

Report No. 63

**Liberalisation of Crop Sector:
Can Bangladesh Withstand Regional Competition?**

Center for Policy Dialogue (CPD)

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The Centre for Policy Dialogue (CPD), established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together Ministers, opposition frontbenchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.

*In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of the CPD include **The Independent Review of Bangladesh's Development (IRBD), Trade Policy Analysis and Multilateral Trading System (TPA), Governance and Policy Reforms, Regional Cooperation and Integration, Investment Promotion and Enterprise Development, Agriculture and Rural Development, Ecosystems, Environmental Studies and Social Sectors and Youth Development Programme.** The CPD also conducts periodic public perception surveys on policy issues and issues of developmental concerns.*

*As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report contains the highlights of the dialogue on **Liberalisation of Crop Sector: Can Bangladesh Withstand Regional Competition?** organised as part of its ongoing agricultural policy research and advocacy activities with the International Rice Research Institute (IRRI) under the Poverty Elimination Through Rice Research Assistance (PETRRA) project. The dialogue was held at **BRAC Centre INN Conference Room, Dhaka on January 08, 2003.***

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Dialogue on

**LIBERALISATION OF CROP SECTOR: CAN BANGLADESH
WITHSTAND REGIONAL COMPETITION?**

The Dialogue

The Centre for Policy Dialogue (CPD) organised the dialogue on “*Liberalisation of Crop Sector: Can Bangladesh Withstand Regional Competition?*” as part of its ongoing agricultural policy research and advocacy activities with the International Rice Research Institute (IRRI) under the Poverty Elimination Through Rice Research Assistance (PETRRA) project. The Dialogue was held at the BRAC Centre Conference Room on 08 January 2003. Dr Mahabub Hossain, Head of Social Sciences Division of IRRI, Manila and a former Director General of the Bangladesh Institute of Development Studies (BIDS) presented the keynote paper titled *WTO and Trade Liberalisation for the Crop Sector*.

The paper was co-authored by Dr Uttam Kumar Deb, Research Fellow of CPD. Mr Abdullah Al Noman MP, Hon'ble Minister for Food, was present at the dialogue as the Chief Guest. Professor Ali Ashraf, former Deputy Speaker of the Parliament was the Special Guest at the dialogue. Mr M Syeduzzaman, Member, CPD Board of Trustees chaired the dialogue. The presentation was followed by an open floor discussion. Participants of the dialogue included high-level policy makers, political leaders, agribusiness leaders, academicians, development activists, and members of the diplomatic missions. List of participants is annexed.

Introductory Remarks by the Executive Director of CPD

Dr Debapriya Bhattacharya, Executive Director of CPD initiated the dialogue by welcoming the guests and participants. He said that the dialogue was very important to CPD for two reasons: (i) importance of crop sector in rural economic development; (ii) food grains are important strategic goods, the price of which quite often determines the political mood of this country.

Dr Bhattacharya mentioned that the privatisation of agriculture is still considered to be one of the rare successes of the privatisation process in the country. He added that though liberalisation started since 1980s, the manufacturing sector did not have much to show in case of privatisation. He recalled that three major sectors, namely textiles, services and agriculture were brought into the main stream of the global multilateral trading regime after the

successful completion of the Uruguay Round. “Agriculture till date remains as one of the most distorted international markets in the world and is one of the most debated sectors within the WTO current negotiation process. The level of export supports, domestic support and the issues of non-trade concerns which are associated with agriculture makes the subject very complicated”, he continued. However, he observed that the agriculture negotiation is not moving very fast compared to the movements in other parallel negotiating sectors, e.g. services.

Dr Bhattacharya opined that if the developing countries among themselves cannot agree on the agricultural issue, the fifth Ministerial Conference in Cancun, which is to be held during September 2003, will not turn out to be a successful one. He also mentioned that at present Bangladesh has a subsidy level which is much lower than the WTO allowable limit and under present circumstances we cannot upscale it.

Dr Bhattacharya pointed out that in the process of globalisation under WTO and integration with the region through the SAARC Preferential Trading Arrangement (SAPTA) and South Asia Free Trade Area (SAFTA) it is crucial to know what is going to happen to the Crop Sector of Bangladesh. He added that if comparative advantage cannot be achieved then we will not be able to compete and survive. “Whether Bangladesh will be producing rice at all twenty years down the line, a question as harsh as that”, he continued.

Dr Bhattacharya informed the participants that the current dialogue was the third in the series of dialogues organised under the CPD-IRRI-PETRRRA collaboration. Two dialogues held earlier were on seed policy and on rural non-farm economy.

Statement by Dr Noel P Magor

Dr Noel P Magor, Manager of PETRRRA Project elucidated that the dialogue falls under a project that is funded by the UK Department for International Development (DFID) which focuses on technology development issues for rice production, also contributes to policy dialogue on issues that impact on the livelihoods of resource poor farmers. Dr Magor carried on further by discussing various types of dialogues that were held as a part of the project and those which were going to be held in the near future. He recognised today’s dialogue being a very important one, as it is critical to discuss now, whether Bangladesh will be producing rice after 15/20 years if the crop sector is exposed to international competition under the trade liberalisation.

Introductory Remarks by the Chairperson

In his introductory remarks, the chairperson of the dialogue Mr M Syeduzzaman said that the subject of today's dialogue acquired additional importance for two significant reasons, one of which is the gradual globalisation of the trade sector and the opening up of our economy. The second reason, he identified, is the growing national and international attention paid to food security issues and reduction of poverty in the context of the millennium development goal. He thanked the Chief Guest and Special Guest and looked forward to have a successful dialogue.

