market development (WIBDECO)
- Agricultural Diversification: import substitution, food security, export diversification
- Environmental preservation

---

**Agric & Trade Policy**

- Social recovery; training, entrepreneurial development, social services & infrastructure
- Taxes & fiscal concessions

---

**Importance of banana production & exports**

- Major source of employment in rural areas (20 – 40%)
- 5% -14% of GDP (10 – 20% prior)
- Regular cash flows (US$ 1M per week)
- High multiplier effect (consumption, investment & savings)
- 60%-80% of export revenue
**Annexes**

**Export performance 1991-95**

Windwards Banana production 1991-1995

<table>
<thead>
<tr>
<th>Year</th>
<th>Dominica</th>
<th>Grenada</th>
<th>St. Lucia</th>
<th>St. Vincent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>50</td>
<td>30</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>1992</td>
<td>40</td>
<td>20</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>1993</td>
<td>30</td>
<td>10</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>1994</td>
<td>20</td>
<td>5</td>
<td>15</td>
<td>5</td>
</tr>
<tr>
<td>1995</td>
<td>10</td>
<td>5</td>
<td>10</td>
<td>5</td>
</tr>
</tbody>
</table>

**Export performance 1996 - 2000**

Windward Island Banana Exports 1996-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Dominica</th>
<th>Grenada</th>
<th>St. Lucia</th>
<th>St. Vincent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>150</td>
<td>100</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>1997</td>
<td>100</td>
<td>50</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>1998</td>
<td>50</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td>1999</td>
<td>25</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>2000</td>
<td>12</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

**Negotiating objectives**

- Continued preferential access for traditional exports/ longer transitional period
- Secure market openings in new trade related areas
- Non reciprocity in new trade obligations

**Market Access**

- Tariff binding reductions
- Tariff Rate Quotas
- Special Safeguards
- Non trade concerns

**Tariff Reductions**

- Lack fiscal resources for domestic support
- Quantitative restrictions dismantled
- Applied rates 0-40%, bound at 100%
- 30% cost differential between imports & domestic for meats

**Tariff reduction**

- Flexible tariffs = safeguard for food security & R.Dev commodities
- Maintain UR bindings
- Any reductions in bindings < developing countries

**Tariff Preferences**

- Technology will improvements will still leave 20-40% cost disadvantage
- Cost disadvantage will exist for other commodities
- High preferential tariffs may not be tenable in EU

**Loss of tariff preferences**

- Annual Revenue loss of US$65M to US$85M & multiplier
- Increases in household poverty (18-30%) and unemployment (18-22%)
- Loss of > 50,000 jobs
- Decline in overall economic growth
Options for tariff preferences
- Compensate with technical and marketing assistance:
  - Organic Production
  - Fair Trade
  - Market Promotion

Tariff Rate Quotas
- Windward production < 1% of world exports
- Historical quotas too low to cause market distortion
- Compensation by developing countries for loss of preferences

Special Safeguards
- Few traded products, un diversified revenue base
- Use flexible tariffs as safeguard measure
- Require assistance in developing administrative systems & guidelines

Domestic support
- Domestic support in developed countries = cheap food = food security
- Domestic support also = cheap competition for domestic producers
- Development/food security box for SIDS who cannot meet *de minimis* level

Export Competition
- Similar to domestic support

Special & Differential Treatment
- Longer periods for compliance
- Easier market access to major trading partners
- Exemption from certain obligations and lower levels of commitments
- Recognition of the need to enhance food security through tariffs and safeguards
PACIFIC ISLAND CASE STUDY

Samoa, Tonga & Fiji
Introduction

- Pacific made up of a group of islands with relatively small populations
- Agriculture the backbone of the economy (making up a two thirds of the total GDP)
- Islandness, smallness and remoteness of PICs has hindered the economic development of these countries in the world economy

Smallness

- limited land available for agriculture producing little supplies for consumption, and domestic and export markets
- Access to finance very limited
- Traditional methods of production still being used

Remoteness

- location of the PICs from major international markets
- High transportation costs-freight costs from Samoa for 20ft container
  - US$1500 to NZ
  - US$2000 to Aust
  - US$2200 to LA, USA
  - US$3500 to Europe
- PIC exporters end up being price takers

