

ISO Workshop

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Sugar in the WTO: an Australian perspective

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Mr Chairman, thank you for the opportunity to address this important seminar and present an Australian perspective on "Sugar in the WTO". When Dr Baron invited me to participate, he asked that I address the topic from the perspective of both the *Global Alliance for Sugar Trade Reform and Liberalisation* and the Cairns Group.

Of course, you should keep in mind that I am a representative of the Australian sugar industry and not an Australian Government official. So while I can speak with some authority on the Global Alliance for Sugar Trade Reform and Liberalisation which is an industry alliance I am intimately involved in, the Cairns Group is a Government coalition of agricultural exporters. My views on the Cairns Group are therefore my own.

It will not surprise you to learn that India, our hosts for this ISO meeting, is a very active member of the Global Alliance. India is a very strong advocate for improving the world sugar trading environment. As Dr Baron has indicated, the topic for this seminar was largely an initiative of our hosts. I congratulate India on the positive and constructive stance it has taken on these important trade issues.

Many of you would be aware that the *Global Alliance for Sugar Trade Reform and Liberalisation* met in Guatemala City at the beginning of May to review progress that has been made in the WTO to-date and to consider the manner in which it will continue to maintain a focus on sugar trade matters. I am pleased to report at that meeting Global Alliance Members renewed their commitment to continue seeking constructive liberalisation of sugar markets.

Now let me turn to the topic at hand by providing an overview of the Global Alliance and its *raison d'etre* and briefly examining the parallels between the Cairns Group and Global Alliance positions in the WTO negotiations. In so doing, *I will* highlight the similarities of both the Cairns Group and Global Alliance with the broad negotiating mandate tabled in Geneva by the US. Before concluding, I will briefly address the policy developments occurring domestically in the US and EU and indicate their importance for the WTO.

Historical perspective

Cairns Group

The Cairns Group of 18 agricultural exporting countries, formed in 1986, established itself as a third force in world trade negotiations during the course of the Uruguay Round and, in doing so, effectively put agriculture on the multilateral trade agenda and kept it there. This changed the nature of international trade negotiations.

The Cairns Group is an excellent example of successful coalition building in the trade area. By focussing almost exclusively on one sector, it ensured that the Uruguay Round would not reach a successful conclusion without the inclusion of agriculture. The Agreement on Agriculture carried the Cairns Group's clear stamp. Importantly, the Uruguay Round's built in agenda for further negotiations on agriculture established the expectation that further liberalisation of agricultural trade would occur. It also provided a framework in which the future negotiations could be conducted.

The Cairns Group was very successful in establishing a framework for the agricultural negotiations. But, the detail of the discussions was dominated by the EU and US, traditional leaders in trade negotiations. In the end, their bilateral discussions produced the "Blair House Accord". This accord had the cereals sector as its focal point. Commodities such as sugar were captured collaterally in the agreement. Even then, the aggregation of commitments watered down their effect for individual commodities.

For the present negotiations, the evidence suggests the elimination of export subsidies, achieving significant increases in market access and the removal of trade-distorting domestic supports will again feature prominently. Even so, non-trade issue such as multifunctionality, labour standards and the environment will add complexity to the negotiations and could divert attention from the real agenda. For individual commodities such as sugar, it will be important to maintain a strong focus on securing new market liberalising disciplines and seeing these applied on a commodity-by-commodity basis.

Global Alliance

For this reason, in November 1999, a group of the world's major sugar producers (both exporters and importers) met in Seattle during the WTO Ministerial meeting to develop an approach that would ensure a focus on sugar in the new agricultural negotiations. They agreed to join forces and commence an effort to elevate the importance of sugar in the agricultural negotiations. The *Global Alliance for Sugar Trade Reform and Liberalisation* was established during this meeting when thirteen countries agreed and signed a Communiqué calling for WTO agreement on agriculture that includes positive, progressive and meaningful reform of the world sugar market by ensuring that sugar is included as an important element of the agricultural trade agenda.

