

FAO-Italy Government Cooperative Programme

Project GCP/SYR/006/ITA



**Assistance for Capacity Building through Enhancing
Operation of the National Agricultural Policy Centre**

Options for Reforming Syrian Agricultural Policy Support Instrument in View of WTO Accession

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Damascus, October, 2004

This study was conducted under Project GCP/SYR/006/ITA in close collaboration with the NAPC. However, opinions and judgments expressed are the authors' only. The FAO Project proposes the text as contribution to the discussion on the subject among scholars and policy makers.

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Executive Summary

The Syrian government is conducting several economic and legislative changes in order to enhance its integration in the international economy and facilitate accession to WTO. Accordingly, the related ministries are assessing the current situation and proposing options for further changes. In this context, the Syrian Ministry of Agriculture and Agrarian Reform has established a Commission to review Syrian agricultural policies and the structure of the Ministry.

This study is intended to assist policymakers by

- providing information on the impact of Syria's current subsidy policies and reform process,
- assessing the consistency of Syria's subsidies with current and future international obligations, particularly the WTO Agreement on Agriculture,
- developing potential options consistent with the WTO, and
- evaluating the effectiveness of the potential options in achieving the policy objectives for the sector.

The study is **not** intended to provide a negotiating strategy for Syria. The information provided may help develop such a strategy. The study uses the current WTO Agreement on Agriculture as the basis of assessment. It is recognized that the current Agreement is in the process of re-negotiating, but the conclusion is unknown at this stage. The study notes that the WTO has agreed on a Framework for Establishing Modalities in Agriculture, the final modalities are still a matter of speculation.

Agricultural policies in Syria have changed gradually, but significantly, since the 6th Five Year Plan of 1986-1991. Central planning has been replaced by an indicative planning process for most agricultural products. A more liberal trading system has evolved, input subsidies have been reduced for key inputs of fertilizers and chemicals, and consumer subsidies have been eliminated for some products, but remain for flour, sugar, and rice. Private sector companies are competing with many of the public sector companies, but many regulations remain on production, pricing, marketing, processing and trade. Most of the support for agriculture is derived from market price supports of strategic commodities, and particularly cotton and wheat.

The study was undertaken in a series of steps, in close cooperation with the FAO Project Chief Technical Advisor and the Director of the National Agricultural Policy Center, leading to a final report.

The **first** phase of work was an extensive review and analysis of the recent reports on agricultural policy in Syria, as well as information on subsidy and trade policy analysis from studies conducted in other countries and international organizations.

The **second** phase of work was a series of interviews with key stakeholders, designed to identify priority policy issues and feasible policy options for analysis. The **third** phase involved the development of a set of policy options, compatible with the WTO, and their evaluation. The

fourth phase involved the presentation and discussion of the preliminary results to stakeholders in a workshop. The **final** phase of the project was the development of the report with recommendations.

Many of the subsidy programs currently operated in Syrian agriculture are consistent with the WTO Agreement on Agriculture. A number of these programs are identified as 'green' or non-trade distorting. These include the infrastructure programs such as irrigation projects, land reclamation, utilities, etc. Also, the general services such as research, information, and extension are considered as non-trade distorting.

As a result of Syria's developing country status, input subsidies, are permitted, if generally available to low income or resource poor farmers. Syria has eliminated many of the subsidies for fertilizers and chemicals, but maintains extensive water subsidies, mainly (80 percent) for wheat and cotton. Credit (mainly for cotton, wheat and other strategic products) and energy (for all sectors) are also subsidized. Consumer subsidies, with a defined nutritional objective are also allowed. Syria provides subsidies on standard quality wheat, and provides ration cards for low priced sugar and rice. Export bans are acceptable, if the country is not a net exporter of the commodity concerned.

There are a number of agricultural support programs operating in Syria which provide considerable support that are **not acceptable** to the WTO. These include the quantitative import barriers such as bans, restrictive licensing requirements, and monopoly importers. Such restrictions have to be eliminated. During the Uruguay Round, members converted these quantitative import restrictions into tariffs (called tariffication), providing 'equivalent' levels of protection. As well, they were required to guarantee a minimum level of access, generally through a lower or zero tariff. For developing countries, the minimum level of access is 4 percent. Some new entrants to the WTO have been allowed a tariffication process, but only for a defined period. Most have bound tariffs at recent applied levels.

Syria's subsidy programs for the seven strategic commodities are consistent with the WTO, but are subject to limits. Syria has a market price support program for these commodities-- cotton, wheat, sugar beets, tobacco, barley, lentils, and chickpeas, with consumer and export subsidies to dispose of any surpluses. These are considered to be 'amber' or trade distorting type of programs. If the transfers from government and consumers exceed 10 percent of the value of production, they must be capped and reduced over time. Export subsidies are permitted, within limits, under the current Agreement, but are unlikely to be allowed, except for a brief adjustment period, for new countries joining the WTO.

The market price support programs are intended to provide a cost of production plus profit to producers. For lentils, and chickpeas, support prices are currently below world levels, and these products generally operate in a free market environment. Producers must market cotton, sugar beets and tobacco to state trading agencies. The majority of wheat is also marketed to state trading agencies. Syria provides cotton to domestic users at world prices, and exports the remainder using export subsidies. Standard quality wheat is sold to domestic consumers at below world market levels, while high quality wheat commands a premium. Surpluses of wheat are either maintained in storage for potential years of drought, or increasingly, exported by means of an export subsidy. Sugar beets are purchased at well above equivalent world sugar prices, processed by state operated refiners and sold to consumers at below world prices (using ration cards). Private firms import sugar at world prices. The tobacco market is managed by a state agency which exports high quality tobacco and imports certain qualities for blending purposes. Transfers from government and consumers for cotton, wheat and sugar beets likely exceed the 10 percent *de minimum* level and would have to be reduced according to an Aggregate Measure of Support schedule.

State trading agencies, such as those operating in Syria, are permitted by the WTO, but these agencies must operate consistent with WTO rules on market access, domestic support and

export subsidies. These include losses from operations. Developing countries are allowed very liberal allowances, however, on the inclusion of certain domestic marketing costs in the calculations of export subsidies. Syria's state trading enterprises would no longer be able to control imports and exports, and would need to be more open and transparent on sales and marketing costs.

The project involved a series of interviews with stakeholders to obtain information on the policy orientation, objectives, and instruments currently applied in Syrian agriculture. The interviews obtained information on policy priorities, issues and criteria for evaluation of policy options. In addition, they allowed some initial reactions to policy options. The interviews confirmed the irrevocability of the decision on Syria's entry into the WTO. Issues raised included the importance of food security, and the need for maintaining employment in agriculture. There was recognition that changes were required for state trading enterprises, the marketing system, and the credit market. There were a variety of views current subsidies, particularly input subsidies.

The study examined three options as well as the status quo. In addition, there were two variations on two of the options. These options were:

- Status quo
- Tariffication of quantitative import barriers
- Input subsidies, with and without requirements of production
- Direct, decoupled payments, with and without requirements of production

The study examined the implications for seven commodities or groups of commodities:

- (i) Strategic commodities (operate under market price supports)
 - cotton (major export commodity, export subsidies)
 - wheat (periodic export, critical to food security)
 - sugar beets (small, largely domestic)
 - tobacco (small, largely domestic)
 - barley, lentils, chick peas (private sector, competitive, export)
- (ii) Non Strategic commodities (no price supports provided)
 - export commodities (may be seasonal variations)
 - import commodities (may be seasonal variations)

For each of these options, there were a number of criteria which were used for their evaluation. The criteria were established largely from a review of the policy objectives identified for Syrian agriculture. These criteria were discussed with stakeholders and were generally accepted. These criteria include:

- Consistency with the WTO
- Commodity prices
- Domestic production
- Domestic food consumption
- Net trade position (exports less imports)
- Rural incomes
- Government expenditures
- Rural employment

- Productivity
- Distributional effects on commodities, consumers, producers

Status Quo

Some of the current aspects of Syria's subsidy programs are inconsistent with the WTO rules, such as those relating to quantitative import barriers. Other programs, while consistent with current rules, may have to be capped and reduced over time. Moreover, based on the experience of countries, such programs as market price support, export subsidies, and certain features of the state trading organizations may not be allowed.

Production of the strategic commodities is increased through the use of market support prices, especially for cotton, wheat, and sugar beets. Production of non-strategic commodities is increased through the use of quantitative import barriers.

Consumption of some non-strategic import commodities is reduced by import bans and restrictive import licensing, while domestic consumption of commodities such as wheat, sugar, and rice is augmented through the use of consumer subsidies.

The level and composition of exports are heavily affected by export subsidies, the increased domestic production from the market support programs, import barriers, as well as the increased consumption from the consumer subsidy programs.

Tariffication

Converting quantitative import barriers into tariff, called tariffication, would keep commodity prices at a similar level as the status quo for all of the strategic commodities, except for cotton. Cotton producer prices would decline to world levels. As a result, cotton production would decline about 10-20 percent, cotton exports would decline 15-30 percent, and income to cotton producers would decline sharply. Prices, production, consumption and trade would not change much for other commodities. Government payments to cotton producers would be reduced, while payments to other commodities would be similar (with the exception that the marketing losses for wheat could be reduced).

Inputs Subsidies (Production required)

Providing increased input subsidies in place of market price supports and import restrictions would result in all commodity prices declining to world levels. The input subsidies would be targeted to those commodities affected by the loss of market price support and import restrictions. Producers would be required to continue in production in order to receive the subsidized inputs. The lower market **prices** would be offset by reduced production costs. Thus **production, consumption, and net exports** would remain at a similar level as the status quo for most commodities. The non-strategic importable commodities would likely be affected the most as consumption would increase, while production would decline, as it would be difficult to target producers affected by the lower prices. In some cases (i.e., sugar), production input subsidies would not be sufficient to maintain production, and processing subsidies may be needed as well.

Inputs Subsidies (Production NOT required)

In contrast to the previous option, producers would NOT be required to continue in production in order to receive the subsidized inputs. Input subsidies would still be targeted to those commodities affected by the loss of market price support and import restrictions. It would be intended that the lower market **prices** would be offset by reduced production costs. Since producers could allocate the inputs to any commodity, **production** would decline sharply for those commodities experiencing price declines—e.g., cotton, wheat, sugar beets and non-strategic importable commodities. **Domestic consumption** of cotton, wheat, and sugar would not change as prices would remain the same for these consumers. It is expected that cotton

production would decline by 10-20 percent, wheat by 20-25 percent, and sugar beets by 100 percent. Similarly **net exports** of these commodities would decline in line with production reductions. The changes for non-strategic importable commodities would likely be affected in a similar way as the previous option, since in that case it was difficult to target producers affected by the lower prices.

Decoupled Direct Payments (Production required)

Decoupled direct payments would be targeted to those commodities affected by the loss of market price support and import restrictions. Producers would be required to continue in production in order to receive the payments, which are acceptable under current WTO rules (but current proposed revisions to the WTO Agreement on Agriculture would treat these payments as trade distorting). The lower market **prices** would be offset by direct payments. Thus **production, consumption, and net exports** would remain at a similar level for most commodities. The non-strategic importable commodities would likely be affected the most as consumption would increase, while production would decline as it would be difficult to target producers affected by the lower prices.

Decoupled Direct Payments (Production NOT required)

In contrast to the previous option, producers would NOT be required to continue in production in order to receive the direct payments. Decoupled direct payments would still be targeted to those commodities affected by the loss of market price support and import restrictions. Producers would NOT be required to continue in production in order to receive the payment. It would be intended that the lower market **prices** would be offset by the direct payment. Since producers could allocate their resources to any commodity, **production** would decline sharply for those commodities experiencing price declines—cotton, wheat, sugar beets and non-strategic importable commodities. **Domestic consumption** of cotton, wheat, and sugar would not change as prices would remain the same for these consumers. It is expected that cotton production would decline by 10-20 percent, wheat by 20-25 percent, and sugar beets by 100 percent. Similarly **net exports** of these commodities would decline in line with production reductions. The changes for non-strategic importable commodities would likely be affected in a similar way as the previous option, since in that case it was difficult to target producers affected by the lower prices.

Preferred Option

The results of the analysis indicate a range of impacts among the options. Thus, the preferred policy options differ by commodity. These would be:

- Cotton. Direct payments, with the requirement to produce cotton, would be preferred, as production, exports, and incomes to cotton producers would not be negatively affected, and information exists to identify current holders of production licences. A second best option (and consistent with the proposed changes to the WTO Agreement on Agriculture) would be to exclude the requirement to produce cotton in order to receive the direct payments.
- Wheat. The tariffication option would be preferred, as production, prices, and incomes would remain similar. This is the most effective policy to maintain production. Administrative requirements for implementation are well-established.
- Sugar and tobacco. The tariffication option would be preferred, as production, prices, and incomes would remain similar. This is the most effective policy to maintain production, and administrative requirements for implementation are well-established. Direct payments could also be used, with the requirement to produce sugar and tobacco, as production and incomes to sugar and tobacco producers would not be negatively affected, and information exists to identify current holders of production licences.

- Non-strategic import commodities. The tariffication option would be preferred because production, prices, and incomes would remain similar. This is the most effective policy to maintain production, and administratively, the simplest.

Syria has reduced its dependence on the use of **Input subsidies** to support agricultural producers. Input subsidies are the most production distorting type of support policy, and an ineffective means of expanding output or transferring income. Much of the transfers from government accrue to input suppliers. It is environmentally damaging, affecting the health and safety of rural residents and consumers, and may be unsustainable in the case of a scarce resource such as water. It would be considered a regressive step for Syria to revert to providing more input subsidies.

Liberalization of agricultural markets establishes tighter linkages with international market prices for producers, increasing the likelihood of greater commodity **price fluctuations**. Syria may need to examine additional means to reduce the risks of price instability, consistent with WTO obligations. The state trading enterprises could reduce the within year price instability. A **safety net** program could be considered for those commodities operating with direct payments to producers.

The main **beneficiaries of the transfers** under the subsidy programs considered in this study are the landowners. Thus, the largest land holders get the largest transfers. In the case of the input subsidies, it is also the input suppliers that are important beneficiaries. Many of the farms in Syria are operated by renters and sharecroppers (estimated to be 40-50 percent). The Agricultural Reform Law and the Agricultural Relations Law issued in 1958 established principles for sharing crop revenues. The application of these principles to sharing direct payments would also be necessary. In some cases, these crops are produced on state land, rented against symbolic fees, and revenue sharing would, presumably, be similar as under private rental agreements.