Keynote Presentation by Dr Mahabub Hossain

Dr Mahabub Hossain started his presentation by stating that the issue was of great importance in the context of liberalisation of the overall economy. He then gave a brief outline of his presentation that included three important issues namely: the provisions of the Uruguay Round Agreement on Agriculture (AoA), the importance as well as concerns of the crop sector and finally the comparative statistics on unit cost of production and prices of the major crops of the country and the position of Bangladesh vis-à-vis other rice exporting countries, especially India. Dr Hossain further continued that he would explain the sources of difference in cost of production of rice in Bangladesh with the rice exporting countries in the region. This is important, as we may not have advantage now but we may acquire advantage in the future, if we know the sources for variation of cost and whether we could overcome some of the limitations in order to be competitive. He also would give an overview of comparative advantages of our crop sector and outline India's present trade policy regarding the crop sector output.

Dr Hossain started the discussion with a response to Dr Bhattacharya's question, whether Bangladesh would be able to produce rice after 20 years. He said that Bangladesh would continue to produce rice 50 years, or even 200 years from now. However, he cautioned that the real issue is whether the millions of marginal and small farmers, who produce rice, would survive at the price of rice they would get under liberalisation.

Commitments of the Uruguay Round Agreement

Dr Mahabub Hossain mentioned that there were basically three types of commitments under the Uruguay Round Agreement on Agriculture (AOA), namely, market access, domestic support, and export subsidy. The commitments under the market access call for conversion of non-tariff trade barriers to bound tariff equivalents, reduction of bound tariffs over time, and setting of "low" import tariffs for a fixed quota of imports. This should be done with the

provision that there should be a minimum access of the international products into the domestic economy/market, he added. The import should be three percent of the domestic consumption of the outputs for developing countries and five percent for developed countries.

On domestic support Dr Hossain said that the WTO member countries are supposed to include all kinds of trade distorting policies that they have, under one umbrella, called Aggregate Measure of Support (AMS), so that they can quantify how much subsidies and other supports are given through trade distorting measures and gradually try to reduce them. The maximum amount of support or subsidies that was agreed under this provision was 5% of output for developing countries and 10% in case of developed countries. He further added that policies that are not trade distorting in nature are excluded from AMS calculation. These include investments in R&D for development of improved crop varieties, transport infrastructure and market information, programmes for environmental protection and the direct payment scheme based on fixed area and production that subsidises farmers' income.

Regarding export subsidies, Dr Hossain informed the participants that member countries committed to reduce subsidies on 22 different agricultural commodities. He added that developed countries were required to reduce the value of export subsidies by 36 percent and reduce the quantities of subsidised exports by 21 percent during 1995 to 2000.

Dr Hossain then narrated the experiences of the developing countries. He said that there was a lot of expectations of the developing countries as a result of agreements on agriculture, which were for the first time brought under the Uruguay Round of discussion. Many developing countries assumed after the discussion that they would have access to markets, particularly as they are low cost producers for some agricultural commodities like vegetables, and fruits and they thought that they would be able to export those by having access to the developed country markets. However, that expectation was not fulfilled. The access remained limited by some other provisions, like Sanitary and Phytosanitary (SPS) measures that the developed countries used to protect their consumers, in the plea of food safety. They did not want to import commodities with toxic components and SPS provide safeguards in this regard. The developing countries have limited capacity to ensure these safeguards and earn the trust of developed country consumers.

Dr Hossain observed that the OECD export subsidies have increased from 31 percent in 1997 to 40 percent in 1999. Thus we see that instead of reducing the subsidies, it was increased. The most controversial was the US Farm Bill 2002, under which the government agreed to

provide an additional US\$ 135 billion in new subsidies over the next 10 years. He added that a US farmer annually receives about \$ 75000 from the government as direct support.

“Considering these experiences many developing countries, who initially expected that liberalisation would give them access to the export markets, are now trying to revert back some of the earlier liberalised policies. This is especially observed in India. India in mid 1990s went for trade liberalisation for many agricultural commodities, but if we observe their 2001–2002 Export Import Policy we find that they are now becoming more restrictive, he continued. Dr Hossain further argued, “I do not think we have any choice but to go with WTO because there is no way of reverting back”. “But we must try to see what is our position and that will help us to figure out what should be our policies, so that we can protect both our producers and consumers” he added.

Crop Sector: Importance and Concerns

On this issue Dr Hossain began with the question “why bother about the crop sector?”. He noted that the share of agriculture to the Gross Domestic Product (GDP) declines with economic transformation and development. The share of crop sector in the agricultural GDP also declines. He observed that this is still the case with Bangladesh. Dr Hossain pointed out that the crop and horticulture sector is still the largest segment of our economy, which produces about US\$ 8.5 billion and accounts for about 8% of the GDP at current market prices. He noted that the Income and Expenditure Survey of 2000 shows that total food grain consumption from the household expenditure is US\$ 9.8 billion, which constitutes roughly one fourth of the private sector consumption expenditure in Bangladesh.

Dr Hossain observed that the average import of the crop sector output for the 1998-2000 period was estimated at US\$ 1.2 billion, which is about 24% of the export earnings of Bangladesh, which is well above the minimum level of access to markets that is agreed under the Agreement on Agriculture. Dr Hossain opined that Bangladesh being a country with scarce foreign exchange, we should reduce imports of food grains,

Another important point noted by Dr Hossain is that the crop sector generates employment for 8 million workers, although for many of them it is not a full time activity. There are also 6–7 million landless agricultural workers, who draw livelihood from this sector as suppliers of labour. So if we import food grains we also import unemployment. Another major concern in this area was ensuring *food security*, which makes agriculture a sensitive issue in trade. The issue is important, not only for Bangladesh, but also for developed countries like Japan.

Dr Hossain pointed out that in Bangladesh a consumer consumes 170 kg of rice on an average, which provides almost 75% of his total calorie requirements.

