STATEMENT BY MARTIN KHOR,
DIRECTOR, THIRD WORLD NETWORK
at the UN ECOSOC High Level segment opening session on 30 June 2003, Geneva

We congratulate ECOSOC for choosing the theme of promoting an integrated approach to rural development for poverty eradication and sustainable development. Most people in developing countries live in rural areas and depend on agriculture.

We do need an integrated approach to rural and sustainable development, incorporating the economic, social and environmental aspects. In a paper on sustainable agriculture, the Third World Network has set out its views on this integrated approach.

In today's session, many speakers have rightly focused on the WTO's agriculture agreement. It is an instrument that is imbalanced, giving special and differential treatment to the developed countries, allowing them to continue the high protection, while pressurizing developing countries to liberalise more.

For example, developed countries can continue to maintain high subsidies, but developing countries that did not have subsidies or have only low subsidies cannot raise them. Developed countries are able to avail themselves to the "special safeguard mechanism" (of special protecting against import surges) as they went through a "tariffication" process but most developing countries do not have access to it. Many developing countries have also been subjected to rapid agricultural tariff reduction due to loan conditionalities of the IMF and World Bank. Cheap imports are swamping into many developing countries, displacing the livelihoods of poor farmers.

A major flaw in the WTO agriculture agreement is in categorizing subsidies into trade-distorting domestic subsidies (the amber box) which have to be reduced, and non- trade distorting subsidies (blue and green boxes) which escape disciplines and thus can be increased. This has allowed the rich countries to maintain or raise their very high subsidies by switching from one kind of subsidy to another. It is like a magician's trick, to have the subsidies disappear from one box, to re-appear again in some other box.
This is why after the UJruguay Round the total amount of subsidies in OECD countries have gone up instead of going down, despite the apparent promise that Northern subsidies will be reduced.

The so-called blue box and green box subsidies can be just as trade distorting or even more so. In the old system, the distortion takes place mainly through the Northern government paying higher prices to theie farmers, who then sell in their domestic market as well as export with the aid of export subsidies. In the new systems, the government payment of higher prices may stop, and the farmers may even sell in their domestic market at close to world market prices and they can even export now without an export subsidy. Yet their cost of production is higher than the price they receive. This is made up for by the receipt of various kinds of subsidies. The result is that the farmer gets enough revenues to remain in business, this time in the form of various government grants instead of in the form of higher prices. But it is wrong to call this non trade distorting. The protection is better disguised, but the effect is the same. In some cases it is even worse as the inefficient farms or food companies can sell at lower prices to developing countries, even without the help of export subsidies.

The high Northern subsidies (together with high Northern tariffs) have three negative effects on developing countries: (1) they prevent market access for developing countries' products in the North; (2) they prevent market access for developing countries' products in third markets; (3) more seriously, they allow high-cost products to be exported at artificially cheap prices to swamp the markets of many developing countries, threatening the livelihoods of farmers.

The third effect is the most serious. Due to structural adjustment policies and the WTO agriculture agreement, many developing countries have had to forgo their quantitative restrictions, reduce their tariffs, and dismantle their domestic subsidies, marketing boards and government purchase schemes. The result has been income instability for the farmers and the reduction of prices of imports. Many millions of farmers are already affected by the dumping of high-cost artificially-cheap products into their markets. There are many case studies showing this, including the 28 cases studied by the FAO. NGOs and academics have also collected many cases of the effects of import liberalization on Third World farmers. Among those affected are Jamaica, Guyana, Sri Lanka, Indonesia, Philippines, India, Mexico, and many African countries, for products such as rice, potatoes, chickens, oinions, vegetables. In China, many millions of farmers also face a degree of uncertainty over their future as import duties have fallen after its accession to the WTO. Products that have been affected such as rice, potatoes, chickens, oinions, vegetables.

Re-negotiation of the agriculture agreement is going on at the WTO. Developing countries have called on the rich countries to really reduce their subsidies, including the "green box" subsidies. But the latest draft of the "modalities" give freedom to the rich countries to continue with green subsidies without restraint. Moreover, the US and EU policies on domestic subsidies are determined by internal policies and politics and will hardly be affected by the demands of developing countries or the Cairns Group of exporters in the WTO.

Therefore it is imperative that developing countries be allowed to defend themselves against the immoral and aggressive onslaught of those who seek to enter their markets at the expense of the livelihoods of the farmers. We propose that in the WTO:

(1) Developing countries should not be subjected to further tariff reduction for food products and for products of small farmers. They should be allowed to raise their tariffs beyond the bound rates if needed to defend against cheap imports. (2) For these same products (food and other products of small farmers), developing countries should be allowed to raise their domestic subsidies. (3) For other products, developing countries should also enjoy similar flexibilities if they are of strategic importance; (4) The special safeguard mechanism should be made available to developing countries in general; (5) Developing countries should be allowed to revert to the use of quantitative restrictions on food products and products of small farmers, at least so long as the high Northern subsidies remain. These should be incorporated in the modalities that are currently being negotiated. It is most unethical if those countries that are protecting and promoting their farm sector should deprive developing countries the right to defend themselves.

As for the World Bank and the IMF, it is now better known that their loan conditionalities on trade and agriculture have been inappropriate and unfair. They should not prevent developing countries from raising their applied tariffs to the bound rates, as is their legal right under the WTO. They should not ask these countries to reduce or eliminate government subsidies to farmers, or government purchase or procurement of farmers' products.

It is time to rethink the international design of policies either at the WTO or the international financial institutions, as these have such impacts on the lives of rural people and the prospects of rural development in the developing world.

[This statement was read from the floor during the Ecosoc high-level session of 30 June 2004]