The recognition of the need for **product quality** enhancements will come from increased international competition. In fact, the GAFTA has already demonstrated the pressures for such improvements, as imported products are paid large premiums in the market place. Rural incomes would be significantly improved by adoption of world class quality standards. Support policies could be used to encourage improvement in product quality.

Food security is a fundamental concern of policy-makers in Syria. It is widely recognized that food security is best provided through lower food prices and improved access to food in a globally competitive agriculture and food market. WTO entry would provide improved guarantees for food security. Policy changes associated with entry into the WTO may improve rural incomes. Syrian consumers spend a large part of their income on food, and thus small savings can generate a big increase in the disposable income, improving their food security.

The current study outlined a set of options, consistent with the WTO Agreement on Agriculture, and consistent with the objectives of industry stakeholders in Syria. The analysis of the impacts of the options provided policymakers with some qualitative information for prices, production, consumption, trade, rural incomes, and government expenditures for the major commodities and commodity groups. Some of the results suggested relatively large adjustments for certain commodities. It would be important for policymakers to have more precise, quantitative information on the impacts, as well as the resource shifts among the commodities, and sector-wide impacts on agricultural trade, rural incomes, and government agricultural expenditures

Introduction

The Syrian government is conducting several economic and legislative changes in order to enhance its integration in the international economy and facilitate accession to WTO. Accordingly, the related ministries are assessing the current situation and proposing options for further changes. In this context, the Syrian Ministry of Agriculture and Agrarian Reform has established a Commission to review Syrian agricultural policies and the structure of the Ministry. This study is intended to assist policy makers by providing information on Syria's current subsidy policies, their consistency with current and future international obligations, other potential options, and their effectiveness in achieving the policy objectives for the sector.

Agricultural policies in Syria have changed gradually, but significantly since the 6th Five Year Plan of 1986-1991. Central planning has been replaced by an indicative planning process for most agricultural products. A more liberal trading system has evolved, with a simplified tariff system, reduced tariffs to a number of countries, and elimination of a number of licensing requirements and regulations. Input subsidies have been reduced for key inputs of fertilizers and chemicals. Private sector companies are competing with many of the public sector companies. Consumer subsidies have been eliminated for some products, but remain in place for flour, sugar, and rice. Lower consumer prices for wheat products are maintained by subsidized sales of wheat and flour by state agencies, while sugar and rice subsidies are provided directly to consumers through ration cards. Guaranteed output prices, however, have been increased, above world market levels for several strategic crops. Many regulations on production, pricing, marketing, processing and trade remain.

The World Trade Organization (WTO) Agreement on Agriculture, in the Uruguay Round was a milestone for agriculture, effectively bringing it, for the first time, under the rules and disciplines of the WTO. The Agreement provided for reduction in support and protection in three areas--market access, domestic support and export subsidies. These new rules limit the agricultural policy options available to countries, and Syria will be required to demonstrate its compliance during the negotiations for its entry into the WTO.

This study will address a number of specific questions related to agriculture subsidies. These include:

- Are the current subsidies and regulatory programs consistent with Syria's current and pending international obligations?
- What program alternatives are available that are WTO compatible?
- Do the current subsidies and regulatory programs respond to the sector objectives for self-sufficiency, productivity enhancement, employment generation, affordable food consumption, and export expansion?
- Are there more effective/lower cost program options?
- Do the current subsidies target the right group of producers, consumers and commodities?

Study Objectives

The terms of reference provide the following objectives for the study:

- Review the on-going process of agricultural policy formulation and reform with a view to identifying key stakeholders and their standings;
- Review strategic orientation, objectives and instruments of current Syrian agricultural policy setting with special reference to direct and indirect agricultural subsidies on agricultural products, water use, credit, production inputs (e.g. seeds, agrochemicals, fuels, electricity) and agricultural support services;
- Assess the impacts of the current agricultural support system on agricultural incomes and employment, resources allocation and productivity, and, to the extent possible, the government budget;
- Assess compatibility of the current policy setting with WTO regulations and identify changes in instruments of policy interventions and in level of support that might be required as a result of Syrian adhesion to the WTO;
- Formulate and critically present alternative options for WTO-compatible agricultural policy interventions, which are able to preserve current agricultural policy objectives with special reference to agricultural employment and support to agricultural incomes;
- Discuss findings and recommendations in meeting(s) with key stakeholders;
- Prepare a report on activities carried out outlining main findings, and recommendations.

The study is **not** intended to provide a negotiating strategy for Syria. The information provided may help develop such a strategy. The study uses the current WTO Agreement on Agriculture as the basis of assessment. It is recognized that the current Agreement is in the process of re-negotiating, but the conclusion is unknown at this stage. The study notes that the WTO has agreed on a Framework for Establishing Modalities in Agriculture, the final modalities are still a matter of speculation.

Study Approach

The study was undertaken in a series of steps, in close cooperation with the FAO Project Chief Technical Advisor and the Director of the National Agricultural Policy Center, leading to a final report.

The **first** phase of work was an extensive review and analysis of the recent reports on agricultural policy in Syria. These reports provided much of the basic information on Syria's domestic and international trade policies, and its gradual transformation from a planned to a more decentralized economy. They also provided information on the implications of an increasingly deregulated approach to policy. This review of Syrian policies was augmented by information on subsidy and trade policy analysis from a number of studies, conducted in other countries and by international organizations, which were relevant to the questions to be addressed in this study..

The **second** phase of the work was a series of interviews with key stakeholder personnel, including members of the Commission on agricultural policies and structure of the Ministry of Agriculture and Agrarian Reform. These interviews, complemented and extended the earlier review, and were designed to identify priority policy issues and feasible policy options for analysis. In preparation for these interviews, an interview guide was established outlining the study, implications of WTO membership, and some policies options. This guide was provided to all those stakeholders interviewed.

The **third** phase of the study involved the development of a set of policy options, compatible with the WTO, and an evaluation of their impact. A series of evaluation criteria had been presented and discussed as part of the interviews with key stakeholders.

The **fourth** phase involved the presentation and discussion of the preliminary results of the study to stakeholders. This occurred in a workshop of stakeholders, representing the members of the Ministry of Agriculture, the Commission, other ministries, and producer organizations. Discussions were also held with the staff of the National Agricultural Policy Center (NAPC).

The **final** phase of the study was the development of the final report with recommendations. A policy note was also prepared from the study for the Minister of Agriculture and Agrarian Reform to discuss with his colleagues.

Issues Related to Integration into International Markets

Trade as Growth Engine

Agriculture represents a very large part of the Syrian economy, accounting for about 30 percent of its employment and 26 percent of its GDP¹. Thus, growth in agricultural production and trade, especially value-added trade, is essential to the expansion of Syrian GDP, employment, and incomes, as well as meeting its food security, technology transfer, quality improvement, and productivity enhancement objectives. Liberalized trade policies under the WTO Agreement on Agriculture offer an opportunity for Syria to expand trade, while improving employment, overall resource allocation and product quality. At the same time, a more liberalized trading environment presents challenges to Syria from higher commodity price variability, potential surges in food imports, and significant adjustment costs to affected sectors.

Need for Complimentary Policies

It must be recognized that for Syria, the major benefits to agriculture from trade liberalization will be best realized if domestic marketing and distribution constraints are eliminated, domestic policy adjustment occurs, and the investment environment is improved. Domestic policies and programs need to focus on fostering the appropriate enabling environment which will maximize the beneficial complementarities of trade and domestic market development. It is important for Syria to avoid the use of support policies as a means of preventing domestic adjustments. These adjustments can be essential to Syria's long term competitiveness and successful development. It is essential to recognize that domestic support policy can be an effective complement to trade policy through addressing supply constraints (for example, flexibility in production decisions, irrigation technology, and long term credit), facilitating resource adjustment programs (for example, adaptation programs, technical and marketing advice), and institutional and human resource capacity building, including skills upgrading, in the areas of new production technology, marketing and export development.

Role of Public Sector

In a more liberalized trade environment, the role of planning in the case of Syrian agriculture, changes to one of forecasting the domestic and international environment and identifying constraints preventing the economy from achieving its full potential. Individuals must be given more opportunity and assume more responsibility for decision making on the use of their resources. This requires that private decision-makers get better information on international markets and requirements. Thus, in this environment, the agricultural sector support and assistance should be geared to improve the competitiveness in those agriculture product areas that can take advantage of new market opportunities from trade liberalization. Support and assistance could facilitate advances in new technology, marketing and financial institutions, infrastructure improvements (particularly in rural areas) and personnel training.

¹ NAPC (2003), p. 56.

Productivity Growth from Trade

Trade liberalization is considered to be one of the most effective and sustainable forms of economic assistance to the agricultural sector. At the same time, complementary domestic assistance programs are important to achieve the maximum benefits from trade liberalization. Consistent with the WTO, 'green-type' assistance programs can improve the productivity of agriculture and the quality of agriculture and food products available for export. Such programs may involve targeted technology transfers, capacity building, infrastructure improvement, and market intelligence. Equally important, are support and assistance programs to improve the agriculture policy framework to allow markets to function better.

Chapter 1– Review of Current Agricultural Policies for Syria

This section provides a brief overview of the current support policies used in Syrian agriculture and provides an assessment of these policies.

1.1 Agriculture Policy Developments and Reform

1.1.1 Domestic Market Policy

There has been a series of agricultural marketing policy developments in Syria since 1986, as the sector has moved in a gradual policy liberalization process from a centrally planned environment to a mixed public/private framework. While, the food marketing and processing sector remains dominated by public sector agencies for cotton, wheat, sugar beets, and tobacco, the private sector provides these functions for most other commodities. Increasingly, agricultural production inputs, such as fertilizer and chemicals, are provided by the private sector firms.

Even with these reforms, “market distortions are abundant”². Annual plans specify crop areas for the dominant commodities of cotton and wheat, and these “production controls limit the flexibility of farmers to react to market developments and to changes in relative prices”³. A series of marketing and price controls at the wholesale level reduce the efficiency of the Syrian marketing system. Producers of cotton, sugar beets, and tobacco are required to sell their production to state marketing agencies. Most wheat (about 70 percent) is also delivered to a state marketing agency (GECPT), whereas most barley, lentils and chickpeas are sold through private marketing channels. Most fruit and vegetables are marketed by the private sector. The formal credit market is monopolized by the Agricultural Cooperative Bank.

1.1.2 Trade Policy

The agricultural sector has shifted from a relatively closed international market to a more open trading environment. Recent and proposed changes will significantly open the economy to international markets. For example, the system of entry duties has been simplified by consolidating the many pre-existing duties into a single “systematic tariff schedule” leaving unchanged the total duties paid. The exchange rate system has been simplified with a gradual move toward unification in a single rate, export tariffs on agricultural products were abolished, and regulation linking payments for imports to the availability of experts’ proceedings abolished. Moreover, export licences were abolished for most agro-food products, while import bans on agro-food products were removed for imports originating from countries that joined in the Arab free trade agreement.

² FAO (2003), p. 89.

³ Ibid, p.94

In 2001, the general tariff was reduced to 1 percent for the main commodities and industrial inputs. Also imports of fruit and vegetables have been gradually opened from Lebanon and Jordan and, since 1998, from all Great Arab Free Trade Agreement (GAFTA) members. This treatment will be extended to include all countries involved in trade agreements with Syria, such as the Association Agreement with the EU and the Trade Agreement with Turkey.

Under GAFTA, it is expected to achieve full trade liberalization by 2005. Within this framework, Syria has bilateral agreements accelerating the pace of trade liberalization with Lebanon, Jordan, Saudi Arabia, and UAE.

Syria, one of the founders of the GATT in 1948, withdrew, and now has applied for membership in the WTO. Its application was formally accepted in 2003 (Cancun Meeting of Trade Ministers). This application has implications for the agricultural policy reform process because of certain compatibility requirements from its application for entry into the WTO.

Perhaps most important from a trade facilitation perspective are the negotiations on the Association Agreements with the European Union. Such changes offer significant opportunities for trade expansion, requiring many of the same trade policy and regulatory changes as membership with the WTO. It goes beyond the WTO in certain aspects, but does not require domestic policy changes.

Syria is also in negotiations with Turkey and Iran on a preferential trade agreement. These latter negotiations may require some further policy changes, but more importantly, will intensify the pressure for Syria to adjust in order to take advantage of the new export opportunities.

Exchange rate controls and hard currency requirements have been a critical element affecting the competitiveness of the agriculture sector. There has been significant simplification of the exchange rate through the elimination of various categories.

1.1.3 Policy-making Process

There is considerable institutional fragmentation in agricultural and food sector decision-making. Several ministries and agencies are involved in agricultural policy in addition to the Ministry of Agriculture and Agrarian Reform. These include Ministries of Irrigation, Industry, Finance, Economy and Trade, and the State Planning Commission. Formal horizontal coordination of agricultural issues occurs at the Cabinet of Ministers, which restricts Agriculture's role and limits its flexibility in the decision-making process for the sector.

1.2 Overview of Current Support to Syrian Agriculture and Food Sector

As noted, there have been a series of policy changes since 1987 and these changes have continued through to the current period. This section examines several categories of support: input subsidies, market price support, export subsidies, consumer subsidies, general services and infrastructure subsidies.

1.2.1 Input subsidies

During the 1990's, subsidies were reduced for many of the purchased agricultural production inputs. There is virtually no subsidy for chemicals and fertilizer. The subsidy for seeds is limited to the strategic crops. Subsidies remain for credit, electricity and fuel (across the whole economy), and water. For water, most of the irrigated land (80 percent) is used for cotton and wheat. Wheat has accounted for most of the additional irrigated land since 1990. Loans for agriculture pay interest rates which are up to one-third less than that paid by the industrial sector.

1.2.2 Market Price Support

Most support to the agricultural sector in Syria comes from the support prices, offer-to-purchase programs, and consumer/export subsidies for wheat, cotton, sugar, and tobacco. These four crops account for almost half of the output and nearly three quarters of the cultivated land area in Syria. Market price support, in recent years, has varied in relation to world prices, and some devaluation of the currency. Producer prices have remained relatively unchanged, and so the level of support has varied significantly by commodity. For wheat in 1999, the subsidy represented about 64 percent of the local equivalent of the world price.⁴ For cotton, the subsidy represented 53 percent of the local equivalent of the world price.⁵ International prices for both of these commodities (especially wheat) have increased since 1999, but domestic prices would appear to remain well above world levels.⁶ In contrast, the domestic textile industry paid 51 percent more than the equivalent foreign market prices. This cotton policy changed in 2001, and the domestic industry now pays a price close to world market levels. For sugar beets, producers receive a price that is approximately three times the equivalent import price.