The Global Alliance is a diverse group of sugar producing nations. The Alliance represents more than 50 per cent of world sugar production and more than 85 per cent of world raw sugar exports. As I mentioned at the outset, India (one of the world's largest producers and consumers) is a very active member, as is Brazil. Our membership includes several smaller producers including the increasingly important exporters from Central America. Leaving aside Australia, Canada and South Africa, all members of the Global Alliance are developing countries.

By reaching an agreement to collaborate on trade distorting issues, agreeing on common objectives and working closely with Trade and Agriculture Ministers in the Cairns Group the Global Alliance has been successful in elevating the profile of sugar in the trade negotiations.

Given that the member countries are major competitors in the world sugar market, agreeing a common negotiating framework for sugar has been a significant step forward. It reflects the fact the sugar industry in each country shares the objective of improving its market circumstances.

The Global Alliance is not just another global commodity group designed to share information. It incorporates three new ingredients.

1. It shows that there is a wide international coalition of producers seeking an improved world sugar trading environment.
2. As a group comprising largely developing countries, it provides an effective countervailing voice to advocates for trade protection.
3. It provides a basis for Trade and Agricultural Ministers to engage each other on sugar issues in the full knowledge that their domestic industries are fully supportive of their negotiating position. It adds strength to their hands. This flows through to the officials' level too. The environment within which the agricultural negotiations are occurring is being conditioned. Already, officials in Geneva and elsewhere are anticipating that much closer attention will be paid to sugar this time around.

But the task is just commencing. To continue to be relevant in the trade debate the Global Alliance plans to take a leading role. To this end, the Global Alliance is developing proposals and positions that are likely to influence the next stages of the negotiations. I do not propose to reveal the nature and extent of those plans today. It is sufficient to say that our activities will become apparent over the course of the next few months.

Despite the fact that it has no official recognition within the WTO, the Global Alliance is likely to have an influence on the agricultural negotiations as they relate to sugar. It will be developing targeted proposals that make a constructive contribution to the trade debate. At the aggregate level, the US and EU will no longer be able to limit the consideration of agricultural issues to matters solely of transatlantic trade significance.

The present WTO negotiations

Let me now turn to the present WTO negotiations on agriculture.

In finally bringing agricultural trade under a rules-based framework, the Uruguay Round took an important procedural step towards reducing agricultural support and protection. The Uruguay Round also committed WTO Members to fundamental reform resulting in correcting and preventing restrictions and distortions in world agricultural markets. Yet, despite these steps, agriculture remains today the most highly protected and subsidised sector in the world economy. The OECD has confirmed that support to farmers in industrialised countries, calculated at more than US\$327 billion in 2000, has returned to the high levels existing before the end of the Uruguay Round.

If agriculture remains the most distorted sector of international trade, sugar remains one of the most distorted sectors of agricultural trade. It is important to note that the sugar sector did not miss out entirely on liberalisation during the Uruguay Round, but progress was modest and restricted to outcomes such as confirmation of minimum market access volumes and export subsidy disciplines on sugar exports.

Cairns Group position

The Cairns Group is committed to building on the Uruguay Round outcome by seeking a fair and market oriented agricultural trading system as sought by the Agreement on Agriculture. To this end, the Cairns Group is united in its resolve to ensure that WTO agriculture negotiations achieve fundamental reform which will put trade in agricultural goods on the same basis as trade in other goods.

The Cairns Group focus is on liberalisation for agrifood products as a whole. Cairns Group proposals for reform of agricultural trade do not differentiate between particular commodity sectors. The reform proposals therefore apply equally to sugar as to other agricultural commodities, reflecting the diverse export interests of the membership.

Under the WTO Agriculture Agreement, negotiations commenced in January 2000. During the first year of the negotiations, the Cairns Group submitted four negotiating proposals: domestic support, market access, export competition and export restrictions and taxes.

- Domestic Support.

The proposal sought major reductions in domestic support leading to the elimination of all forms of trade and production-distorting support. It proposed that only non-distorting forms of support should be permitted within the context of declining levels of support. The proposal also recognised the need for enhanced special and differential treatment provisions to address the agricultural and rural development needs of developing and least developed countries, and increase the living standards of their populations.