The keynote speaker also focused on the inflexibility of resources tied in activities related to crop production. The land is the dominant factor of production and because of agroecological specificity, required in the production of different crops. Land cannot be shifted from one crop to another without loss in yield. He illustrated this point by citing the case of low-lying lands that remain submerged with water during monsoon season where only rice can be grown. He also observed that crop sector is the 'employer of last resort'. The sector employs basically family labour and illiterate people who do not have any other employment opportunity. He opined that a reduction in price of food grains might not necessarily lead to reallocation of labour to more productive activities outside the sector. So, he argued, policy makers ought to consider the fact that if the crop prices go down, farmers will be forced to accept low returns on their labour and land, which will accentuate the poverty situation in the country.

Dr Hossain mentioned balancing the interests of producers and consumers as another important issue for trade and price policy in the crop sector. Crop sector is the source of staple food in Bangladesh and majority of our consumers are poor. Therefore, high prices attained through protection may benefit the farmers at the cost of consumers, and vice-versa. A major concern for the government is to maintain stability in food prices, since price instability affects the food security of the poor. Dr Hossain noted that a fair price for farm products is also important for poverty alleviation, since two-thirds of the farmers operate a size of holding of less than one hectare, which is incapable of generating the income that will keep the above poverty level.

Unit Cost of Production and Prices

While analysing the variable cost of production per unit of rice in Bangladesh, India, Vietnam and Thailand, Dr Hossain mentioned that for rice, the variable cost of production per unit of output is the lowest for Punjab in India followed by Vietnam and Thailand. For Bangladesh the cost of production is higher in cultivation of boro rice than in aman rice. However, the cost for Bangladesh is lower than that in the neighboring Indian state of West Bengal. Dr Hossain argued that comparison with Punjab and Andhra Pradesh is however more appropriate since most of the marketable surplus of rice in India is produced in those two States. Compared to Thailand, which is the largest rice exporter in the world market, the cost

of production in Bangladesh is 62% higher for the dry season rice crop (boro) and 18% higher for the wet season rice crop (aman).

The keynote speaker also observed that the farmers of Bangladesh and India are getting relatively larger margins compared to Thailand and Vietnam. He noted that the price difference for rice among different countries is roughly in the order of 30% and cost difference in the order of 60%.

Based on these estimates Dr Hossain opined that Bangladesh would not be able to export rice in the world market at the prevailing costs and market prices. Considering the transport cost and trade margin, Bangladesh may be able to withstand competition from imports from India, but may not be able to do so from imports from Thailand and Vietnam.

For wheat, India (Punjab) is in a much superior position compared to Bangladesh. The variable unit cost of production is about 129% higher in Bangladesh compared to Indian State of Punjab, and the domestic market price is higher by about 14%. For sugarcane, Bangladesh's position is almost similar to wheat. The unit cost of production is almost double in Bangladesh compared to India (Maharashtra).

For rapeseed and mustard also India's (Rajasthan) position is much better as compared to Bangladesh. India's unit cost of production and farm-gate price is about 23% and 13% respectively lower than those for Bangladesh. Like Bangladesh India is also a major importer of edible oil. The domestic price of oil is determined more by the world market price and the rate of import duty, than by the domestic cost of production, he added.

Factors Behind Differences in Unit Cost

Dr Hossain mentioned the following sources of variation in cost of production:

- Agro-ecological and agro-climatic conditions of the land which determines the land suitability of any specific crop
- Use of modern technology, which determines the variation of yields in different region, and thereby effects per unit cost of production
- Difference of prices of major inputs like fertiliser, labour, irrigation etc.

He then informed that dialogue that the major source of cost variation that was observed for rice is the cost of irrigation, which especially in Bangladesh and India is highly sensitive to electricity and diesel prices. He noted that Bangladeshi farmers have to spend about 51 US dollars in irrigating one-hectare land whereas the irrigation cost is about 32 dollars in Punjab,

India and 18 dollars in Thailand and 26 dollars in Vietnam. He also added that low wage rate is not a favourable factor for determining cost variation. It is because countries having high labour cost like Thailand were able to reduce the cost of labour by using labour saving cost effective mechanical technologies for land preparation, harvesting and threshing.

Comparative Advantage of Crop Sector Products

Dr Hossain stated that whether a country can take advantage of new trading opportunities under the World Trade Organization (WTO) would depend on its comparative advantage. By referring to studies that estimated comparative advantage of various crops in Bangladesh for different ecologies and irrigation systems, he mentioned that the most recent study¹ using latest available input-output prices, market distortions and production coefficients show the following:

- At export parity price Bangladesh has comparative advantage in the production of aman rice, jute and vegetables. Bangladesh can gain from increase in production of these crops provided the surplus production can be exported to the world market.
- At import parity price Bangladesh has comparative advantage in the production of boro rice, potato, lentil and onion. Bangladesh will not be able to compete in the export market for these commodities. But taking into account the transport cost and trading margin, the cost of importing these commodities into Bangladesh would be higher than the opportunity cost of producing them within the country.
- Bangladesh does not have comparative advantage in the production of wheat, oil seeds, sugarcane and spices. The country would gain by importing these commodities, if the resources tied in the production of these commodities can be diverted to the production of other crops.

The speaker added that no country would be able to remove all of its distortions. So the market prices will still be the major determinant of whether we can import or export. He thought that even if the country implements the provisions of the Uruguay Round, all the distortions will not be removed, as the UR still allows high import tariff and thus the market

¹ Shahabuddin Q, Hossain M, Mustafi BAA, Narciso C. 2002. Assessment of comparative advantage in rice cultivation in Bangladesh. In: Sombilla M, Hossain M, Hardy B, editors. *Developments in the Asian Rice Economy*. Proceedings of the International Workshop on Medium-and Long-term Prospects of Rice Supply and Demand in the 21st Century, 3-5 December 2001, Los Baños, Philippines. Los Baños (Philippines): International Rice Research Institute. p 369-384.

distortion will continue. Therefore, comparative advantage alone will not dictate the transactions in the market.