Central pricing of the four commodities is intended to reflect their cost of production, plus a profit margin. Of these commodities, only cotton is an important export crop. Wheat production has increased and Syria is now a small net exporter (49 thousand tons, average 1999-2002), depending on climatic conditions. Domestic prices are maintained by import controls and an offer-to-purchase program. Products acquired by the purchase programs generally involve export or consumer subsidies (or losses to state trading enterprises) in the disposition of products acquired by state agencies.

1.2.3 Consumer subsidies

Limited information exists on the size of consumer subsidies. Consumers are provided with low priced, standard quality wheat flour through subsidies provided by the various storage, milling, and baking state agencies. It was estimated by Westlake⁷ that domestic consumer prices for these products were about 20 percent below import equivalent prices, in 1999. High quality wheat and flour is not subsidized and generally sells at more than double the price of the standard quality flour and bread. Sugar and rice consumer subsidies operate by means of ration cards (1.5 kg of sugar and 0.5 kg of rice per capita per month). Consumers receive their ration card sugar at 45 percent of the equivalent world sugar price.

1.2.4 Export subsidies

As noted above, export subsidies are required for these strategic commodities, whose prices are above world levels, and are exported. Cotton is the main commodity which is exported, although increasingly, wheat is also exported. Tobacco and sugar beets are largely domestic commodities, although some high quality grades of tobacco are exported and some imports are required for blending purposes

1.2.5 Taxation

While some commodities in the agriculture and food sector receive support, there may be others than are effectively taxed. These include numerous taxes, fees and direct charges, although many of these have been reduced or eliminated in recent years, such as the 9.5 percent export tax in many commodities (e.g., chickpeas, lentils, barley), in 2001. There are a number of restrictions on the production of various commodities as a result of the planned areas. Thus,

⁴ FAO (2003), p.147

⁵ *ibid*, p. 150.

⁶ FAO International commodity prices.

⁷ *Ibid*. p147

producers are restricted from taking advantage of potentially more profitable alternative commodities.

Most importantly, the agriculture marketing and processing sector is characterized as inefficient, outdated, and fragmented. Cost of certain inputs, like packaging are protected by high tariffs. Marketing margins (retail minus farm level prices) are high, effectively taxing the agricultural production sector. With limited competition in the marketing and processing sector, there is no incentive to improve performance.

Wehrheim⁸ estimated that Syria provided **negative** market price support during the 1990s for a number of fruits (apples, apricots, oranges), potatoes, olive oil, poultry, and particularly tomatoes and sheep.

1.3 Assessment of the Impacts of Syrian Agricultural Subsidies

1.3.1 Production input subsidies

Production input subsidies refer to the provision of variable production inputs (e.g., fertilizer, chemicals, credit, and water) at less than full market prices, with government assuming the cost of the difference between the market and producer cost. In Syria, production input subsidies were prevalent up to the 1990s when the government started a process of gradual reduction.

Fertilizer and chemicals are provided by state agencies based on amounts identified as part of the plan, mainly for strategic crops. Private sector firms provide the remainder of the requirements. Credit is provided by the Agriculture Credit Bank at rates less than it is provided to firms in the non-agricultural sector. Most loans are short term and go to the producers of cotton and other strategic crops. The fee paid for the maintenance and operation of public irrigation schemes may represent only one-third of the actual cost.

Advantages. An advantage for the use of production input subsidies is the long experience which Syria has had with their application. As well, there is general acceptance by government and industry stakeholders in the sector on their use. Inputs subsidies are easier to administer than many other types of subsidies. This is a critical consideration given the large number of farmers in Syria and the lack of program administration experience in the Syrian public sector.

According to the OECD, land owners are the main beneficiaries of most crop support subsidies, but input subsidies provide fewer benefits, for example, than market price supports or direct payments to land owners.⁹

Importantly from a WTO perspective, these types of subsidies, if generally available, are exempt from the WTO Aggregate Measure of Support calculations for developing countries, like Syria.

Disadvantages. The main disadvantage of the use of inputs subsidies is that they are one of the most trade and production distorting types of subsidies. Input subsidies are not as effective as subsidies tied to commodity output in increasing production. They are the least efficient type of subsidy in transferring income to farm households. The main beneficiaries of the income transfers are the suppliers of the inputs.¹⁰

Farmers tend to overuse these inputs, causing environmental problems such as soil salinity and chemical contamination of soils, water and products. In the case of water, such overuse may not be sustainable. Credit subsidies tend to be captured in higher land (and other fixed asset) prices. The government distribution system for fertilizer has not always been consistent in its ability to deliver the desired quantity and quality of inputs in a timely manner. The credit system has not provided adequate levels of medium and long term credit for farmers.

⁸ Wehrheim (2001), p. 58.

⁹ OECD (2001)

¹⁰ Ibid.

Variations on Administration. There are some options to improve the delivery of the inputs subsidies. Increasing the opportunity for the private sector to provide inputs might improve the efficiency of the distribution process. The private sector participation could take the form of producer input supply cooperatives or public-private partnerships.

Water might be subsidized, the most, for those farmers using modern, water saving technology such as drip irrigation. Other types of ‘tied’ assistance for access to low priced inputs might be developed in order to encourage adoption of new technology or good environmental practices.

Governments could consider allowing more private sector competition and improving the public sector role of monitoring prices and quality of the input sales. Such public sector monitoring would be designed to indicate whether or not the market was working well.

1.3.2 Market price support

Market price support programs are similar to those programs provided for the seven strategic commodities. Support is provided through domestic prices established at above world market levels. Domestic prices are maintained through offer-to-purchase programs by government agencies, combined with high tariffs/import restrictions. Commodities acquired are sold by government agencies, often using export subsidies or consumer subsidies. The transfers to agricultural producers come from either the consumers for the domestic consumption (sold at above world prices), or from the public sector for the export subsidies (including losses by state trading companies) and for the consumer subsidies.

Advantages. An advantage of market price support is that it is the most effective means to expand the production of commodities (compared to input subsidies or direct payments). These types of programs are easier to administer than many other types of programs, particularly with a number of state trading enterprises in Syria which carry out these functions. The WTO Agreement on Agriculture allows developing countries very liberal allowances in calculating losses for the state trading enterprises (Art 9.1 (d) and (e)).

Disadvantages. The main disadvantage of these types of programs is that they are considered to be the least effective means of transferring income to farm households.

These types of programs are classified as ‘amber’ under the WTO Agreement on Agriculture, so that payments under this type of program would have to fall below the 10 percent *de minimus* level to be exempt from reduction requirements. Moreover, generally, these programs have to be supported by trade intervention—such as tariffs or import quotas, and these types of programs are either not permitted under the WTO Agreement on Agriculture (nor under the GAFTA), or are subject to reductions.

This type of program does not work well for highly perishable export commodities like most of the fruits and vegetables. They would require an offer to purchase and export disposal program.

Variations on Administration. There some options to improve the delivery of the market price support subsidies, such as using them for better guide on market requirements rather than cost of production, and encouraging quality production.

1.3.3 Consumer subsidies

Advantages. An advantage of consumer subsidies, as they are provided in Syria, is that they are permitted under the WTO for developing countries, under certain conditions (Annex 2, paragraph 3 and 4). The benefits of the subsidies accrue to Syrian consumers not foreign importers. Consumer subsidies may be relatively easy to administer as Syria has a number of state trading enterprises capable of providing such subsidies. As Syrian consumers spent about 35 percent of their income on food, price reductions provide an important addition to their welfare.

Disadvantages. The disadvantage of consumer subsidies is that they are available for everyone to receive—whether or not they are needed. WTO conditions suggest that they should be targeted to achieve “nutritional objectives”. Syrian consumer subsidies may come under scrutiny by the WTO because of their lack of targeting. Moreover, they would have much more of an impact if they were larger than current subsidies and they were targeted to those most in need.

Variations on Administration. There are some options to improve the delivery of the consumer subsidies. If subsidies were provided to only low income families, using the ration card approach, then the benefits would be greater.

1.3.4 Direct Decoupled payments

Direct decoupled payments are paid to producers based on historic production levels, NOT related to (i.e., decoupled from) current production. For example, payments could be based on acreage or headage of livestock. Such programs would represent a new policy approach for Syrian agriculture. While such programs, in various forms, are commonly used in developed countries, they are generally not used in developing countries. This is largely because of the large number of participants, and the high administrative costs and complexity involved in their use. Records of production or sales are often a requirement. The Mexican ‘Procampo’ program is one of the few examples where it was implemented, successfully, in a developing country.

Advantages. The advantage of direct payments is that they are generally considered to be non-production distorting, providing the most effective transfer of income to farm households. This is particularly the case where the recipients have no requirement to plant specific crops.

These types of subsidies are permitted in the current WTO Agreement on Agriculture, under certain conditions—“no production shall be required in order to receive such payments” (Annex 2, 6e). As well, in the current Agreement, ‘production-limiting programmes’ (so-called blue box) are also exempt if they are paid on fixed area and yield.¹¹ Thus, under the current Agreement on Agriculture, Syria would be able to utilize such programs and it would not constrain expenditures. Given the more restrictive framework proposed in August 2004, and the more stringent requirements placed on new WTO adherents, such programs may be limited and subject to future reductions.

Direct payments could be used for a price deficiency support program to offset commodity low prices. These programs would operate by providing stabilization payments when market prices decline below a threshold level. Generally, they require a verifiable output for *ex post* payments.

Such types of direct payment programs could also be used for production insurance. Some production insurance programs require a verifiable historical record of production, which is possible for cotton, sugar and tobacco, sold exclusively to state agencies. For the reasons noted above, this historical record is difficult to establish and maintain on an annual basis, for other commodities. Production insurance payments for other commodities, nevertheless, could simply be based on area cultivated, adjusted for irrigated/non-irrigated, or regional differences.¹²

Disadvantages. The disadvantage of direct decoupled payments is that they provide the least impact on production. As well, under an output support program, monitoring and documentation of individual farmer’s production is required. The ability to document individual farmer’s output in Syrian agriculture is very difficult because much of the production of non-strategic commodities is marketed through informal markets, where records of transactions are incomplete.

¹¹ These types of payments are proposed to be treated as trade distorting in the proposed revisions to the Agreement on Agriculture (WTO 2004).

¹² Glauber (2004) notes that such an approach is used in a number of developing countries.

Variations on Administration. There are some options to improve the delivery of the direct decoupled subsidies. If subsidies were ‘tied’ to desired changes such as new technology, improved varieties, or environmental preservation, then objectives of productivity enhancement, environmental sustainability, or product quality improvement could be promoted.

1.3.5 Infrastructure Support.

These types of programs are provided by several ministries in Syria, most notably Ministry of Irrigation, and Ministry of Transportation. Types of programs include roads, irrigation systems, utilities, land reclamation schemes, etc. In general, this type of support is available to all users.

Advantages. The advantages of infrastructure support are that they are generally considered to be non-production distorting and provide an effective transfer of income to producers (although there is limited empirical evidence of this). These types of subsidies are excluded from the WTO Aggregate Measure of Support calculations (Annex 2, 2 (g)).

Disadvantages. One of the disadvantages of infrastructure support is that producers do not view this as support, in the traditional sense.

Variations on Administration. There are some options to improve the delivery of the infrastructure support, such as better cost/benefit analyses, or having them targeted to other objectives.

1.3.6 General Services.

These types of programs are provided for the benefit of producers by several ministries in Syria, most notably the Ministry of Agriculture and Agrarian Reform and the Ministry of Irrigation. They include such programs as research, extension, inspection, marketing, and information.

Advantages. The advantages of general services support are that they are generally considered to be non-production distorting and provide the most effective transfer of income to producers. These are considered as ‘green’ programs and thus excluded from the WTO Aggregate Measure of Support calculations (Annex 2, 2 (a)-(f)).

These types of programs have been estimated to have very high pay-offs. Returns to investments in research have been shown to be in excess of 100 percent according to many studies worldwide.¹³

Disadvantages. The disadvantage of general services is that producers do not generally consider them to be subsidies.

1.4 Compatibility of Syrian Support Policies and the WTO

1.4.1 General considerations

As a new applicant to join the WTO, entry conditions become a matter of negotiation.¹⁴ While certain trade distorting policies (amber policies) are acceptable for existing WTO members, they may not be automatically accepted for new members. Many members of WTO are critical of agricultural export subsidies, and it is highly unlikely such policies would be permitted to continue after a short adjustment period. Thus, all market access, domestic support, and export subsidy programs will come under review and have to be negotiated.

¹³ Ruttan (1982) Table 10-3, pp.242-3

¹⁴ Some of the results of the negotiations for the recent adherents can be seen in Brink (2003)

For Syria, the biggest change will be the removal of the import barriers and the exposure of the domestic market to the variability of international prices for the majority of its production of its strategic commodities—cotton, wheat, sugar beets, and tobacco.

Changes to accommodate these policy modifications will expose a number of other constraints in Syrian agricultural policies and programs, institutions, and information requirements. These constraints prevent Syria from achieving the maximum benefit from trade liberalization as a member of the WTO. The new policy environment should be one that enables a more flexible, decentralized decision-making process. This increased flexibility may help avoid some of the adjustment costs, while at the same time improve Syria's ability to take advantage of new market opportunities.

There are a number of strategic considerations relayed to joining the WTO that are not part of this study. In order to maximize benefits, nevertheless, policy makers should be aware that changes in Syrian agricultural policies taken during the period of WTO negotiations for entry may limit their negotiating strength. Thus, any reduction in support and protection may not gain any concessions in those or other areas of particular interest to Syria. Syria should be aware that many other countries used this process to raise bound tariffs substantially during the Uruguay Round, but the same level of tariff increases has not occurred for those joining the WTO subsequently.¹⁵

1.4.2 Policies Consistent with the WTO

For the most part, the Syrian agricultural support policies would appear to be consistent with WTO obligations under the Agreement on Agriculture. There are a number of policies which are exempt from inclusion in the calculation of the Aggregate Measure of Support.