- Market Access.

The proposal called on WTO Members to deliver, in an agreed timeframe, vastly improved market access opportunities for all agricultural and agrifood products. The proposal emphasised that the result must ensure commercially viable and non-discriminatory access on conditions no worse than those applying to other goods, while ensuring that existing access conditions are not undermined.

- Export Competition.

The proposal called for the complete elimination of all forms of agricultural export subsidies.

- Export Restrictions and Taxes

The proposal called for the development of improved disciplines on export restrictions and taxes, and the elimination of tariff escalation.

United States position

In its proposal for comprehensive long-term agricultural trade reform the United States lodged with the WTO an approach to correcting and preventing restrictions and distortions in world agricultural markets. The comprehensive nature of the plan was such that it made no exceptions for individual commodities. Three highlights of the US proposal are:

Export subsidies, to reduce to zero the level of budgetary outlays and quantity commitments through progressive implementation of annual reduction commitments over a fixed period

Market access, to maximise market access opportunities for all countries and to make more uniform the level and structure of tariff bindings for all countries for all products. The US is seeking to reduce substantially, or eliminate, all tariffs, including in-quota duties, by reducing them from applied rates through progressive implementation of annual reduction commitments over a fixed period.

Domestic Support, to reduce substantially trade distorting domestic support in a manner that corrects the disproportionate levels of support members use, while simplifying the way in which support is disciplined.

In respect of the US proposal, it will be important to ensure that the current high levels of domestic support offered by the so called emergency aid packages are not locked in.

Global Alliance position

The Global Alliance's approach on sugar compliments the objectives of the Cairns Group. It is also consistent with the broad thrust of the negotiating proposal tabled by the US.

The specific objectives the Global Alliance has set for sugar are that:

Export subsidies should be phased out

- The Global Alliance, like the Cairns Group the US and most economic commentators, recognises that export subsidies are amongst the most distorting of all trade policy instruments. They both reduce world sugar prices and distort competition for access to markets for all exporting countries.
- Domestic support must not distort trade
 - One outcome of the Uruguay Round was the introduction of policies designed to replace highly trade distorting price support systems with direct income payments to farmers. This change has not been applied to sugar in a meaningful manner and in some countries the strength of sugar prices relative to other agricultural commodity prices has encouraged strong increases in sugar production.
- Market access needs to be improved
 - To maximise effective market access opportunities for all countries to all markets, it is important that all non-tariff barriers are removed.

Like the Cairns Group, the Global Alliance recognises that agriculture plays a special role in many developing countries. As I have noted, most Global Alliance members are developing

countries. Agriculture has far reaching implications for employment and the growth and development in these economies. It is very important that the special status of agriculture in many developing countries be recognised in the WTO.

The WTO is not the only game

The signs are clear that the WTO negotiations on agriculture will continue for some time to come yet. Although there is rhetoric that the negotiations should conclude quickly, no end date has been set. In March this year, the negotiations have moved from their first phase into the second and more challenging stage. Against this background, changes to farm policy in both the US and EU are being considered.

United States

In the US the Farm Bill 2002 has begun to occupy the minds of the Congressional Agriculture Committees. Indeed the House Committee reflecting a very ambitious timetable established by Chairman Combest has received proposals from the different commodity sectors, completed its first round of hearings and proposes to complete the mark-up of its version of the Bill before the end of July. While the Senate Committee, lead by Senator Lugar, was taking a much more deliberative approach, one wonders how quickly it will swing into action in response to the proposals developed on the House side. Following the withdrawal of Senator Jefford from the Republican party, Senator Harkin (a Democrat from Iowa) will become the next Chairman of the Senate Agriculture Committee. This will significantly change the dynamics of the Senate Agriculture Committee and with it the development of the Senate version of the Farm Bill.

In testimony delivered to the House Agriculture Committee by Mr Ray Van Driessche on behalf of the US Sugar Industry highlighted the following areas of concern for the US domestic industry.