Indian Trade Policy

Dr Hossain informed the dialogue that India, in recent years, has made significant shifts in her trade policies including increase in import duty for many crops. He observed three notable changes in India's policies related to agricultural trade:

- India has turned backwards from the policy of liberalisation initiated in the early 1990s. External trade has been brought back under the state trading agencies from private traders.
- For staple grains, India follows a policy of subsidised exports and highly restrictive import policy.
- For pulse and oilseeds for which the demand exceeds supply, India has followed a liberal import policy, although in recent years the import duty has been raised substantially.

Dr Hossain continued by saying that India now promotes rice and wheat exports under special incentives given to the exporters. The government provides rice and wheat to exporters from the government warehouses at almost half of the economic cost of procuring them from farmers. He also noted that India is also providing subsidies on transport and other things, which are permitted under the WTO.

Major Issues for Discussion

The keynote speaker finally put forward the following issues for discussion:

- Studies on comparative advantage for the crop sector activities in Bangladesh show that Bangladesh does not have comparative advantage in the production of wheat, sugarcane, rapeseed and mustard, chillies and certain type of pulses. Should Bangladesh allow unrestricted import of those commodities for the benefit of the consumers?
- If Bangladesh wants to protect these commodities what should be the form of protection? Can direct payment to farmers based on fixed area or production be made for pulses which are important sources of protein for the poor, since it is permitted under the provision of the WTO?

- Although Bangladesh has comparative advantage in the production of HYV rice, the unit cost of production is relatively higher than that of the rice exporting countries in the region. India now promotes export of rice and wheat under special incentives given to the exporters that subsidises almost half of the economic cost. What measures the government should take to protect the Bangladeshi farmers from dumping of Indian rice in the domestic market?
- A major factor behind the high unit cost of production of the HYV rice in Bangladesh is the cost of irrigation compared to the other countries in the region. India provides heavy subsidy on electricity that lowers the cost of irrigation. In other countries, the government subsidises the large-scale public sector irrigation projects. Should Bangladesh provide subsidy on diesel to reduce the cost of ground water irrigation or raise tariffs for the import of rice? What would be the rate of import duty?
- Although Bangladesh has comparative advantage in the production of rice, the supply becomes scarce during periods of natural disasters leading to abnormal rise in prices, which affects the livelihood of the rural landless and the marginal farmers. The government allows import by the private sector to cope with the situation. Should the government follow a policy of variable tariff rate in the annual budget on the basis of the assessment of the previous aman and boro harvest, and the prevailing world market prices?
- In India most of the import is done by the state trading agencies such as the Food Corporation of India (FCI). Should Bangladesh also follow the same policy?

Open Floor Discussion

Liberalised Import Regime for Wheat, Sugar and Edible Oil

Dr Sajjad Zohir, Senior Research Fellow of the Bangladesh Institute of Development Studies (BIDS) opined that sugar should be liberalised while he did not agree with the idea to liberalise edible oil.

Former Finance Minister A M A Muhith stated that import of technology should be taken into account while calculating the comparative advantage of edible oil. He added that it is one of the least researched items in the agricultural institutes and therefore, more research for development of improved variety may provide comparative advantage in future.

Dr Abdur Razzak, MP, General Secretary of the Awami League opined that comparative advantage alone could not justify our production decision for crops like sugarcane. This is grown in many *char* areas where other crops cannot be grown. He asked what will happen to the land when we will stop cultivating sugarcane and what would be the consequences to the livelihood security of the farmers of those harsh areas. He also pointed that we spend around Taka 1.5 billion every year for import of edible oil. Considering the scarcity of foreign exchange, he suggested to undertake argued for special programmes for increasing productivity of oilseeds.

Dr S M Elias, former Director General of Bangladesh Jute Research Institute (BJRI), disagreed with the keynote speaker on the issue that crops like wheat, pulses, sugar etc are comparatively disadvantaged. He added that the potentiality of the crops has not yet been exploited fully and there is also yield gap between research station and farmers' field. If we could promote new technologies to the farmers' field then yield per hectare would have increased and we would have had comparative advantage. He also asked for improvement in technology transfer process, better marketing channel and development of agro-processing industry. "Then these would be the most comparatively advantaged crops", he continued.

Dr Mahabub Hossain noted that we do not have comparative advantage in wheat, sugar and edible oil but if we want to protect these with high tariff rates, we would encourage inefficient domestic production of these commodities.

Cost of irrigation and subsidy on diesel

Professor Abdul Bayes, former Vice Chancellor of the Jahangirnagar University told that recent price hike of diesel will further increase the cost of irrigation in Bangladesh. Therefore, our rice farmers would be far less competitive with farmers of India, Thailand and Vietnam. Considering these realities, Bangladesh should provide subsidy on diesel to reduce the cost of ground water irrigation and pursue a stable price of diesel. He suggested that if the international price goes up, the price should remain as it is and the government should take back the bucks during a slump in the international market.

Ms Nilufar Begum, Deputy Chief of Ministry of Agriculture opined that we need to subsidise diesel for irrigation. Dr Jahangir Alam agreed that per unit production cost is higher in Bangladesh mainly for high price of irrigation. If Bangladesh wants to compete with other countries, per unit cost of production should be lower and per hectare yield has to be

increased. He opined that it would be better not to expose the poor farmers of Bangladesh to the world market at this stage.

Mr M A Rouf Chowdhury, Director of FBCCI identified that as most of the irrigation works are done in private sector, this proves to be another reason for high irrigation cost. He noted that private tube-wells are used in irrigation for which diesel is used. He also added “our competitors in Thailand and in India have institutionalised irrigational facilities made available to them and this is one cost disadvantage that we need not and should not follow”. He noted that the real solution lies in becoming more competitive in selected number of products. He also urged to control and find a solution to control the high diesel price.