The exempt programs for all countries include infrastructure expenditures (e.g., irrigation projects, roads, utilities, and land reclamation) and general services (e.g., research, extension, and information). These types of support are considered non-trade distorting or 'green' programs for all countries, and thereby exempt from inclusion in the Aggregate Measure of Support. (Annex 2). If there are infrastructure subsidies, however, which provide on-farm utilities and other infrastructure for individuals, this is not exempt.

In addition, for Syria, agricultural input subsidies, which are generally available, such as fertilizer, chemicals, credit, and water, are also exempt. This is based on Article 6.2 of the Agreement which states that "...agriculture input subsidies generally available to low-income or resource-poor producers in developing country Members shall be exempt from domestic support reduction commitments that would otherwise be applicable to such measures..."

Consumer subsidies are permitted for developing countries. They are expected to be targeted for nutritional objectives. Syrian food subsidies are generally available to everyone. Some changes may be required to exclude subsidies to high income consumers in Syria, especially for ration cards.

1.4.3 Restrictive Policies

The Agreement on Agriculture limits certain Syrian agricultural policies related to the three areas of support and protection, namely (i) market access, (ii) domestic support, (iii) export subsidies, and (iv) state trading enterprises.

Market access

All quantitative import barriers, including minimum prices, variable levies, and discretionary import licensing must be eliminated. Under the Uruguay Round, countries were permitted to convert these quantitative restrictions into tariffs, a process called "tariffication". This

¹⁵ Brink (2003).

conversion also required a minimum level of access, equivalent to 4 percent of domestic consumption, for developing countries. Thus, a two-tiered level of tariff is required, with low or zero tariffs for a minimum access of four percent, and higher tariffs for the remainder. The higher tariffs are to reflect the equivalent import protection provided by the quantitative import barrier.

It should be noted that there are limited number of new adherents to the WTO that were allowed tariff rate quotas, and all of these were scheduled to be phased out over a defined period.

Syria has a number of bans, monopoly importers, and restrictive import licensing that would have to be eliminated, with possible conversion into tariff equivalent. The basis of the selection of the equivalent tariff would need to be well documented for the purposes of negotiation. Tariffication would appear to be most important for wheat, sugar beets, and tobacco, but also for previously banned, or highly restricted, importable non-strategic commodities.

Allocation of the minimum 4 percent access has been addressed in a number of ways by other countries, including historical market shares by country or importing firm, first-in basis, auction of quotas, etc. Syria may use its GAFTA access commitments as the basis for such guarantees.

Domestic support

In principle, all trade distorting domestic support policies must be included in the Aggregate Measure of Support calculation for those commodities which exceed 10 percent of the value of production. For these commodities, support must be capped and reduced according to a specific schedule. For Syria, this includes policies like the open ended market price support programs, with prices above world levels, for several of the strategic commodities, such as cotton, wheat, sugar beets, and tobacco. Prices for other market support programs, such as those for lentils, barley and chickpeas appear to be below world levels.

Export subsidies

All export subsidies, including the losses incurred by state trading enterprises, must be identified, capped and reduced over time. In fact, it is unlikely that WTO members would allow Syria to continue any export subsidies, allowing for a brief, and well defined, transitional period. The large export subsidies for cotton would likely have to be eliminated, as well as those smaller export subsidies for wheat, and potentially any other strategic commodity, with support prices above world levels.

State Trading Enterprises

State trading enterprises, such as those operating in Syria, are permitted by the WTO. They must conform to the WTO rules related to market access, domestic support and export subsidies. The operation of Syria's state agencies will likely be scrutinized very closely to insure transparency of their operations, and some of their current activities may not be allowed. There may need to be a 'transformation' of the state trading enterprises, so that they are not only consistent with WTO requirements, but also become the policy mechanism to carry out new programs (e.g., direct payments, production insurance).

Likely outcomes of current negotiations

The current round of agricultural trade negotiations, as part of the Doha Development Agenda, achieved a milestone with the acceptance of a Framework for Establishing Modalities in Agriculture on August 1, 2004.¹⁶ Some of the proposed changes may affect the capability of Syria to maintain certain of its agricultural policies, or limit its options for alternative programs.

¹⁶ WTO.2004.

The framework addresses the high support levels for cotton (in the US), and indicates that they will be reduced according to the schedule adopted. Based on recent studies,¹⁷ and earlier analysis, reductions in cotton support levels in developed countries will have a minor impact on world prices and hence, market price support levels for Syria.

The so-called 'blue box' direct subsidies, currently used by the US and the EU under a production limiting provision, may become more restrictive. Countries may have to consider these payments as similar to other 'amber' programs, and thus, these payments may have to be included in the Aggregate Measure of Support calculations.

The *de minimis* level may be reduced before countries are required to notify the WTO of the Aggregate Measure of Support.

Components of the Green box may become more restrictive.

All export subsidies (including export credits) will likely be phased out. Disciplines on export restrictions may be strengthened.

State trading enterprises will be subject to more restrictions, but developing countries may enjoy special privileges for these agencies to preserve domestic consumer price stability and to ensure food security.

Developing countries may be able to define Special Products for the purposes of food security, livelihood security, and rural development needs.

¹⁷ For example, Fadiga (2004)

Chapter 2– Stakeholder Consultations

As part of the review of the strategic orientation, objectives and instruments of current Syrian agricultural policy, consultations were undertaken with policymakers, producer representatives, and industry representatives. These interviews were designed to identify policy issues and priorities, policy evaluation criteria, and sensitivities for various policy options. In addition, they provided an opportunity for capacity building by identifying those policies that were inconsistent with the WTO and potential options for their replacement.

2.1 Stakeholder Interviews

A series of in-depth consultations were conducted with ten stakeholder individuals or groups. A presentation deck on the project and policy options was prepared in Arabic to facilitate the meetings. A list of those individuals/agencies interviewed and a report on the outcomes of each interview are shown in the Annex 1.

2.2 Observations from Interviews

As a result of these interviews, the following observations can be made:

WTO entry is essential for Syria

1. All stakeholders agreed that entry into WTO was essential for Syria and there was no question about this decision.
2. All stakeholders agreed that Syria must align its agricultural policies to be in conformity with WTO requirements, but to do so in a manner that minimizes the adjustment costs and maximizes the benefits.

Food security, employment and the environment are key domestic policy issues

3. Most stakeholders cited the issue of food security as critically important for Syria, given the current political environment. In this light, wheat policies, including the state trading enterprises, were considered to be unassailable.
4. Most stakeholders felt that employment in the agricultural sector would likely remain, at least, near current levels, if not increase.
5. Several stakeholders supported the view that Syria was facing major environmental problems of soil degradation, and sustainability through water shortages.

There are conflicting views on subsidies

6. The stakeholders' views on the size and extent of the subsidies differed substantially. Most agreed that direct subsidies from government were relatively small and had declined during the past 10-15 years. Producers were not fully aware of the size and the benefits to them of the transfers from consumers, nor did they consider general services, such as research, extension, and market development as subsidies. It was

noted that, in recent years, producers had also benefited from the elimination/reduction in a number of taxes on output and duties on inputs.

Benefits of trade are recognized

7. Several stakeholders indicated that the Great Arab Free Trade Agreement (GAFTA) has provided an important incentive to Syria to improve the quality and price-competitiveness of its products.
8. Most stakeholders stressed that value-added production of agricultural and food products was essential to increase earnings, employment, and trade.

Familiarity of policy options may be important for acceptance

9. Many stressed that direct, decoupled payments for agriculture would be very difficult to implement in Syria, and moreover, may not work well. On the other hand, there was a preference by several stakeholders to revert to input subsidies.

Budget considerations were not part of the policy debate

10. There was a view expressed by stakeholders that the budget would constrain the agricultural policy shift from consumer support to direct government payments. There was a general consensus that Syria could, or would have to, afford such transfers.

Producers recognize that product and inputs markets need an overhaul

11. Most stakeholders stressed the inadequacy of the marketing system, including the need for upgrading the public sector processing plants, better public and private marketing institutions, and enhanced marketing information and export development assistance.
12. There were differing views concerning the adequacy of credit available to the agricultural sector. Several stakeholders pointed out that the current credit system is not providing sufficient medium to long term capital investments in land, equipment, and tree crops in the production sector, nor plant and equipment in the marketing and processing sector.

Role of State Trading Enterprises needs to change

13. There were differing views by stakeholders on the state trading organizations' abilities to compete with the private sector marketing and processing firms. Most stressed that these agencies carried out essential government policy and were a necessary component of government policy, but many required modernization to be internationally competitive.
14. A view expressed by one stakeholder was that the inefficient marketing and processing sector was absorbing most of the consumer transfers and export subsidy benefits.
15. Most agreed that there was more private sector competition entering the market place. There was lack of agreement as to whether or not this was occurring fast enough. There were some views that producers need to take more control of the marketing and processing through cooperative institutions.

Better targeting of policies are needed

16. Several felt that livestock production did not receive equal consideration at the national level as crops, and expanded livestock production would improve the quality of the Syrian consumer diet.

17. Views on suitable targeting differed. Some felt that the current implicit targets were inappropriate; others felt that there was not any targeting in Syrian agricultural policy. One stakeholder noted that small farmers were not able to take advantage of the lower electricity prices, only the larger farmers were able to do this.

Differing views on the need for adjustment policies

18. There were differing views on the ability of agriculture producers to adjust to new policies, commodities, or markets. Some felt that this was very limited. Many recognized that there was a considerable support package (information, research, extension) that would be needed to assist in the adjustment process.
19. There were differing views on the export capability of Syrian agriculture. Some felt that the rapidly expanding domestic consumer demand would limit the availability of products for exports.

2.3 Workshop Observations

A workshop was held on July 27, and included many of the stakeholders previously interviewed (Attendees are listed in Annex 2).

They confirmed that the options being presented appeared to be realistic and balanced, but more analysis was required to evaluate their impacts. There was a consensus that non-tariff barriers need to be eliminated.

There were questions raised about the distortions in world markets created by the current policies in many developed countries. They felt that these subsidies lowered world prices, and thus the market price support for Syria was being compared to artificially low world prices. It was felt that Syria was relatively competitive in international markets as evidenced by its participation in GAFTA.

Food security was emphasized as a major concern for Syria and must be considered in any analysis of policies. New forms of safety nets need more consideration. Development of alternative crops could provide additional food security, employment and export opportunities. Several examples of successful alternative crops were cited for Syria.

They believed that there was a need to maintain employment in the agriculture sector, and value-added production played an important role for such employment.

Chapter 3– Proposed Policy Options for Syrian Agriculture

This section involves the formulation of a series of options for Syrian agriculture which are compatible with the WTO Agreement on Agriculture. These options will be assessed relative to the current Syrian policies with respect to its policy objectives, and especially food security, employment and rural incomes.

The first section outlines the scope of the analysis in terms of commodity groups and evaluation criteria. The second section provides an outline of the policies for major commodity groups for each alternative considered. The third section provides an assessment of the impacts of each of the policy options, according to the commodity groupings and criteria established. The fourth section summarizes the most favourable option for each of the commodities groups considered.

3.1 Scope of the Analysis

A series of options were developed to respond to the requirement to preserve current policy objectives, including maintaining employment and the level of rural incomes.

Each of these options will be examined for **seven** categories of Syrian agricultural and food products. The commodity grouping relates to the type of policy environment and its competitiveness. These are:

- (i) Strategic commodities (operate under price supports)
 - cotton (major export commodity, export subsidies)
 - wheat (periodic export, critical to food security)
 - sugar beets (small, largely domestic)
 - tobacco (small, largely domestic)
 - barley, lentils, chick peas (private sector, competitive, export)
- (ii) Non Strategic commodities (no price supports provided)
 - export commodities (may be seasonal variations)
 - import commodities (may be seasonal variations)

For each of these options, there are a number of criteria which will be used for its evaluation, in addition to the consistency with the WTO Agreement on Agriculture. The criteria were established largely from a review of the policy objectives identified for Syrian agriculture. These criteria were discussed with stakeholders and were generally accepted as those that should be used for the evaluation. These criteria include the impacts on:

- Net trade position (exports less imports)
- Domestic food consumption

- Rural employment
- Rural incomes
- Government expenditures
- Productivity
- Distributional effects on commodities, consumers, producers

3.2 Outline of the Options

The following section describes the policies for each of four 'options' for each of the seven commodity groupings outlined above. There are additional variations on production requirements for the last two options. These options were developed with the consideration that they must be consistent with the WTO requirements under the Agreement on Agriculture. These options affect various commodities differently, and so the 'preferred' overall option for Syria may be a mixture of these options.

3.2.1 Status Quo

Under the current policies, the main form of support of the seven strategic commodities are (i) market price supports (based on cost of production), with offer to purchase provisions for cotton, wheat, sugar beets, and tobacco, and (ii) the use of export subsidies for exports of surplus commodities, mainly cotton, but increasingly for wheat. The prices for domestically-oriented strategic crops (sugar beets, tobacco) are supported through offers to purchase, import bans for sugar beets and monopoly importing and exporting for tobacco (and disposal of domestic sugar through consumer ration cards sales). Barley, chickpeas and lentils are export competitive and although there are market support prices in place, these commodities largely operate without any support. Consumer subsidies are provided for wheat, flour, sugar and rice.

For the non-strategic commodities, some of the domestically oriented commodities are protected through import bans and other licensing restrictions. Bans also apply to certain export commodities, such as olive oil and tomato, in order to reduce competitive pressure and impede two-way trade that might emerge from quality differentiation.

All commodities benefit from certain variable input subsidies such as water (largely wheat and cotton), credit, energy, and some seeds. They also benefit from infrastructure subsidies (roads, utilities, irrigation, and land reclamation), and general services (research, extension, and information).

3.2.2 Tariffication

Under this option, all quantitative import restrictions (i.e., import bans, restrictive licensing, and monopoly importers) would be replaced with equivalent tariffs. The equivalent tariffs could range up to high levels for highly protected commodities (e.g., 300 percent for sugar beets).

Tariff rate quotas would need to be established, where necessary, to allocate a minimum level of imports equivalent to 4 percent of domestic consumption. To insure this level of imports, tariffs for this volume would be set at zero or very low. A system of allocating these imports would need to be established. Traditionally, this is based on historical imports. A 'first-in' system would not require country or individual firm allocations, but could disrupt local markets.

There would be no market price supports established for strategic crops.

Current variable production, infrastructure, and general services subsidies would remain unchanged.

Consumer subsidy for standard quality wheat, flour, sugar and rice would be maintained. Prices for high quality wheat would be based on supply and demand conditions (i.e., exports would be based on world prices).

