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, s***ugar 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 15-30percent,*** 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, s***ugar production would likely remain unchanged***. If production of sugar was not required to receive the subsidized production inputs, s***ugar 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	Substantia l decline	Small decline
Wheat	Decline, world	20-25% decline	No change	20-25% decline	Substantia l 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