Mr Harun-Or-Rashid Howladar, General Secretary, Bangladesh Krishok League also agreed that especially the price of diesel, which is mostly used in agriculture by irrigation, should not be increased as its price is not increased in the international market. He further noted that irrigation being the vital issue, the cost may be reduced by giving irrigation support by the government.

Mr A M A Muhith, Former Finance Minister argued for the expansion of electrification of irrigation equipment to reduce the cost of irrigation. He suggested that for rural fuel and also for all other uses LPG promotion should be given highest priority in the country. This is also important for domestic fuel reduction and for saving the environment. He noted that Bangladesh is supplying 40000 tons only while the demand is for about 200000 tons. Mr Muhith however emphasised the need for timely estimation of cost of production by the Ministry of Agriculture.

Dr S M Elias opined not to subsidise diesel as that might enhance smuggling to India. However, he argued that substitute of diesel or output price support would be more beneficial for the farmers.

Dr Hossain opined that the subsidies in diesel is a controversial issue especially for the trade across the borders. The subsidy will have a substantial cost in the government budget and put pressure on foreign exchange resources, as it is an imported input. Considering these, Dr Hossain suggested for rural electrification in the long run and substantial increase in public sector investment for expansion of rural electrification. He argued that even if the subsidies on electricity become a cost, it would not exceed the 5% or 10% provision that is allowed under the WTO.

Import Duty for Rice

Mr Jamal Uddin, former Economic Minister of Bangladesh Mission in Geneva, argues that India cannot maintain the export subsidies that they are giving under the WTO and have to cut down the rate over a period of time.

Dr S M Elias opined that the major crop import should be restricted in our country.

Dr Hossain further clarified the issue. He that some people argue that by giving rice at half price to traders India would not be able to continue its current policy of subsidizing exports, in the long run. He argued that India would continue to provide the minimum support price because the strong farm lobby would not allow India to scrap that policy. If they do that, they will continue to accumulate rice in surplus stocks since they have already downsized the public food grain distribution system through rationing. “Since the stock maintenance is also costly, they can easily continue to subsidise exports at least for a few million tonnes. But if they dump even half of that, it will obviously affect the interest of the rice farmers of Bangladesh”, he continued. Dr Hossain raised a question that as we are allowing now the private sector to import rice and our duty level is much lower than Indian duty level, should we go for the kind of duty rates that India has for various crops.

Professor Abdul Bayes of Jahangirnagar University stated “the choice is now between whether to put some subsidy on irrigation cost or to go for some tariff on import of rice”. He continued that he would support to put subsidy in diesel rather than to increase import duties, as he believes that import duty will not make much difference in trade of rice from India.

Dr Sajjad Zohir expressed his doubt that whether it would be really possible to do anything about the rice dumping as we have already failed to do anything about anti-dumping, on many other items.

Dr Hossain responded by suggesting that instead of a fixed duty for several years, we should determine the rate of import duty each year considering our own production situation, consumption needs and the international prices of the commodities.

Mr Harun-Or-Rashid Howladar agreed with Dr Hossain that the tariff rate should be variable. He added that it should be low when we are in food grain crisis but higher when we are self sufficient in food.

Comparative Advantage

Major General (Retd.) Amjad Khan Chowdhury of Pran Group said that while we are covering our deficit by importing rice from India where the price is lower than the prices prevailing in Bangladesh, we are having comparative advantage only in one crop, which is fine variety of aromatic rice. Realizing this, only one company from Bangladesh (Pran) is exporting aromatic rice all over the world under the unfavourable milling scenario in Bangladesh. The milling method, marketing etc. should be changed and as Bangladesh has advantage in quality rice, a lot of research should be done in this area,

Ms Nilufar Begum of the Ministry of Agriculture opined that we should encourage export of aromatic and superior quality rice.

Mr A M A Muhith, former Minister for Finance, mentioned that as agreement on agriculture is not limited only to crop sector, the other issues like livestock, fisheries, salt etc should also be taken into account, particularly when we are thinking of comparative advantages.

Dr Jahangir Alam stated that as we have deficit in most of the crops that we produce other than rice, we must provide subsidies to those crops and protect our poor farmers from world competition and also encourage them to increase our domestic production level.

Mr Jamal Uddin disagreed with Dr Jahangir and suggested that we should first find out which product deserve subsidy considering production and export possibility and provide subsidy to those crops only.

Trade Liberalisation

Major General (Retd.) Amjad Khan Chowdhury pointed that the price of raw materials is high in Bangladesh compared to India mainly because of the relatively higher population pressure in Bangladesh. Higher population increases the demand for crops, which in turn, pushes up the price. As there would never be a change in this situation, Mr Amjad suggested importing raw materials from India, which are much cheaper and process the food and export them again to the North-eastern States of India. He added that this would benefit both the Indian customers and the economy of Bangladesh. He thought that interdependence with the North-eastern hinterland of India for raw materials of agro-processing industry in Bangladesh was essential.

Both Ms Nilufar Begum, Deputy Chief of the Ministry of Agriculture and Professor Abdul Bayes, former Vice-Chancellor of Jahangir Nagar University agreed with Mr Chowdhury.

Liberalisation of Crop Sector

Mr Jamal Uddin opined that liberalisation is needed to export certain agricultural products and we should group these products, which we can really export. He added that we should encourage the export of jute, vegetable and Aman rice since the keynote paper shows that Bangladesh has advantage in these crops. He agreed with Mr Amjad Chowdhury in exporting aromatic rice. He urged that exporting these four products only could bring good revenue for Bangladesh.

Mr Harun-Or-Rashid Howladar, General Secretary of the Bangladesh Krishak League argued that only those countries who have already achieved self-sufficiency in food should raise the question for liberalisation in agriculture.