3.2.3 *Reduction of Input Costs*

Under this option,

- all quantitative import barriers would be removed.
- tariffs would be established at modest (current applied) levels.
- There would be no market price supports established for strategic crops.
- consumer subsidies for standard quality wheat, flour, sugar and rice would be maintained, while prices for high quality wheat would be based on supply and demand conditions (i.e., exports would be based on world prices).
- Compensation, equivalent to the decline in prices, would be provided to producers in the form of subsidies (i.e., below cost) on inputs such as: water, fertilizer, chemicals (e.g., herbicides, pesticides), and credit.

Compensation would be targeted to those commodities most affected i.e., cotton, wheat, and imported commodities such as certain strategic commodities (sugar beets, tobacco), and non strategic imports.

There are **two options** on acreage requirements. **One option** is that producers would be required to maintain their area in the production of 'current' commodities in order to receive the subsidized inputs. This would likely be hard to identify for certain commodities such as non-strategic imports. A **second option** (completely decoupled) is that producers would not be required to maintain their area in the production of 'current' commodities in order to receive low cost inputs. Input subsidies would be unrelated to current production. These two options would have very different impacts on area allocation and production.

3.2.4 *Direct Payments—Decoupled Payments*

Under this option,

- all quantitative import barriers would be eliminated.
- There would be no market price supports established for strategic crops.
- tariffs would be established at modest (current applied) levels.
- consumer subsidies for standard quality wheat, sugar and rice would be maintained, while prices for high quality wheat would be based on supply and demand conditions.

Compensation would be targeted to those land owners suffering price declines-- cotton, wheat, and imported commodities such as certain strategic commodities (sugar beets, tobacco), and non strategic imports. Compensation would be equivalent to the price decline, and would be paid on their acreage, based on average yield. Payments would be unrelated to current production.

There are **two options** on acreage requirements. **One option** is that producers would be required to maintain their area in the production of 'current' commodities in order to receive the direct payment (similar to blue box payments). This would likely be hard to identify for certain commodities such as non-strategic imports. A **second option** (completely decoupled) is that producers would **not** be required to maintain production of 'current' commodities in order to receive the direct payments. These two options would have very different impacts on area allocation and production.

3.3 Impact of the Options

The following section outlines the conformity with the WTO Agreement on Agriculture and the impacts for the seven commodity groupings according to the evaluation criteria, established in section 4.1, for each of the options outlined in section 4.2

3.3.1 *Status Quo*

Conformity with WTO

As outlined in Section 2.4, a number of the subsidy and support programs (including projects included in the investment plans of various ministries) implemented in Syria are consistent with the requirements of the WTO Agreement on Agriculture. The policies relating to infrastructure subsidies (roads, utilities, irrigation, and land reclamation), and general services (research, extension, and information) are exempt from any reduction (Annex 2). As well, all variable input subsidies such as water, credit, energy, fertilizer, and chemicals which are generally available are exempt from reduction under the Aggregate Measure of Support for developing countries (Art. 6.2). Consumer subsidies in developing countries, under certain conditions, are also exempt (Annex 2, Art. 3 and 4). Syria's consumer subsidies may come under some scrutiny, as the WTO conditions for domestic food aid state that eligibility needs to be clearly defined and financing is transparent. Export bans are also permitted for developing countries, if they are not a net exporter.

Those policies which are inconsistent with WTO Agreement on Agriculture include import bans, restrictive licensing requirements, and monopoly importers. The open-ended market price support policy is considered an 'amber' policy and, if it exceeds the *de minimus* level (10 percent of production value), would have to be capped, and reduced over time. This would undoubtedly be the case for cotton, wheat, and sugar beets. While not inconsistent with the WTO, the export subsidies for cotton and wheat would not likely be allowed, at least beyond a short adjustment period.

Impact Analysis

Production impact. The current market price support policies, such as those for the strategic commodities, are considered to be the ***most effective policies for increasing production.***

Consumption impact. Higher prices from import restrictions for non-strategic imports reduce domestic consumption (including value-added processing). Conversely, consumer subsidies for wheat (approximately 20 percent), sugar (approximately 50 percent) and rice significantly increase their level of consumption. The ration cards used for sugar and rice have an added benefit of being minimally distorting among commodities, as consumers make decisions on the basis of market prices for marginal purchases.

Net trade impact. The combination of the production and export subsidies provide a ***strong, positive net trade effect particularly*** for Syrian cotton. The composition of Syrian overall net agricultural trade is heavily influenced by producer and consumer pricing and subsidy policies.

Rural income impacts. The market price support policies are considered to be moderately effective in transferring support to farm household incomes. It must be remembered that most of such transfers are captured in land prices, so that it is the landowners who benefit the most from these programs.

Government expenditures. Government expenditures under the current programs are substantial, especially for wheat, flour, cotton and sugar. State agency losses for these three commodities in 1999 were estimated at 36.4 billion SP, which represented about 4.5 percent of Syrian GDP. In addition to these transfer to producers and consumers, there were large losses by the General Company for Mills in handling, storage, and processing (estimated to be 13

billion SP in 1999). There were additional expenditures for input subsidies, and for infrastructure and general services.

In addition to government expenditures, support is provided to the sector from the consumer, particularly from the non-strategic importable commodities. This type of transfer is considered to be very regressive in that low income consumers spend a larger proportion of their budget on food.

At the same time, it should be recognized that many of the non-strategic export commodities receive limited and, perhaps even negative support. This results in a significant income distortion among commodities.

3.3.2 *Tariffication*

Conformity with WTO

The tariffication of quantitative import restrictions and the provision of consumer subsidies, as described in section 4.2.2 are largely consistent with the current WTO Agreement on Agriculture. The tariffs would provide a fixed level of support, and domestic prices would fluctuate in line with world prices. The four percent minimum level of access could result in increased imports. The tariffs would also be subject to future reductions.

It is not clear that Syria would be able to negotiate a tariffication option, similar to the Uruguay Round participants.

Impact Analysis

Price impacts. The tariffication program would maintain producer prices similar to the current market price support policies for most of the strategic commodities—wheat (depending on whether it is surplus to domestic requirements), sugar beets, tobacco, barley, lentils and chickpeas. Domestic producer prices for cotton would fall, probably close to world levels (domestic users of cotton already pay only world prices). Producer prices for non-strategic commodities, both imports and exports, would remain near current levels.

Cotton Impacts. Tariffication would provide no support for cotton. Thus, producer price for cotton would be determined by supply and demand factors in both the domestic and export markets, and would likely decline close to the current world prices.¹⁸ As a result, ***cotton production would decline significantly, perhaps, by 10-20 percent.***

The policy change in 2001 allowed the textile industry to buy cotton at near world levels. Thus, the ***domestic use of cotton would not change.***

The implications of the expected changes in cotton production and the unchanged domestic consumption are that ***exports of cotton would decline significantly, perhaps by as much as 15-30 percent.***

Income from cotton production would decline sharply, perhaps to one-half of current levels, both from the result of lower producer prices and lower production,.

Syrian government expenditures on market price supports will drop dramatically, saving an estimated \$10 billion SP, based on 1999 estimates.¹⁹

Wheat Impacts. It is estimated that the tariff, under the tariffication option, would provide similar support for wheat in the domestic market as the current market price support. Any wheat exports, however, would be at world prices. Thus, wheat price would be determined in the domestic market, likely close to the top end of the range between world price and world price

¹⁸ This is based on a range of conceivable supply responses to price (supply elasticities). The Research Report, An Assessment of Possible Alternative Price Policies for Cotton in Syria (2004), indicates a very inelastic supply response. This is consistent with the estimates from Fadiga (2004).

¹⁹ Westlake (2003), p.161.

plus the tariff. Based on expected supply and demand relationships, wheat production would likely remain at a level which supplies the domestic market. Thus, **wheat production would likely remain similar to, or slightly below, current levels.**

The consumer subsidy for wheat would maintain domestic consumption of wheat unchanged.

The implications of the production and consumption are that **exports of wheat would likely be minor amounts, high quality wheat**, and during periods of large domestic production (due to favourable weather conditions).

Income from wheat production will remain largely unchanged from current levels.

Syrian government expenditures on wheat would be expected to remain at similar levels. Expenditures would involve the purchase of wheat for sale to consumers at below world market price levels. It should be recalled that there are large marketing losses which provide opportunities for substantial government savings.

Sugar Impacts. Since there is an import ban on sugar beets imports, the tariff, under the tariffication option for sugar would be approximately 300 percent. A low tariff would apply to the current level of sugar imports. The domestic sugar beet price would be the equivalent world price plus the tariff. Sugar beet production would not be affected. Thus, **sugar production would likely remain similar to current levels.**

With the consumer subsidy for sugar remaining in place, domestic consumption of sugar would not change. Industrial use of sugar already operates in a free market, and this would continue under the low tariff rate quota.

The implications of the unchanged production and consumption are that **imports of sugar would not change.**

Income from sugar beet production would remain unchanged.

Syrian government expenditures on sugar would remain unchanged.

Tobacco Impacts. Since there is a monopoly importer of tobacco, it is assumed that its impact would be equivalent to an import ban on tobacco imports. The tariff, established under the tariffication option for tobacco, would be at a level which would limit imports to current requirements for blending purposes. The tobacco producer price would be the equivalent world price plus the tariff. Tobacco production would not be affected. Thus, **tobacco production would likely remain similar to current levels.**

With the consumer price for tobacco unchanged, domestic consumption of tobacco would not change.

The implications of the production and consumption are that **imports of tobacco would not change.**

Income from tobacco production would remain unchanged.

Syrian government expenditures on tobacco would remain largely unchanged.

Other Commodity Impacts. The tariffs, under the tariffication option would provide similar support and prices for non-strategic import commodities. For the non-strategic exportable commodities, there would be no tariffs, and prices would remain at world price levels. Production of those importable commodities would likely remain at a level which supplies a similar proportion of the domestic market. Thus, **production of other commodities would likely remain similar to current levels.**

The consumer prices for other commodities would remain unchanged, and thus maintain domestic consumption unchanged.

The implications of the production and consumption are that ***exports of other products would likely be unchanged from current levels.***

Household income from other product production will remain largely unchanged from current levels.

At the same time, Syrian government expenditures on other commodities are small and they would remain at similar levels.

The changes described above are summarized in Table 1 below.

Table 1. Initial Impacts of Tariffication, by Commodity Group

Commodity	Prices	Production	Consumption	Net Trade	Incomes	Government Expenditures
Cotton	Decline, world	10-20% decline	Similar	15-30% decline	Sharp Decline	Decline substantially
Wheat	Similar	Similar	Similar	Similar	Similar	Similar (savings on marketing losses)
Sugar Beets	Similar	Similar	No change	Similar	Similar	unchanged
Tobacco	Similar	Similar	No change	Similar	Similar	Unchanged
Lentils, barley, chickpeas	No change	No change	No change	No change	No change	Unchanged
Exportables	No change	No change	No change	No change	No change	Unchanged
Importables	Similar	Similar	Similar	Similar	Similar	Unchanged

3.3.3 Reduction of Input Costs

Conformity with WTO

The policy of inputs subsidies is consistent with the WTO Agreement on Agriculture. Developing countries are permitted to provide input subsidies without including them in the Aggregate Measure of Support (Art. 6.2). Thus, under this option, Syria would not be required to report an Aggregate Measure of Support to the WTO.

Impact Analysis

Price Impacts. The removal of most quantitative import restrictions, and the market price supports for strategic commodities, and their replacement with compensating inputs subsidies would result in prices, for all commodities, declining to near world levels.

Cotton Impacts. The compensation for the decline in market price support for cotton is assumed to be an equivalent transfer of income through inputs subsidies. The impact on production depends on whether continued cotton production is required to receive the compensation. If the input subsidies compensation for cotton requires continued cotton production, then ***cotton production would only decline slightly.*** This is because direct payments are generally not as effective as market price support policies in increasing production. Thus, producers would be willing to supply about the same output at lower product

prices (i.e., the supply function, the relationship between production and price, would shift to the right).

If the compensation for cotton does not require continued production, then production would likely decline much more substantially, and cotton acreage would shift to other commodities that are internationally competitive in the status quo price environment. In this latter case, **cotton production could decline by 10-20 percent**.

The domestic price for cotton would remain at current, world equivalent level, and as such **domestic use of cotton would not change**.

The implications of the production and consumption impacts are that **exports of cotton would remain unchanged, or decline by 15-30 percent**, depending on whether or not cotton production is required to receive the inputs subsidy.

Income to households from cotton production will decline either slightly, if production is required, as inputs subsidies are the least effective means of transferring income, **or substantially** from the lower production, if cotton production is not required. The biggest gainers from inputs subsidies are the input suppliers.

Syrian government expenditures for cotton will drop marginally, as marketing losses are eliminated.

Wheat Impacts. The compensation for the decline in market price support for wheat is assumed to be an equivalent transfer of income through inputs subsidies. Any wheat exports would be at world prices. The impact on production depends on whether or not continued wheat is required to receive the compensation. If the input subsidies compensation for wheat required continued wheat production, then **wheat production would only decline slightly**. This is because direct payments are generally not as effective as market price support policies in increasing production. Thus, producers would be willing to supply about the same output at lower product prices (i.e., the supply function, the relationship between production and price, would shift to the right).

If the compensation for wheat does not require continued wheat production, then production would likely decline much more substantially, and wheat acreage would shift to other commodities that are internationally competitive in the status quo price environment. In this latter case, **wheat production could decline by 20-25 percent**.

The consumer subsidy for wheat would maintain domestic consumption of wheat unchanged.

The implications of the production and consumption are that if continued production is required, **exports of wheat would likely be minor amounts, high quality wheat, and during periods of large domestic production**. If continued production is not required, then **imports would be required for about 20-25 percent of consumption**.

Income to households from wheat production would decline moderately, if wheat production was required, as inputs subsidies are the least effective means of transferring income. **Income to households from wheat production would decline substantially**, if wheat production was not required. It should be remembered that the biggest gainers from inputs subsidies are the input suppliers.

Syrian government expenditures on wheat would remain at similar levels. It would involve the purchase of wheat for sale to consumers at below world market price levels, as well as providing input subsidies. It should be recalled that there are large marketing losses which provide opportunities for substantial government savings.

