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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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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 Central planning has been replaced by an indicative planning process for most agricultural products.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 20-25percent, and sugar beets by 100 percent. Similarly **net exports** of theses 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 theses 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 GDP[1]. 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 complementaries 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 Westlake[7] 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.

Wehrheim[8] 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 world-wide.[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 minimus* 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. Inpus 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.