Special Support for Pulses Under the Blue Box

Dr Mahabub Hossain clarified that our cost for pulses are comparable to India's but are higher than the Middle Eastern countries. He asked whether we should give direct support to the farmers, for example on the basis of area, and thus consider this issue and take advantage of the situation that most developed countries are taking under the Blue Box. This issue needs attention since pulses are the major sources of protein for the poor.

Dr Jahangir Alam mentioned that the experience with direct payment to the farmers, as was done for the livestock sector, was not very appreciative. Therefore, he suggested avoiding this type of payment and preferred input subsidies and output supports. Regarding direct payment Mr Harun-Or-Rashid Howladar was of the opinion that it should be done for selected crops rather than for specific localities.

Dr N I Bhuiyan, the Director General of BRRI, opined that Bangladeshi farmers would continue to grow rice rather than switching to pulses production – mainly due to agro-ecological situation. Noting that pulses are very sensitive to environmental variation, he expressed his concern that area under pulses could not be increased much.

Mr A M A Muhith, former Finance Minister suggested Blue Box support for cotton and for high quality rice. In his view support for this crops would be helpful for expansion of these crops.

Import by Public Vs Private Sector

Stating the failure of the government of Bangladesh in making TCB (Trading Corporation of Bangladesh) a successful establishment Mr M A Rouf Chowdhury opined that any effort to put the business in the hand of the government is to stall disaster in the future. Thus, the

private sector should play the major role in the field of crop sector imports and trade, he added. Mr Jamaluddin Former Secretary General of FBCCI also shared the same view and said that more we go with the private sector the better for the country.

Mr Harun-Or-Rashid Howladar expressed his concern by saying that if the public sector is fully stopped from its interference in the food sector, how the government would monitor the food market. He also opined that without involvement of the government most essential commodities market like food might not be controlled in Bangladesh.

Professor Abdul Bayes disagreed with Mr Hawladar by reminding the participants about the good job done by the private sector in 1998, when Bangladesh was deeply flooded, by importing rice from India. However, the problem he identified was that if rice import is left to the private traders alone, they might import and thus the domestic prices will be depressed. On the other hand, if we depend on the public sector, they would import so less that we have to starve. He concluded, “So the choice should be to allow private sector to import rice but if there are any problem, like taking advantage of subsidies in India, then the government should use its various instruments like L/C margins or some other policies to control this situation.”

Dr S M Elias, former Director General of BJRI, took the issue further and mentioned that import should be done by private sector but appropriate import duty should be should be imposed by the government. He added that government should monitor and ensure quality of imported goods.

Dr Hossain informed that unlike India, Bangladesh allows the private sector to import rice. He stated, “I think that we have made a positive move by allowing the private sector to import, because that has many advantages also”. “But if we allow private sector to import, we should constantly need to review the situation across the border and try to use variable tariff rates for import”, he opined.

Agreement on Agriculture and the WTO

Mr Jamal Uddin mentioned that EU has submitted proposal for further negotiation on WTO and the CAIRNS group has raised certain objections. Mr Jamaluddin hoped that Bangladesh would take an active role in agriculture negotiation and some good negotiation would come out of the Cancun meeting in favour of Bangladesh and other LDCs.

Ms Anne Marchal, Second Secretary of the Delegation of European Commission expressed that EC has proposed developing countries and advanced developed countries to provide duty

free and quota free access to their markets for all imports from least developed countries. She also urged that developed countries should ensure zero duty access for at least 50% of the imports from developing countries.

Ms Anne Marchal proposed special safe guard instruments to protect food security products and to exempt the targeted domestic support policies that contribute to food security and agricultural diversification. Ms Marchal also mentioned the EU position regarding the ongoing agricultural negotiation. She informed that EC wants to go for substantial liberalisation on fair and equitable basis and wants to address the special needs of developing countries, which she considered important for Bangladesh.

On the same issue H E Ms Lorraine M Barker, Australian High Commissioner, stated that the draft proposal would bring only minimum improvements regarding the access to the EU or other major agricultural markets of the world. She added that increased access to the EU market is crucial and critical for developing country producers. They need access for full range of agricultural products and not just tropical products. She also pointed that EU proposal has not mentioned about Tariff Rate Quotas. She stated that EU should consider much more, particularly regarding the issues concerning the developing countries and should also state about issues like tariff reductions, rules of origin etc in their proposal.

Other Issues

Dr Sajjad Zohir urged that whatever policy Bangladesh takes, it ought to take into account the policies undertaken in India.

Dr Abdur Razzak MP, General Secretary of the Awami League focused on the issue of investment in agriculture. He stated that we must increase our investment in agriculture and decide our priority as well as level of allocation for agricultural research and extension, agro-processing, export facilitation, generation and dissemination of market information.

He added that quite often our donors and development partners press us to withdraw subsidies and farm support. In response to that in early 1990s before the Uruguay Round Agreement we have enthusiastically withdrawn our subsidies and have liberalised our policies under the structural adjustment policy. He opined that we can provide larger support to our agriculture without breaking any rule of WTO and can take advantage of various provisions to address our needs.

Ms Nilufar Begum opined that knowledge based technologies generated by research organisation need to be promoted to the framers through training.

Remarks by the Special Guest

Professor Ali Ashraf, in his speech thanked CPD for inviting him to the dialogue. He said that market would naturally pave the way but government must play its role in monitoring and facilitating trade. He also underscored the need for good management to remain competitive in the era of globalisation and observed that good management is lacking both at public and private sector in Bangladesh. He suggested targeted programmes for improving the management capability of public and private sector management personnel.

Highlighting the issue of food security he mentioned that food and livelihood security of our people must be ensured. Professor Ashraf also said that if we would like to take advantage from liberalisation through increased investment and improved productivity then we have to improve law and order situation and improve good governance.