Sugar Beets Impacts. The sugar beet price would be determined by sugar prices in the international market. For Syrian producers, this represents a decline of about two-thirds. It is unlikely that input subsidies would be large enough to completely offset such a large decline in

income. Therefore, some of the subsidy might go to the processing sector, allowing them to pay higher producer prices for the sugar beets. Thus, **sugar production would likely remain unchanged**. If production of sugar was not required to receive the subsidized production inputs, **sugar production would likely cease**.

With the consumer subsidy for sugar remaining in place, domestic consumption of sugar would not change. Industrial use of sugar already operates in a free market.

The implications of the production and consumption are that **imports of sugar would not change or would increase to replace all of the reduction in domestic production**, depending on whether or not producers were required to remain in sugar beet production to receive the subsidized inputs.

Income from sugar production would either decline slightly as inputs subsidies are not as effective in transferring income, or would decline to zero, depending on whether or not producers were required to remain in sugar production.

Syrian government expenditures for sugar would remain similar as inputs subsidies would be similar to current income transfers.

Tobacco Impacts. The tobacco price would be determined in the international market. Input subsidies would be large enough to completely offset any such decline in producer prices. Thus, **tobacco production would likely remain unchanged**.

With the price of tobacco perhaps declining, domestic consumption of tobacco could increase very slightly.

The implications of the production and consumption are that **imports of tobacco would not change very much**.

Income from tobacco production would not change.

Syrian government expenditures for tobacco would not change.

Other Commodity Impacts. The compensation for the decline in market price support for all other commodities is assumed to be an equivalent transfer of income through inputs subsidies. The input subsidies would be targeted to the non-strategic import commodities. For the exportable commodities, there would be no change, and prices would remain at world price levels. Production of import commodities would likely decline moderately for three reasons. First, inputs subsidies are not as effective as price supports for increasing production. Second, effective targeting to import commodities may not be possible. Third, and most important, it would not be possible to require production to remain in the same commodity as before, and so inputs will shift to more profitable commodities. Thus, **production of strategic exportable (barley, lentils, and chickpeas), and non-strategic exportable commodities would likely remain similar to current levels, while non-strategic importable commodities would decline moderately**.

The consumer prices and thus consumption of strategic exportable (barley, lentils, and chickpeas), and non-strategic exportable commodities would likely remain similar to current levels. The consumer prices would decline to world levels for non-strategic importable commodities, and thus consumption would increase moderately.

The implications of the production and consumption are that **exports of strategic exportable (barley, lentils, and chickpeas), and non-strategic exportable commodities would likely remain similar to current levels, while imports of non-strategic importable commodities would likely increase from current levels.**

Household income from **strategic exportable (barley, lentils, and chickpeas), and non-strategic exportable commodities would likely remain similar to current**

levels, while household income for non-strategic importable commodities would likely decline significantly from current levels, as a result of price declines, not entirely offset by inputs subsidies, and a decline in production.

Syrian government expenditures on other commodities are small and they would remain at similar levels.

The changes described above are summarized in Table 2A (Production Required) and 2B (Production Not Required) below.

Table 2A. Initial Impacts of Inputs Subsidy, Production Required

Commodity	Prices	Production	Consumption	Net Trade	Incomes	Government Expenditures
Cotton	Decline, world	Small decline	No change	Moderate decline	Slight decline	Small decline
Wheat	Decline, world	Similar	No change	Similar	Slight decline	Similar (savings on marketing losses)
Sugar Beets	Decline, world	Similar	No change	Similar	Similar	Similar (savings on marketing losses d)
Tobacco	Decline, world	Similar	No change	Similar	Slight decline	Unchanged
Lentils, barley, chickpeas	No change	No change	No change	No change	No change	Unchanged
Exportables	No change	No change	No change	No change	No change	Unchanged
Importables	Decline, world	Moderate decline	Increase	Significant decline	Moderate decline	Unchanged

Table 2B. Initial Impacts of Inputs Subsidy, Production NOT Required

Commodity	Prices	Production	Consumption	Net Trade	Incomes	Government Expenditures
Cotton	Decline, world	10-20% decline	No change	15-30% decline	Substantial decline	Small decline
Wheat	Decline, world	20-25% decline	No change	20-25% decline	Substantial decline	Similar (savings on marketing losses)
Sugar Beets	Decline, world	Total decline	No change	Decline	Decline	Unchanged
Tobacco	Decline, world	Similar	Slight increase	Slight increase	Slight decline	Unchanged
Lentils, barley, chickpeas	No change	No change	No change	No change	No change	Unchanged
Exportables	No change	No change	No change	No change	No change	Unchanged
Importables	Decline, world	Moderate decline	Increase	Significant decline	Moderate decline	Unchanged

3.3.4 Direct Payments- Decoupled Payments

Conformity with WTO

These types of subsidies are permitted, and not subject to reduction, in the current WTO Agreement on Agriculture, if production is not required. They are currently exempt, even if production is required, under a less restrictive, production-limiting provision (blue box). As a result of the current negotiations, however, the more restrictive decoupled payments may be considered as ‘amber’ or trade distorting programs, and would have to be included in the Aggregate Measure of Support calculations, and subject to future reductions.

Impact Analysis

Price impacts. The removal of the quantitative import restrictions, and the market price supports and their replacement with direct decoupled payments would result in prices, for all commodities, declining to near world levels.

Cotton Impacts. The compensation for the decline in market price support for cotton is assumed to be an equivalent transfer of income through direct decoupled payments. The impact on cotton production depends on whether continued cotton production is required to receive the compensation. If the direct payment compensation for cotton requires continued cotton production, then **production would only decline slightly**. This is because direct payments are generally not as effective as market price support policies in increasing production. If the compensation for cotton does not require continued production, then production would likely decline more substantially, and cotton acreage would shift to commodities that are internationally competitive in the status quo price environment. In the latter case, **cotton production could decline by 10-20 percent**.

The domestic prices for cotton would not change, and as such **domestic use of cotton would not change**.

The implications of the production and consumption impacts are that **exports of cotton will remain unchanged or decline by 15-30 percent**, depending on whether or not producers were required to remain in sugar production. .

Income to households from cotton production may not decline, if production is required, despite some decline in production. Direct payments are the most effective means of transferring income for rural households. **Where cotton production is not required to receive the direct payment, income from cotton production may decline by 10-20 percent**.

Syrian government expenditures for cotton will drop marginally, as marketing losses are eliminated.

Wheat Impacts. The compensation for the decline in market price support for wheat is assumed to be an equivalent transfer of income through decoupled direct payments. Any wheat exports would be at world prices. The impact on production depends on whether continued wheat production is required to receive the compensation. If the direct payment compensation for wheat requires continued wheat production, then **wheat production would only decline slightly**. This is because direct payments are generally not as effective as market price support policies in increasing production. Thus, producers would be willing to supply about the same output at lower product prices (i.e., the supply function, the relationship between production and price, would shift to the right).

If the compensation for wheat does not require continued wheat production, then production would likely decline more substantially, and wheat acreage would shift to other commodities that are internationally competitive in the status quo price environment. In this latter case, **wheat production could decline by 20-25 percent**.

The continuing consumer subsidy for wheat would maintain the domestic consumption of wheat unchanged.

The implications of production and consumption impacts are that if continued wheat production is required, **exports of wheat would likely be minor amounts, high quality wheat, and during periods of large domestic production.** If continued production of wheat is not required, then **imports would be required for about 20-25 percent of consumption.**

Income to households from wheat production would decline moderately, if wheat production was required, as inputs subsidies are the least effective means of transferring income. **Income to households from wheat production would decline substantially**, if wheat production was not required.

Syrian government expenditures on wheat would remain at similar levels. It would involve the purchase of wheat for sale to consumers at below world market price levels, as well as providing direct payments. It should be recalled that there are large marketing losses, which provide opportunities for substantial government savings.

Sugar Beets Impacts. The sugar beet price would be determined in the international sugar market, a decline of about two-thirds. The compensation for the decline in market price support for sugar beets is assumed to be an equivalent transfer of income through decoupled direct payments. Thus, **sugar production would remain unchanged**, if sugar beet production was required in order to receive the direct payments. If production of sugar was not required to receive the direct payments, then **sugar production would likely cease.**

With the consumer subsidy for sugar remaining in place, domestic consumption of sugar would not change. Industrial use of sugar already operates in a free market.

The implications of the production and consumption are that **imports of sugar would not change or would increase to replace all of the reduction in domestic production**, depending on whether or not producers were required to remain in sugar production.

Household income from sugar beet production would increase slightly, if sugar beet production was required in order to receive the direct payments, as direct payments are the most effective means of transferring income. If sugar production was not required to receive the direct payments, then household income from sugar beet production could decline to zero.

Syrian government expenditures for sugar would decline. While direct payments would be similar to current payments to producers, marketing losses would be eliminated.

Tobacco Impacts. The tobacco price would be determined in the international market. The direct payments would be large enough to offset any decline in prices. Thus, **tobacco production would likely remain largely unchanged.**

With the price of tobacco unchanged, domestic consumption of tobacco would not change.

The implications of the production and consumption are that **imports of tobacco would not change.**

Income from tobacco production would not change.

Syrian government expenditures for tobacco would not change.

Other Commodity Impacts. The compensation for the decline in market prices for all other commodities is assumed to be an equivalent transfer of income through direct payments. The direct payments would be targeted to the non-strategic import commodities. For the exportable commodities, there would be no change, and prices would remain at world price levels. Import commodity production would likely decline moderately for three reasons. First, direct payments are not as effective as price supports for increasing production. Second, effective targeting to import commodities may not be possible. Third, and most important, it would not be possible to

require production to remain in the same commodity as before, and land area would shift to more profitable commodities. Thus, **production of strategic exportable (barley, lentils, and chickpeas), and non-strategic exportable commodities would likely remain similar to current levels, while non-strategic importable commodities would decline moderately.**

The consumer prices, and thus consumption of strategic exportable (barley, lentils, and chick peas) and non-strategic exportable commodities would likely remain similar to current levels. The consumer prices would decline to world levels for non-strategic importable commodities, and thus consumption would increase moderately.

The implications of production and consumption impacts are that **exports of strategic exportable (barley, lentils, and chick peas), and non-strategic exportable commodities would likely remain similar to current levels, while imports of non-strategic importable commodities would likely increase from current levels..**

Household income from **strategic exportable (barley, lentils, and chick peas), and non-strategic exportable commodities would likely remain similar to current levels, while household income for non-strategic importable commodities would likely decline moderately from current levels, as a result of price declines, not entirely offset by direct payments, and a decline in production.**

Syrian government expenditures on other commodities are small and they would remain at similar levels.

The changes described above are summarized in Table 3A (Production Required) and 3B (Production Not Required) below.

Table 3A. Initial Impacts of Direct Payments, Production Required

Commodity	Prices	Production	Consumption	Net Trade	Incomes	Government Expenditures
Cotton	Decline, world	Small decline	Similar	Similar	Similar	Small decline
Wheat	Decline, world	Similar	No change	Similar	Slight increase	Similar (savings on marketing losses)
Sugar Beets	Decline, world	No change	No change	No change	Slight increase	Decline
Tobacco	Decline, world	No change	No change	No change	Slight increase	Unchanged
Lentils, barley, chickpeas	No change	No change	No change	No change	No change	Unchanged
Exportables	No change	No change	No change	No change	No change	Unchanged
Importables	Decline, world	Moderate decline	Moderate increase	Decline	Moderate decline	Unchanged

Table 3B. Initial Impacts of Direct Payments, Production NOT Required

Commodity	Prices	Production	Consumption	Net Trade	Incomes	Government Expenditures
Cotton	Decline, world	10-20% decline	Similar	15-30% decline	Substantial decline	Small decline
Wheat	Decline, world	20-25% decline	No change	20-25% decline	Substantial decline	Similar (savings on marketing losses)
Sugar Beets	Decline, world	zero	No change	Decrease	Decrease	Decline
Tobacco	Decline, world	Similar	No change	Similar	Similar	Unchanged
Lentils, barley, chickpeas	No change	No change	No change	No change	No change	Unchanged
Exportables	No change	No change	No change	No change	No change	Unchanged
Importables	Decline, world	Moderate decline	Moderate increase	Significant decline	Moderate decline	Unchanged

3.4 Proposed Options for Syrian Agriculture

From the results of the analysis, the preferred policy options differ by commodity. These include:

- **Cotton.** Direct payments (unrelated to current production), with the requirement to produce cotton, would be preferred, as production, exports, and incomes to cotton producers would not be negatively affected, and information exists to identify current holders of production licences. A second best option would be to exclude the requirement to produce cotton in order to receive the direct payments.
- **Wheat.** The tariffication option would be preferred, as production, prices, and incomes would remain similar. This is the most effective policy to maintain production, and administrative requirements for implementation are well-established. With the increased global wheat prices during the past 5 years, the required tariff may be modest.
- **Sugar and tobacco.** The tariffication option would be preferred, as production, prices, and incomes would remain similar. This is the most effective policy to maintain production, and administrative requirements for implementation are well-established. Direct payments (unrelated to current production), could also be used, with the requirement to produce sugar and tobacco, as production and incomes to sugar and tobacco producers would not be negatively affected, and information exists to identify current holders of production licences.
- **Non-strategic import commodities.** The tariffication option would be preferred because production, prices, and incomes would remain similar. This is the most effective policy to maintain production, and administratively, the simplest.
- **Export commodities (strategic and non-strategic).** Improvements in the marketing support system, general services and infrastructure would be of the most benefit for these commodities.