Vulnerability

- external shocks in the world markets
- Natural calamities
  Such as, cyclones, droughts, rising sea level etc.
Examples:
  two cyclones set back the Samoan economy in 1990 & 1991, 2002 cyclone which devastated Tonga’s economy. Drought affected Fiji’s sugar cane industry, Disease (taro leaf blight) devastated the taro industry in Samoa

Economic and political vulnerability

- Low world prices greatly impacted the agricultural sector
- Main agricultural commodities included copra, sugar vanilla

Case: Fiji Sugar

- Slow growth from 1997 due to;
  - low world prices
  - Expiring land lease disputes
  - Adverse weather conditions
  - Transportation problems
  - Industrial disputes
  - Forecast a further downturn in sugar production
Economic Performance of the Agricultural Sector - Samoa

- Contribution to the GDP dropped from 21% to 14% then in 2001 only accounted for 5.9%
- Main agricultural stables include taro, bananas, yams
- Commodities – copra, cocoa and sugar

Main Exports

**Samoa**
- Fish, coconut based products, taro, kava, bananas, noni

**Fiji**
- Sugar, dalo, fish, tropical fruits and vegetables

**Tonga**
- Squash & vanilla

Basic Food Items

- Meat
- Fish
- Pork
- Chicken
- Tropical Fruits and Vegetables

Main Imports

- Food Items such as rice, flour, meat cuts, and chicken
- Main markets for imports are New Zealand, Australia, USA, Fiji
- Import Duty for food products

Import Duty for Agricultural Food Items

<table>
<thead>
<tr>
<th>Product</th>
<th>Duty CIF (ad valorem)</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rice</td>
<td>0%</td>
<td>Australia, USA</td>
</tr>
<tr>
<td>Potatoes</td>
<td>20%</td>
<td>New Zealand</td>
</tr>
<tr>
<td>Chicken</td>
<td>0%</td>
<td>USA</td>
</tr>
<tr>
<td>Lamb flaps</td>
<td>8%</td>
<td>NZ, Australia</td>
</tr>
<tr>
<td>Flour</td>
<td>0%</td>
<td>NZ, Fiji, Australia</td>
</tr>
<tr>
<td>Eggs</td>
<td>20%</td>
<td>USA</td>
</tr>
<tr>
<td>Meat</td>
<td>8%</td>
<td>NZ and Australia</td>
</tr>
<tr>
<td>Cocoa</td>
<td>20%</td>
<td>PNG, Fiji</td>
</tr>
</tbody>
</table>

Import issues

- Heavy dependency on imported foods
- Shrinking local producer industry due to cheaper imports – eg. Shrinking egg industry
- Increasing trade deficit
- Lifestyle diseases

Market access Issues

**Australia and NZ Markets**
- Erosion of preferences
- Eg. Coconut cream duty in NZ reduced
- Quarantine Requirements
- Supply constraints
Turning losses into gains: SIDS and multilateral trade liberalisation in agriculture

Case: Exports of Bananas to NZ Market
- Bananas were required by NZ quarantine to reach NZ green due to the threat of the fruit fly
- Bananas had to be air freighted
- Exporters argued for justification that bananas are shipped green so there would not be any fruit fly upon arrival
- Bilateral quarantine Agreement
- New packaging requirements meant more investment in bananas
- Organic bananas also subject to fumigations
- New problems and issues faced by exporters
- Samoa investing in heat treatment facility as one option to meeting the requirements

Case: Kava to the EU market
- EU Pharmaceutical Industry banned the kava due to the threats to the liver
- Pacific kava exporters seeking more scientific justification to prove this
- Kava consumption in Pacific is many times the recommended dose in a herbal preparation
- Great loss in export sales
- Small vulnerable economies need all the export income that they can earn

EU Markets
- Supply constraints
- Erosion of Preferences
- Administrative requirements
- Technical Standards
- Competitiveness
- Transportation costs
- Case Study - kava

USA Market
- Supply Constraints
- Standards of USDA
- Competitive market

Multilateral Issues
- Accession process to become members of the WTO
- Lack of capacity know-how on WTO Agreements
- LDC transitional periods do not apply to acceding countries