Remarks by the Chief Guest

Appreciating the dialogue, the Hon'ble Minister Mr Abdullah Al Noman MP told, "This dialogue has laid a strong basis for a national consensus for an effective action plan for future. The challenges as well as opportunities before Bangladesh's agriculture have made it imperative to have closest possible coordination between the interdependent sectors".

The Minister mentioned about the various steps taken by the government to protect Bangladesh's agriculture from surges in imports and to enhance their competitiveness in the global market. He opined that future increases in agricultural production had to come essentially through major improvements in productivity, which is necessary both to increase agricultural exports and to ensure affordable food to all households.

The Minister pointed out that following five actions that he thought were essential for promoting our agriculture: (i) significant increase in science and technology input in agriculture, (ii) improved extension service and raising educational level of our farmers, (iii) urgent need to step up more public investment in agriculture, (iv) encourage private investment, and (v) promote efficient use of scarce resources.

Considering the current high level of wastage of agricultural products, the Minister said, "we have to contain our post harvest losses at a reasonably minimum level and make full use of the ongoing efforts for construction of rural storage facilities and cold storages etc". He emphasised the importance of diversification in agriculture, particularly with a view to attaining self-sufficiency in pulses and edible oils and also called for diversification to horticulture and animal husbandry. "We have to review all aspects of prevailing systems and

practices and come up with sustainable options and in order to achieve this objective we have to design and implement innovative packages which harness our traditional skills; strengths and advances in agricultural 'technologies' he continued.

On the issue of productivity increases, the Minister stated, "A major challenge before us is to reduce unit cost of production and raise productivity and quality of agricultural produce to match the global standard.

The Minister proposed to restructure the Public Food Distribution System (PFDS) with a view to reduce fiscal consequences without sacrificing the food security needs of the poor, vulnerable and disaster affected population. He opined that interest of our farmers and the long-term food security of the country may be jeopardised if agricultural products are dumped into the country. In this regard he told that the government will take adequate measures to ensure farmers inputs now and in future. He added that we are trying to create opportunity for export of our agricultural commodities for the benefit of our farmers.

The Minister thanked CPD, for inviting him to the august meeting and said that the recommendations of the dialogue would be very much helpful in formulating food and agricultural policy by the Government.

Concluding Remarks by the Chairperson

Mr M Syeduzzaman, Chairperson of the Dialogue thanked the Minister for his speech on behalf of everybody. He also thanked Dr Mahabub Hossain for his presentation. He observed that the discussion was lively and focused.

Then he shared some of his experiences and observations on the issues raised in the dialogue. He opined that increased investment in both public and private sector is needed to take advantage from globalisation. He observed that price of diesel and kerosene were kept same for several years because these two products look and smell alike and difference in price of these products provides incentives for adulteration. He added that very recently, for the first time, the differentiated prices of these products have been introduced making diesel is deared than kerosene. This might lead to a situation where kerosene will be mixed with diesel as a result of which farmers are likely to face frequent damage of their diesel operated machines. Mr Syeduzzaman also opined that the domestic price of Urea should be kept higher as compared to India as this would reduce the probability of smuggling.

While summing up the discussion the Chairman noted that the dialogue has successfully discussed the importance of food security and stabilisation of food prices, efficient use of

resources to reduce the cost of production, and most importantly the importance of appropriate public investment in exploiting the comparative advantages of Bangladesh in some crops and adoption of non-distorting policies. He added that the dialogue has also focused on the relevance and importance of appropriate trade policy, the issue of agricultural subsidies and role of private and public sector in distribution of agricultural inputs and food trade.

Finally, the Chairperson thanked everybody for their active participation and hoped that the government would be able to take appropriate policy measures based on the recommendations of the dialogue.

List of Participants

(In an alphabetical order)

<i>Mr Rafique Ahmed</i>	Director (Field Crops)
<i>Mr Shakil Ahmed</i>	Staff Lawyer, Bangladesh Environmental Lawyers Association (BELA)
<i>Ms Nazneen Ahmed</i>	Research Associate, Bangladesh Institute of Development Studies
<i>Advocate Sohel Ahmed</i>	General Secretary, Bangladesh Khet Mojur Samity
<i>Ms Nasrin Akhter</i>	Research Fellow, Bangladesh Unnayan Parishad
<i>Dr Jahangir Alam</i>	Member Director, Agricultural Economics Division Bangladesh Agricultural Research Council (BARC)
<i>Mr Aminul Alam</i>	Deputy Executive Director, BRAC
<i>Mr Qazi Khaze Alam</i>	Director, Natural Resources, PROSHIKA
<i>Mr Mahbub Alam</i>	Kansas State University, USA
<i>Mr Md Ruhul Amin</i>	Deputy Chief, Food Planning and Monitoring Unit (FPMU) Ministry of Food
<i>Professor Ali Ashraf</i>	Former Deputy Speaker
<i>H E Ms Lorraine M Barker</i>	High Commissioner, Australian High Commission
<i>Professor Abdul Bayes</i>	Department of Economics, Jahangirnagar University
<i>Ms Nilufar Begum</i>	Deputy Chief (PPB), Ministry of Agriculture
<i>Dr Debapriya Bhattacharya</i>	Executive Director, CPD
<i>Dr Nurul Islam Bhuiyan</i>	Director General, Bangladesh Rice Research Institute
<i>Dr Manik Lal Bose</i>	Post Doctoral Fellow, Social Sciences Division (SSD), IRRI
<i>Ms Gomez Puron Carmen</i>	EC Delegation
<i>Mr Rouf Chowdhury</i>	Director, FBCCI, Chairman, Mark Group of Companies
<i>Mr Md Faridul Hasan Chowdhury</i>	President, Bangladesh Rice Exporter Association (BREA)
<i>Mr Mizanur Rahman Chowdhury</i>	Executive Director, Association for Land Reform and Development (ALRD)
<i>Mr A K M Azad Chowdhury</i>	Research Officer, IRRI
<i>Mr Alamgir Chowdhury</i>	Consultant, Socio Consultant Ltd.
<i>Dr Uttam Kumar Deb</i>	Research Fellow, Center for Policy Dialogue
<i>Mr Pradip Kumar Dey</i>	Senior Scientific Officer, Agricultural Economics Division Bangladesh Rice Research Institute (BRRI)