Chapter 4- Concluding Observations and Next Steps

4.1 Concluding Observations

1. Results of the analysis indicate that there is a range of impacts with respect to the objectives identified for Syrian agriculture among the four options for the various commodities. From these results, policy-makers would be able to make choices depending on the ranking of Syrian agriculture and food policy objectives. Different policy options may be selected as being the most preferred option among the different commodities.
2. The **administrative** requirements of the various options differ greatly. Direct payments are the most costly to implement and are the most difficult option, based on the limited administrative experiences of Syria. They need historical information on production and area allocations of individual households. Syrian producers may not have the ability to participate in government programs (e.g., no bank account). This limitation is especially important for commodities operating in the private sector markets, where production licences have not been established. Tariffication provides an option that is most easily implemented, based on the administrative experiences of Syria.
3. Syria has reduced its dependence on the use of **Input subsidies** to support agricultural producers, for very valid reasons. Input subsidies are the most production distorting type of support policy, and the most ineffective means of expanding output or transferring income. Much of the transfers from government accrue to input suppliers. It is environmentally damaging, affecting health and safety of rural residents and consumers, and may be unsustainable in the case of a scarce resource such as water. It would be considered as a regressive step for Syria to revert to the provision of providing more input subsidies. While, this could be a fall back position for Syria, if other forms of support are not acceptable for domestic, political reasons, or by the WTO, it is clearly not a preferred option.
4. Policies consistent with the WTO Agreement on Agriculture require Syrian agricultural producers to face increased **international competition**. On the other hand, the **marketing and distribution sector** may not face the same level of competition, either from the export market or domestically, due to high import tariffs, regulations, or monopoly positions. Thus, Syria may wish to use the opportunity arising from the proposed changes in agriculture and food policies to allow increased private sector competition. Research in eastern European countries has shown that there are substantial gains in commodity output from reductions in marketing margins.²⁰ Encouraging foreign partners and investment would provide much needed new technology and quality improvement. Tariffs on semi- and fully-processed agricultural products should also be reduced to increase the international competitiveness of Syrian marketing and processing firms.

²⁰ USDA study found a 20 percent reduction in marketing margins led to a 5-20 increase in livestock production (USDA 2002, p.22).

5. The liberalization of agricultural markets would establish closer linkages with international market prices for Syrian producers than currently exists. This increases the likelihood of commodity **price fluctuations**. Syria may wish to examine additional means to reduce the risks of price instability, consistent with WTO obligations. The state trading enterprises in Syria can reduce the within year price instability.²¹ A **safety net** program could be considered for those commodities operating with direct payments to producers. Other public sector activities include providing **market information** programs for producers to permit them to take better advantage of market opportunities while improving their skills to protect against market price risks.

6. The WTO allows **state trading enterprises** such as those operating in Syrian agriculture. They must conform to WTO rules and these agencies will likely come under pressure to be more open and transparent on market transactions and losses. These agencies may provide greater benefits from shifting to delivering programs such as direct payments, price stabilization, and production insurance, and away from providing marketing services. State trading enterprises have often restricted improvements in product quality choices for consumers because of their monopoly position (Lavoie, 2003), reinforcing the benefits of private sector competition in agricultural markets.

7. Agriculture accounts for a large share of Syrian **employment**. Experiences in other countries indicate that there is likely to be substantial pressures for out-migration from the agricultural sector. To offset this effect, it is important that agricultural policies encourage value-added production and exports. Trade liberalization policies will tend to shift area from cotton, sugar beets, and importable products (e.g., maize, oilseeds, and dairy products) to export competitive commodities (e.g., olive oil, fresh tomatoes, oranges, other citrus, cumin, lentils, chickpeas, sheep). The resulting lower domestic food prices may encourage more value-added production in the export products.

8. The main **beneficiaries of the transfers** under the subsidy programs considered in this study are the landowners, according to the OECD. Thus, the largest land holders get the largest transfers. In the case of the input subsidies, it is also the input suppliers that are important beneficiaries. Many of the farms in Syria are operated by renters and sharecroppers (estimated to be 40-50 percent), although renters may not be as common for strategic commodities. The Agricultural Reform Law and the Agriculture Relations Law, issued in 1958, established principles of sharing crop revenues. The application of these principles to sharing direct payments would also be necessary. In some cases, these crops are produced on state land, rented against symbolic fees, and revenue sharing would be similar, presumably, as under private rental agreements.

9. **Productivity** improvements in the agricultural sector tend to come from the development and adoption of new technology, and the increased flexibility in area allocations among the most profitable commodities. Support policies could be used to encourage the adoption of new technology (e.g., higher direct payments, easy credit terms made to those with drip irrigation) or encourage the adoption of most profitable crops (e.g., not requiring continued production of a commodity to receive a direct payment). Productivity gains in the sector can significantly improve rural incomes, and hence food security.

10. The recognition of the need for **product quality** enhancements will come from increased international competition. In fact, the GAFTA has already demonstrated the pressures for such improvements, as imported products receive large premiums in the market place. Rural incomes would be significantly improved by the adoption of world class quality standards. Such improvements in product quality and food safety, nevertheless, face

²¹ The Canadian Wheat Board provides a price stabilizing function for western Canadian producers by providing an initial payment upon delivery, and a final payment at the end of the crop year.

many barriers in Syria, ranging from the large number of small producers, the skills of the extension service, the dominance of the public sector marketing firms, and the long history of a closed market in Syria. Support policies could be used to encourage improvement in product quality by paying quality premiums, requiring minimum quality standards, and providing credit for certain types of new technology which enhances quality. The agriculture and food processing and distribution sector is a critical partner in the development and implementation of quality improvements and it also needs to be exposed to international competition.

11. The **credit market** does not appear to be providing adequate medium and long term credit, and this could be a major constraint on the sector's ability to adjust to take advantage of new trade opportunities or to avoid costs of lower prices. High costs in the informal credit market (e.g., traders) cause under-investment, especially in medium to long term investments. Regional cooperative banking institutions have proven to be a successful model for improved credit to small scale producers in a number of developing and eastern European countries going through similar types of sector adaptation.

12. **Food security** is a fundamental concern of policy-makers in Syria. It is widely recognized that food security is best provided through improved incomes, lower food prices, and improved access to food in a globally competitive agriculture and food market. WTO entry would provide improved guarantees for food security. Policy changes associated with entry into the WTO may improve rural incomes. Syrian consumers spend a large part of their income on food, and thus small savings can generate a big increase in the disposable income, improving their food security.

4.2 Next Steps

1. The current study outlined a set of options, consistent with the WTO Agreement on Agriculture, and consistent with the objectives of industry stakeholders in Syria. The analysis of the impacts of the options provided policymakers with some qualitative information for prices, production, consumption, trade, rural incomes, and government expenditures for the major commodities and commodity groups. Some of the results suggested relatively large adjustments for certain commodities. It would be important for policymakers to have more precise, quantitative information on the impacts, as well as the resource shifts among the commodities, and sector-wide impacts on agricultural trade, rural incomes, and government agricultural expenditures.

2. To provide the additional quantitative information, a logical next step would be the development of an empirical model for Syrian agriculture. For this model development, basic information on the relevant key relationships could be drawn from other international models that have country and commodity specifications similar to those of Syrian agriculture. The OECD, FAO, World Bank, foreign governments, universities (e.g., Iowa State) all have models and information that could be drawn on for use in a Syrian model. Using such an approach, a model could be constructed for Syria quite quickly.

3. It is essential that such empirical work be developed in conjunction with the National Agricultural Policy Center to enable future policy analysis to be undertaken as variations in the policy options are proposed by policymakers, or to test options that maximize benefits. Such a capability would be valuable during the negotiations on entry into the WTO are taking place. It may prove to be indispensable for trade negotiators and Syrian agricultural policy-makers evaluating policies to take advantage of trade policy developments.

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Acronyms

AMS	is the Aggregate Measure of Support, which is the sum of the expenditures on non-exempted domestic support, aggregated across all commodities. Exempted support includes the (i) non-trade or -production distorting policies (green box), (ii) small levels of support (de minimus), and (iii) production limiting (Blue box).
Blue Box	refers to those agriculture policies in the EU and the US which involve transfers to producers to limit their level of production, but are not deemed by the WTO as trade neutral, but nevertheless are not subject to reduction as part of the Uruguay Round Agreement.
de minimus	refers to product and non-product specific support to producers excluded from AMS in calculating the level of domestic support and represent a small part of total production, i.e., 5 percent for developed countries, and 10 percent for developing countries. (See Article 6.4 of the Agreement on Agriculture).
Green Box	refers to transfers to producers under a country's agricultural policies that are deemed by the WTO as trade and production neutral and therefore not subject to reduction as part of the Agreement on Agriculture. These include research, extension, crop insurance, food security stocks, and generalized income support programs. (See Annex 2 of the Agreement on Agriculture).
SPS	is the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures that is part of Uruguay Round Agreement and its purpose is to ensure that measures established by governments to protect human, animal and plant life and health are scientifically justified.
Tariffication	refers to the process of converting the quantitative import barriers into tariff equivalents. The WTO also requires a minimum level of access.
TRQs	refers to Tariff Rate Quotas, which are two tiered quotas. Imports up to a specified quantitative limit face one duty, and imports in excess of that level face a second higher duty

Annex 1: Interviews with Stakeholders

List of Stakeholders Interviewed

1. Dr. Nabi Rasheed Mohammed
Deputy Minister,
Ministry of Agriculture and Agrarian Reform
2. Mr. Hassan Katana
Director of Statistics and Planning
Ministry of Agriculture and Agrarian Reform
3. Mr. Moh. Zein El-Deen
Director of Agriculture Economics and Investment
Ministry of Agriculture and Agrarian Reform
4. Dr. Shibli Abou Fakhr
Former Deputy Minister of the Economy
(now business consultant)
5. Miss Rima Kadere
Director of International Communication
Ministry of Economy and Trade
6. Mr. Ibraheem Jraedeyah
Director of Public Relations
General Peasants Federation
7. Mr. Arfan Aloush
Consultant for Technical Affairs (Former Deputy Minister)
Ministry of Agriculture and Agrarian Reform
8. Dr. Nahi Al-Shibani
Business Consultant, (Former Director of Agricultural Economics and Investment)
Ministry of Agriculture and Agrarian Reform
9. Dr. Najdat Salloum
General Manager
Federation of Syrian Chambers of Agriculture
10. Mr. Bashar Al-Abrash
Consultant to the Head of the Planning Commission

Interview Report

Monday July 12, 2004

Dr. Nabi Rasheed Mohammed

Deputy Minister of Ministry of Agriculture and Agrarian Reform

Comments on Study

Syria is reaching a critical phase as the Association Agreement is pending with the EU and its application has been received for entry into the WTO. Hence a study like this is definitely required at this time.

Syria faces a number of technical and financial constraints in the development of its agriculture sector, and meeting the requirements of its trade agreements.

It is important to be aware of the experiences, concerns, and sensitivities of the region and especially of some of the neighbouring countries in the region (e.g., Saudi Arabia, Jordan, and Lebanon).

Policy issues

Is the Syrian-EU Association Agreement a step in the right direction—is it complementary to WTO, or is it quite independent of it?

Maintaining a high level of employment in the agricultural sector is very important, as is maintaining rural incomes for Syria. He recognizes that rural employment must decline over time, and hence, expanding the value-added food and fibre production is important for the rural areas.

Food security and self-sufficiency is very critical in Syria given the political pressures on two of its borders at the present time. The study must recognize this concern.

There is no targeting of agriculture and food policies at the moment, but it may be worth considering. There may need to be a review of this question in light of the new policy and economic environment.

Even with a more open economy, the Syrian government will still maintain a significant control and monitoring role in the agriculture and food sector.

For Syria, increasing supply took precedence over food quality and safety

WTO

There is a concern that Syria minimizes the costs of joining the WTO and maximize the benefits from its membership—Syria must get the fruits as well as experiencing the pain. He agreed that some of Syria's agricultural policies were not in conformity with the WTO.

How do other countries provide such large amounts of support to their agricultural sector? (Most of this comes in the form of direct payments)

The reduction of the price supports in Syria would involve a large budgetary outlay for compensation with direct payments.

Evaluation

The study needs to consider the large share of agriculture in the GDP of the economy.

Interview Report

Monday July 12, 2004

M. Hassan Katana

Director of Statistics and Planning

Ministry of Agriculture and Agrarian Reform

Comments on Study

It is a very important and timely study for Syria. Joining the WTO for Syria is a must, but it must be done carefully.

It would be helpful to define what a subsidy is. Producers in Syria do not accept that research and extension are subsidies. They would be unlikely to accept increased expenditures in these areas as 'fair compensation' to current high domestic prices.

Policy issues

Food security is very important for Syria, given its geographical and political situation. It is essential to be sensitive to the issues in the Middle East.

Syria faces a host of constraints in the development of its agriculture, including resource constraints, poor marketing system, and lack of information. The Agriculture Cooperative Bank needs to introduce a crop insurance program, and new agricultural marketing firms need to be developed.

There is a serious omission of the livestock in Syrian policy consideration

WTO

Can Syria use input subsidies in place of price supports?

In opening markets, it is insufficient to simply negotiate entry. For example, the cut flower market into Turkey requires research, extension, information and a new marketing system. The government needs to be cautious and not to encourage overexpansion to market requirements.

There needs to be a balance between developing appropriate market rules and establishing the institutions to take advantage of new opportunities, and assist with adjustment.

There would be a concern if the market environment changed rapidly. Producers have limited ability to adjust. If prices declined too much, agricultural incomes could decline and there could be widespread abandonment of land areas from agricultural use.

He does not foresee a problem of export subsidies. He estimates that Syrian domestic demand will grow faster than supply for cotton and wheat (due to water shortages and other resources) before the WTO requirements phase-in—possibly in 10 years. There should be no problem in instituting equivalent tariffs for other strategic commodities (even sugar).

Evaluation

The evaluation needs much more data on each sector of the economy than is currently available. For example, there is no information on productivity. Cooperation among agencies is important to avoid duplication and to minimize collection costs

It would be important to develop a baseline to identify impacts of various policy options.

Interview Report

Tuesday July 13, 2004

Moh. Zein El-Deen

Director of Agriculture Economics and Investment

Ministry of Agriculture and Agrarian Reform

Comments on Study

It is important to look at results from other countries as part of the study but also must be aware of the special features of Syrian agriculture.

Syria is providing only a few direct subsidies to producers (e.g., credit, irrigation, extension). Producers also benefit from low tariffs on imported inputs. These subsidies are not targeted.

Syria needs government programs to increase its competitiveness of the agriculture sector, as it is not internationally competitive. Syrian's costs of production for major commodities are increasing, but output prices are not rising. Subsidies are needed to meet Syria's food security objectives. Wheat production in Syria is critical to meet its food security objectives.

Livestock production is neglected in Syrian agriculture support policies. Syria needs to increase livestock production and consumption in order to increase the protein content of the consumers' diet. While calorie intake in Syria is comparable to much higher income countries, most of the calories come from crops (2706 of 3019 total calories)

Policy issues

He agrees with the assessment of external pressures. In fact, he notes that Syria is attempting to increase food quality and safety. It has introduced an Integrated Pest Management system for citrus crops, and had taken steps to reduce the amount of pesticides used for olives, apples. It is easier to enhance food quality and safety for vegetables.