Agreement on Agriculture - issues
- Limited capacity and knowledge on the Agreement
- Small island economies vulnerability means Government support is still needed
- Domestic support in terms of dollar values is very small
- Government must assist agriculture sector as it is the backbone of the economy and poverty reduction means more Government support to this sector
- Pacific Governments nevertheless are implementing non subsidized policies

Government Assistance in Agri
- Reduction in world prices for copra led to Samoan Government reintroducing price stabilization for copra
- Sudden ban in kava exports from Europe led to introduction of an export guarantee scheme which provides a form of insurance and guarantee on export orders
- Continuous need for Governments to provide the infrastructure to support agricultural development

Future Outlook
- In the course of the WTO negotiations on agriculture, the PICs are far behind in terms of benefits and have the most problems due to their smallness, remoteness, and vulnerability which have made it more difficult for them to access international markets successfully.
- The future of the Pacific requires substantial attention from the developed world particularly in the development of the agricultural sector which is the backbone of many Pacific Island economies
What is needed?

- Enhance supply capacity by improving access to land & finance, (also subsidized planting materials)
- Strengthen agricultural sector infrastructure
- Reduced duties on raw materials and packaging materials,
- Continuous domestic support on specific sectors requiring support
- Non-trade concerns – analyse and building awareness on non-trade concerns
- Improved knowledge and capacity on multilateral trading system and Agreement on Agriculture
- Trade facilitation measures – meeting the requirements of markets
- Market information access
- Increased participation in the multilateral negotiations especially pushing the real issues faced by small island economies
- Improved market access

THANK YOU
PRESENTATIONS: SEGMENT 2
Small Economies Work Program at the WTO

A Small Matter of Definition
**Small Economies Work Program at the WTO**

**A Small Matter of Definition**

**Doha Small Economies Mandate**

- **Doha Ministerial Declaration para 35:**
  We agree to a work programme, under the auspices of General Council, to examine issues relating to the trade of small economies. The objective of this work program is to frame responses to the trade related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO members.

- **The WTO mandate raises a logical problem.** It recognises that small economies have a problem but excludes the framing of proposals that solve the problem of the group because this would involve defining the group.

**Doha Small Economies Mandate & the Doha Round**

- While the Work Programme cannot define Small Economies, they may define themselves in individual negotiating demands however they see fit.

- Thus the Work Programme will have very limited impact in terms of solving the problems of small economies.

**The WTO’s Many definitions of “Small”**

- While the Work Programme cannot define Small Economies, they may define themselves in individual negotiating demands however they see fit.

- Thus the Work Programme will have very limited impact in terms of solving the problems of small economies.

**WTO Work Programme**

- **WTO has begun important and useful analytical work on small economies – Trade and Economic performance the role of Economic Size (WT/COMTD/SE/W/5)**

- **Study considers the question of adjustment to globalisation as the main problem facing small economies.**
I will structure my comments along the following lines:

First, some observations on the nature of the problems faced by SIDS in the export market of agricultural commodities. Some of these have already been highlighted in the background papers and in the comments made by others so far.

Second, I will comment on the particular problems that further trade liberalization in agriculture may pose for SIDS, in view of their particular circumstances.

Finally, I will make some comments on some issues that may be desirable for SIDS to pursue in the context of the current agricultural negotiations or bilaterally as the case may be.

First on the nature of the problem of SIDS,

As the case studies show, a prominent characteristic of agricultural commodity exports of SIDS is that they depend on a few commodities for a large share of their export earnings. In fact, several of these countries have high dependence on a single agricultural commodity.

Over the last two decades, two features dominated world agricultural primary commodity markets: relatively high price volatility and a generally declining trend of real prices. Price volatility in agricultural commodity markets is largely due to the relative rigidity of short-term supply and the low price elasticity of demand in importing countries. Overall, instability tends to be higher for agricultural raw materials and beverages compared with processed and temperate-zone products. Long term decline in real prices is due to a sluggish world demand for primary commodities as a result of low income elasticity of demand declining intensity of raw materials use in manufacturing. FAO analysis show that in 2000 the price index of agricultural commodities deflated by the price index of manufactured exports of industrial economies was one half of the average for 1980. For tropical beverages, sugar and cotton, the decline was even steeper and the long-term forecasts are also not encouraging.

It is clear that for countries that depend heavily on such primary agricultural commodities for the bulk of their export earnings, such as the SIDS, these trends can have highly unfavourable effects for their economies.