<i>Dr S M Elias</i>	Former Director General, BJRI
<i>Dr Md Abdul Ghani</i>	Research Management Officer(PETRRA), IRRI
<i>Mr Dulal Abdul Hafiz</i>	Joint Secretary, Ministry of Agriculture
<i>Mr Syed Amdadul Haque</i>	Additional Director, Food Planning and Monitoring Unit Ministry of Food
<i>Mr Sharif Mosharraf Hossain</i>	Research Officer, Bangladesh and the WTO project, BIDS
<i>Dr Mahabub Hossain</i>	Head, Social Sciences Division, IRRI (Manila)
<i>Mr Harun-or-Rashid Howlader</i>	General Secretary, Bangladesh Krishak League
<i>Dr M Sahadad Hussain</i>	Director (Support Service), Bangladesh Agricultural Research Institute (BARI)
<i>Professor A M Muazzam Hussain</i>	Director, Research Division, BRAC
<i>Mr Hajiqul Islam</i>	Research Officer, Food Planning and Monitoring Unit (FPMU) Ministry of Food
<i>Mr M Rafiqul Islam</i>	SSO, Agricultural Economics Division, BRRI, Joydebpur
<i>Dr M A. Jabbar</i>	PSO, Agricultural Economics Division, BRRI
<i>Mr MJH Javed</i>	Research Associate, Centre for Policy Dialogue
<i>Mr Syed Jamaluddin</i>	Former Secretary General, FBCCI
<i>Mr Wais Kabir</i>	Chief Scientific Officer (CSO), BARC
<i>Mr Syed Rezaul Karim</i>	Director, BRAC Dairy & Food Project
<i>Mr Moin Al Kashem</i>	Executive Director of SCL Securities Limited Dhaka Stock Exchange Ltd SCL Securities Limited
<i>Mr Md Akhter Hossain Khan</i>	Principal Scientific Officer (PSO), RFSD, BRRI
<i>Dr Wajedul Islam Khan</i>	General Secretary, Trade Union Kendro
<i>Dr Fahmida Akter Khatun</i>	Fellow, CPD
<i>Mr Vianney Labe</i>	Food Security Adviser, European Commission
<i>Dr Noel P Magor</i>	Project Manager, PETRRA, IRRI Representative
<i>Dr Abdus Sattar Mandal</i>	Professor, Bangladesh Agricultural University, Mymensingh
<i>Ms Anne Marchal</i>	Second Secretary, European Commission,
<i>Ms Joanna Mcgowan</i>	Economic Adviser, DFID British High Commission
<i>Dr M A Hamid Miah</i>	Liaison Scientist, IRRI
<i>Mr A M A Muhith</i>	Former Finance Minister
<i>Dr B A A Mustafi</i>	CSO & Head of Agricultural Economics Division, BRRI

<i>Mr Abdullah Al Noman , MP</i>	Hon'ble Minister For Food, Government of Bangladesh
<i>Ms Thelma Paris</i>	Social Scientist (Gender Specialist)
<i>Dr Debi Narayan Rudra Paul</i>	CSO and Head, Agricultural Statistics Division, BRRI
<i>Mr Shafiqur Rahman</i>	Director (Standards), BSTI
<i>Mr Md Latifur Rahman</i>	Programme Specialist, USAID, American Embassy
<i>Dr A Atiq Rahman</i>	Executive Director , Bangladesh Centre for Advanced Studies (BCAS)
<i>Dr Ananya Raihan</i>	Research Fellow, Centre for Policy Dialogue
<i>Dr Mohammad AbdurRazzaque,MP</i>	Member of Parliament
<i>Mr Abdur Rouf</i>	Senior Assistant Chief, Ministry of Agriculture
<i>Mr Aniruddha Hom Roy</i>	Project Management Specialist, USAID, US Embassy
<i>Mr Ahmad Salahuddin</i>	Project Officer, PETRRA, IRRI
<i>Mr Subrata Sarker</i>	Research Associate, BIDS
<i>Mr Shamsuzzaman Selim</i>	President, Bangladesh Khet Mojur Samity
<i>Dr Rezaul Karim Talukder</i>	Professor, Department of Agricultural Economics Bangladesh Agricultural University
<i>Mr Md Zafar Ullah</i>	Senior Assistant Chief, Ministry of Commerce
<i>Mr Zaki Uz Zaman</i>	Project Officer, Southasia Enterprise Development Facility United House
<i>Dr Sajjad Zohir</i>	Senior Research Fellow, BIDS
<i>Ms Fatema Zohura</i>	Bangladesh Unnayan Parishad (BUP)

List of Journalists
(in alphabetical order)

<i>Mr Reaz Ahmad</i>	The Daily Star
<i>Mr A.Z M Anas</i>	The Independent
<i>Mr Raihan M Chowdhury</i>	The Financial Express
<i>Mr Mujtahid Faruqui</i>	The Daily Jugantar
<i>Mr Sk Enamul Haq</i>	The Daily Star
<i>Mr Najmul Hasan</i>	The Daily Ittefaq
<i>Mr Shakila Jesmin</i>	The Bangladesh Today
<i>Mr Kawser Rahman</i>	The Daily Janakantha
<i>Mr Sagar</i>	The New Nation
<i>Mr Shahed Siddique</i>	The Daily Bhorer Kagoj
<i>Mr Abudarda Zubair</i>	ATN Bangla