It is difficult to get producers to switch to export crops. Importers may have different tastes and preferences. For example, EU consumers like thin peel oranges and yellow peppers while Syrians prefer thick peel oranges and green peppers. To make these switches, producers need to be more aware of the market, have better market information, and marketing institutions to handle the distribution and exports.

The small size of agriculture producing firms leads to higher costs of production. Because of this, they do not adopt new technology such as irrigation which leads to water shortages.

WTO

Syria is well aware of the WTO agricultural policy requirements, but dislikes having to compete against the US treasury, The US provided its cotton producers with \$US 3.9 billion in subsidies in the past year.

He raised a question as to whether or not Syria could restrict the imports of seeds to protect the purity of its seed stock. (Can do so if it is consistent with the International Plant Products Convention, or has a risk assessment that would be acceptable to the WTO)

He believed that the best alternative to Syria's agricultural export subsidies would be to subsidize production inputs.

He suggested that a board be established to provide subsidies for inputs, but he was not sure which type of direct payments that producers would favour.

Evaluation

The criteria are very sensitive issues, and he would like more time to reflect on these

Interview Report

Tuesday July 13, 2004

Dr. Shibli Abou Fakhr

Former Deputy Minister of the Economy

(now business consultant)

Comments on Study

He feels that the study is very important at this time. He is also still very interested in the work of the NAPC.

Policy issues

He believes that the external factors are “incentives” not “pressures”. Opening the Syrian market to international competition creates incentives for reducing costs of production, improving quality, and introducing better marketing practices. The opening of the economy to international trade is essential for Syria, but there needs to be policies related to food. Therefore, Syria cannot permit imports of wheat.

He believes that the agriculture sector cannot support even its current level of employment. Agriculture must adopt new technology (it is indispensable to Syria), which will reduce the labour requirements in the sector. As well, there is a large influx of new entrants to the labour force that will need to be absorbed outside of agriculture. The Syrian government must generate new activities to ensure that these workers are employed. Agri-food processing is one logical area for additional employment. The non-agricultural sector must absorb additional labour.

He disagrees that the economy cannot afford transfers to the agricultural sector. He feels that the government should direct investment into agri-food processing. He cited the processing of raw cotton could increase value-added by 500-600 percent and provide a great source of employment generation. Bread making and pasta production is a better source of earnings and preferable to exporting hard wheat. Subsidies can help make these changes. It is critical for Syria to change directions, and subsidies can be used to help stimulate these changes.

Benefits require change. Trade becomes the motivator to improve the quality of products. Before GAFTA, producers knew that the market would take whatever they produced—there was no choice. When imported products started coming in, Syria adapted to improving the quality of its products, reducing costs, and accepting smaller profits. They found that with these changes that they could compete successfully internationally.

Agricultural production and marketing is very fragmented. It is not organized to take advantage of world markets. For example, one of the Syrian varieties of apples in the southern area is well recognized as a superior product, but has not been exploited in the international market.

Syria used to tax exports (9.5 percent), but this has been eliminated, and this has helped the agricultural sector.

Wheat production is critical for food security reasons for Syria, and the government must encourage its production.

There is no (apparent) constraint in shifting from price supports to direct payments.

State trading enterprises play an essential role in carrying out government policies, regulatory functions, and the collection of products, their processing and their exporting. Wheat marketing cannot be left to the private sector. Other state trading organizations such as those for cotton marketing, ginning, etc., have been subject to private sector competition.

Syrians have been successful entrepreneurs outside the country, but not inside. Must identify what are the constraints to Syria taking advantage of its strengths (location, natural resources, labour force, climate, etc.) and try to remove these constraints.

Evaluation

The criteria need deeper thought. He will reflect on them and will send comments.

Interview Report

Tuesday July 13, 2004

Miss Rima Kadere

Director of International Communication

Ministry of Economy and Trade

Comments on Study (the presentation deck was not used but a copy was left with her)

She believes that the study is very important because of the dominance of agriculture in the Syrian economy and the difficulties that agriculture faces in the WTO.

She felt that Syrian must promote value-added production and exports of agricultural and food products, as this approach was much more preferable to simply exporting commodities.

She noted that there was a specialized unit, established for the WTO, to collect and disseminate the information to the various agencies with the Syrian government. She noted that Syria was getting help from various international agencies, but there were problems in getting help from the WTO until their application processed much further.

There must be good cooperation among ministries in the development of the material for the WTO negotiations, as many of them are affected by the results of the entry into the WTO. This is particularly true for agriculture.

With regard to the need to change agricultural policies in order for Syria to enter the WTO, she was quite optimistic that this would happen. He felt that Syrian policy-makers were very open to new approaches and would respond positively to well-reasoned arguments for policy change.

In the same vein, she felt that if state trading organizations must be changed to be consistent with WTO rules, this would be done.

She feels that Syria has already examined the policy changes it needs to join the WTO. She believes that the EU Association Agreement is WTO plus.

Interview Report

Wednesday July 14, 2004

Mr. Ibraheem Jraedeyah

Director of Public Relations

General Peasants Federation

Comments on Study (the presentation deck was not used but a copy was left with him)

He emphasized that the joining the WTO is a must, despite any negative effects. It is important that these negative effects be minimized. The study must recognize the particular characteristics of the agricultural sector, and must find the best possible way to implement the entry to the WTO. It is important to minimize the inequities across all societies (countries).

He claimed that Syrian farmers received few subsidies. Syria was at a great disadvantage of having resource-poor farmers, using low level technology, and lacking adequate information. In contrast, EU farmers have access to high quality research, extension, seeds, and marketing and processing institutions. This big gap must be 'filled in'. He noted that the labour requirement for harvesting olives from a tree was one hour in Syria, but only 10-15 minutes in EU. Syria only exports its surpluses, whereas the EU often produced products solely for export. EU gets high subsidies, so the Association Agreement and the WTO are not 'fair' agreements.

He was very critical of the late distribution of fertilizer and pesticides by the government agency, which will be reflected in reducing output and increasing costs of production.

He noted that it costs 15-16 SP to produce a litre of milk, but the market price was only 10 SP. Farmers keep producing despite these losses, because the alternative was unemployment.

He emphasized that wheat is an exception because of its role in food security, and its policies should not be touched.

It is important that many of the old processing plants be rehabilitated. Sugar beet plants need to be located nearer to production, as the delays in transport of the beets causes sugar losses, and renders the beets only useful for animal feed.

Credit should be provided at lower interest rates, even free, and the repayment period should be related to the life of the asset. Loans should cover 100 percent of the value of the asset. Currently, only two thirds of the cost of a cow or irrigation equipment can be borrowed.

Production inputs should be provided free. Other countries provide huge subsidies to their producers.

He had no problem with direct payments, but noted that output varied due to weather conditions. It could also be a disincentive to produce. He would prefer to see coupled payments.

Interview Report

Wednesday July 14, 2004

Mr. Arfan Aloush

Consultant for Technical Affairs (Former Deputy Minister)

Ministry of Agriculture and Agrarian Reform

Chairman of Commission

Comments on Study (the presentation deck was not used but a copy was left with him)

He agreed with the need to adjust Syrian agricultural policies to join the WTO. He emphasized his role in initiating the study and its importance. It is important that Syria align its policies with those allowed by the WTO rules.

He emphasized (i) environmental constraints, especially over grazing, (ii) employment requirements, (iii) participating management (making producers more accountable for their own destiny), (iv) the need for a change in production patterns, and a 'subsidy box' to support producers.

He noted the environmental deterioration in the grazing areas, and suggests that some sheep might be moved outside the region for fattening. He also emphasized the importance of producers, themselves, to make decisions on the allocation of lands for sustainable production. He wanted to see water associations to allocate water to avoid exploitation.

In addition to producers managing the scarce resources, he sees value in cooperative associations involved in the marketing and processing of their own products. He noted that many of the producer losses in the past could be attributed to a lack of marketing experience. He felt that domestic and international marketing needs to be a joint public private activity.

He felt that cotton production should be reduced so that it supplied only the domestic market. New crops for this land should be more efficient users of water and be more profitable. Some crops like Cumin and Anis may need to be encouraged. In addition, there needs to be more legume production for livestock, which also maintains the productivity of soils. There needs to be better returns and sustainable production.

He emphasized the need for value-added production.

Food security was still an important issue and Syria needed sufficient foods for its rapidly growing population.

He felt that agriculture may be able to increase its employment role, if new crops were more labour intensive. As well, he expected rural industries to be an important source of employment.

He did not think there was any problem with decoupled payments, but there could be operational difficulties in early phases. Nevertheless, he felt that direct payments might be targeted to introduce new crops. There needed to be incentives for producers to adopt new crops. Soybeans were introduced in the 1980's but failed after a few years. The government fixed the final price at 16 SP, while production costs were estimated to be 9 SP. The government maintained prices at this level, despite increases in soybean production costs. He did not respond as to whether they might cause a budget constraint--ways must be found to support producers. Lowering prices should not penalize producers.

Crop insurance was considered 20 years ago, but was not introduced because of the high costs and the complicated administration. It might be time to reconsider it.

Interview Report

Wednesday July 14, 2004

Mr. Nahi Al-Shibani

Business Consultant, (Former Director of Agricultural Economics and Investment)

Ministry of Agriculture and Agrarian Reform

Comments on Study (the presentation deck was not used but a copy was left with him)

He agreed with the need to adjust Syrian agricultural policies to join the WTO.

His main thesis is that producers are not being subsidized, it is the inefficiencies in the marketing system and taxes that is the source of the apparent support.

If subsidies were eliminated in other countries, Syria would be very competitive.

With respect to WTO rules for Syria, there is no problem for wheat, as exports occur infrequently, and hard wheat surpluses could be processed marketed as pasta or flour. Cotton is not being subsidized, it is the inefficient government processing agencies and the various taxes that are causing the high prices. Sugar beets production would also be competitive if the processing sector was competitive and the marketing margin reduced. Credit is not subsidized if you consider all of the additional fees charged, making the actual rate approximately 10 percent.

He felt that the option of encouraging private sector processing was an excellent option for cotton, and Syria would benefit from the value-added production and resulting employment.

He felt that fruits and vegetables could be very competitive if the marketing system was improved.

Government processing is already facing some private sector competition, but this change needs to be accelerated. Syria is moving slowly to avoid problems of too rapid a privatization, such as occurred in the Egyptian cotton sector.

Interview Report

Thursday July 15, 2004

Dr. Najdat Salloum

General Manager

Federation of Syrian Chambers of Agriculture

He noted that the Chambers represent the agricultural private sector that form 60% of the agricultural sector.

Comments on Study

He emphasized that the joining the WTO is a must, there is no choice. Syria needs to be on the inside to influence trade rules. At the same time it is recognized that Syria needs to maximize the benefits and minimize the costs.

He claimed that Syrian farmers received few subsidies from government—these can almost be ignored.

He felt that Syria was not targeting the right farmers. For example, in electrical pricing only the large producers were able to take advantage of the reduced rates

He noted that the two price system instituted for cotton was not working and the rules were not being enforced. The production from the area planted outside the planned area was to be priced at world levels. It has been a difficult policy to apply. Thus, there is now an incentive to over-plant, and use scarce irrigation water for the additional cotton.

He emphasized some examples of price instability in fruit and vegetable markets where prices fluctuated according to supply and demand. Prices for tomatoes from greenhouses were only 0.5 SP at peak season compared to production costs estimated at 8 SP. At other times, prices might be as high as 35 SP.

He felt that a shift from supporting final prices to supporting inputs would be better. These would go directly to, and support, the small producer and not the marketing/processing firms.

Employment could grow in agriculture if land was shifted to labour intensive crops, such as olive oil production. He emphasized that such a shift need to be supported with better marketing support.

He noted the benefits of the GAFTA, in that Syria became part of a larger economic group, and thus was stronger in negotiations with other countries. More importantly, it improved the competitiveness of Syrian products, and encouraging an increase in quality.

He believes that tariff rate quotas are already being implemented to replace import bans and quotas.

He felt that there would be a great deal of difficulty in the administering of direct payments. There are many renters, perhaps as many as 40-50 percent of the operators. It might be easier for cotton because of the licences for the areas in the Plan.

He felt that the marketing system was absorbing some of the transfers.

There could be a dual system of public and private (joint venture) marketing/processing firms operating in the same market. He felt that the public sector firms could compete if managers were given the flexibility to operate the companies competitively.

He believed that Syrian cotton and wheat meet international standards, while tobacco and sugar beets were minor domestically-oriented industries.

Interview Report

Thursday July 15, 2004

Dr. Bashar Al-Abrash

Consultant to the Head of the Planning Commission

Response to questions

Direct payments would be difficult to administer because there are many renters. There is also a great difference among output per hectare, depending on whether or not it is irrigated. There are already producers operating inside and outside the Plan.

On the issue of budget constraints, there does not seem to be a problem. The large losses of state trading companies are managed by the current budget.

Farmers have been getting a number of transfers from the reduction of production taxes and export taxes (2001). Fruit and vegetable exporters have been exempted from selling their hard currency to the central bank. They have also benefited from reduction/elimination of import duties on some of their inputs.

During the recent drought years, many producers had their debt repayments rescheduled or interest payments (?) waived. The interest payments were reduced if borrowers paid within a specified period. He felt that there was adequate long term credit, even though private sector loans were only 46 million SP., and total loans to the private sector were 2-3 billion SP.

He felt that there was considerable transparency of public sector firms, with internal audits, Ministry audits, and central accounting agency.

He felt that the change from price supports to input subsidies was happening, but the process was moving very slowly.

Annex 2: List of Participants at Workshop

National Agriculture Policy Center

July 27, 2004

Workshop Participants

Dr. Nabi Rasheed Mohammad, Deputy Minister of MAAR

Mr Yehia Bakkour, President, Arab Agronomists Union

Mr Sufian Al-Alao, Advisor, Prime Minister Office (former DM Ministry of Electricity)

Dr Shibli Abu Al Fakhr, Business Consultant (former DM, Economy)

Mr Nahi Shibani, Business Consultant

Mr Bashar Al Abrash, Advisor, State Planning Commission

Mr Erfan Alloush, Advisor, Ministry of Agriculture and Agrarian Reform, Chairman of the Agricultural Policies Commission

Mr Abdou Kasem, Professor of Agricultural Economics, Damascus University, Faculty of Agriculture, member of the Agricultural Policies Commission

Mr Ibraheem Juraida, Director of General Relations Dept., General Peasant Federation