The same trends have not been experienced for value-added processed products. These products represent the engine of growth in world agricultural trade and have not been subject to neither the same decline in real prices nor are they subject to the same degree of price fluctuations. The implication of these trends is that to the extent possible, it would make good sense for SIDS to diversify their export base to processed products taking advantage of the availability of the raw material and cheaper labour they have at their disposal. I will return to this issue later.

The second problem for many SIDS is that the prospects for their agricultural exports are very much tied to preferences in a few developed countries. In turn, these preferences are very much linked to domestic agricultural policies pursued in these countries. Reforms in the developed countries necessarily imply erosion of preference margins. Hence the value of SIDS agricultural exports will suffer. At the same time, the price of temperate products which these countries import is expected to increase somewhat from trade liberalization, resulting in a deterioration of their terms of trade.

---

1 This paper was independently submitted by the author during the SIDS Forum and it was not commissioned by the Project
It is clear that, by and large, the interests of SIDS in the negotiations are very much tied to the reforms that may take place in their key developed country partners. It is not by accident that several SIDS have taken a position which may be described as one of defending certain policies presently pursued by some developed countries.

Aside from the fact that such a position by SIDS is at odds with the position of the majority of developing countries (non of them defend export subsidies, for example), it is also relevant to ask whether this approach would help in the long term. Reduction of production and trade distorting policies is the agreed objective of the reform process and it will happen, sooner or later. That implies that the fate of preferences is also known. Yet, it is unlikely that this reform will happen overnight and hence, fortunately, there is time for all parties to adjust to the new realities.

This brings me to the third part of my comments on some adjustments that may be desirable for SIDS and how could these be taken into account in the on-going process.

With declining overall preference margins, one way of prolonging the benefits to SIDS is to make sure that a greater share of the margin is captured by them and not by importing enterprises in the preference giving country. The situation on this issue varies by commodity and country but overall there is plenty of room for the preference receiving countries to get a greater share of the margin. With continuing shrinking overall preference margins, this is very important, although not strictly a WTO issue and has to be arranged bilaterally between the preference-giving and the preference-receiving countries.

Second, it is also time to talk seriously about compensation for preference losses. If the reasons of providing the preferences in the first place are still valid then there is need for compensating the preference receiving countries for the loss of such transfers. What is important here is not only to transfer resources to the preference receiving countries but to make sure that such resources reach the target population. It is easy to transfer funds to governments but it is another matter of transferring them efficiently to the farmer. Mechanisms are needed to effect such transfers to farmers. If there is one positive aspect of the present system is that that transfer to the farmers is more or less automatic.

Third, a related issue of particular importance to SIDS is financial and technical assistance. Such assistance is necessary to help them increase productivity in their traditional exports so that they can compete in a world increasingly without preferences as well as in order to diversify their production base. This is particularly the case for moving into processed value-added products where product quality and product standards are critical in order to penetrate highly competitive markets.

Fourth, it is imperative that SIDS make all necessary efforts to diversify, including to value-added processed products. Although this is not an easy task, it would easier to be done now than later. Now that resources are available, as a result of the preferences, some of these resources could be used towards diversification. Reduction in tariff escalation is a key issue here and it is an essential precondition for the development of processing industries in these countries.

It is also necessary to acknowledge that diversification should be seen in a broader context and not strictly within the product presently receiving preferences or even within agriculture. The objective should not always be to diversify to activities that would necessarily lead to making up the losses in export earnings as a result of preference erosion but to activities that would help rural households to earn a living. Import substitution, especially in food production, could be the most effective diversification activity in many cases. Also, it has been the experience from other countries that growth in rural employment often comes not only from agriculture itself but, more importantly, from non-agricultural activities, as well as investment in education and vocational training to increase employability outside agriculture. Thus, it is essential to think more broadly about diversification. It is not simply alternative means of generating foreign exchange but ways and means to increase the employment opportunities of rural households.
Finally, in view of the expected deterioration of the terms of trade for SIDS between the products they export and the food commodities they import, an important consideration is mechanisms to assist them in years of high world prices of basic foodstuffs. In this connection, the Marrakesh *Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries* is long overdue and it is one area in the negotiations on agriculture that SIDS could join forces with other interested developing countries to ensure that the Decision is effectively implemented without further delay.