Short term

1. Close the "stuffed molasses" import loophole for imports from Canada
2. Address the Mexico access issue
 - The industry is seeking the renegotiation of the sugar access provisions of NAFTA
3. Eliminate the Marketing Assessment for fiscal years 2002 and 2003
 - US sugar producers pay a 1 per cent marketing assessment on cane and beet loan rates as a contribution to the US Treasury. When introduced in 1991 it was a contribution the reduction of the budget deficit
4. Eliminate the sugar forfeiture penalty
 - US sugar producers pay a US1c/lb penalty on sugar forfeited under the program. In FY2000 they paid USD 18.7 million in forfeiture penalties.
5. Provide sugar a share of the budget base line

- This would see a formal budget allocation made available for future commodity program expenditure. The amount proposed is USD610 million per annum.

Long term (the next farm bill)

6. Loan rate rebalancing
 - A 3.7 per cent increase in the loan rate is being sought. This would increase the loan rate for raw cane sugar to US18.67c/lb and beet white sugar to US23.75c/lb
7. Extend loans to cover the production of in-process sugar beet syrup
 - This would extend the loan provisions to in-process syrups, which are said to be less costly to store than crystalline sugar
8. Clarify the ability of producers to forfeit sugar loans made in September
 - Sugar producers must give 30 days notice of forfeiture. As all loans must be paid or forfeited by the end of the year, technically there is not sufficient time for loans raised in September to be forfeited before the end of the same month
9. Restore bankruptcy protection for growers
 - This would protect grower income in the event of a beet or cane processing company bankruptcy
10. Elimination of the 100 basis point surcharge on sugar loans
 - Loans are provided to producers on the basis of the CCC's cost of funds plus 100 basis points (1 per cent)

European Union

The short term political deadlock in Europe over the future of the sugar regime was resolved earlier this month when the Council of Agriculture Ministers has agreed unanimously on the new Sugar Regime to apply from 1 July 2001.

The agreement sees the continuation of the sugar regime for the next five years. On the surface, the regime is largely unchanged. For example, the intervention price is frozen; the national aids for Portugal, Italy and Spain are to continue; and new national aid for carried-over "C" sugar in Finland is introduced.

However there are some important changes. The storage costs regime is to be abolished. This may begin to introduce some seasonality into the market behaviour of producers as they seek to minimise the revenue effects of the policy change. The beet sugar production quotas will be cut by 115,000 tonnes. The quota system is likely continues to constrain the logical rationalisation of the EU industry. There will also be a mid-term review of the Sugar Regime at the beginning of 2003. The Commission will make a report "accompanied, if necessary, by proposals". Some may view this as an effective three year extension of the regime. This review will be occurring at a time sugar imports under the "Everything But Arms" proposal

will be much closer; and in the context of further enlargement of the European Community which, by then, will be much closer. It will also be occurring with the WTO agricultural negotiations much further advanced than they presently are.

It will be important not to underestimate the importance of the EBA proposal. The prospect of access to the EU may change the dynamics of sugar production in some of these countries. It will be interesting to see whether the EBA encourages increases in investment in productive capacity similar to those that occurred in Mexico following the NAFTA agreement.

Within the EU itself the dynamics of agricultural policy formulation appear to be changing as consumers and some policy members review the implications of BSE and FMD. For example, the EBA proposal was an initiative of the Trade Directorate and its impacts have needed to be accommodated by others. At the broader political level there is some evidence to suggest a shifting of approach by some governments in Europe. If this occurs, there is a prospect that the next review will bring a more wide-ranging reform of the regime which the Global Alliance would encourage.

Change appears inevitable. The Global Alliance would be pleased to engage in a constructive dialogue over the shape of those changes with all players involved, both within the EU and elsewhere.

The outcome of the US Farm Bill will be a very important determinant of the final position the US takes to the WTO agricultural negotiations. The outcome of the WTO negotiations will, in turn, be another important influence on the development of EU agricultural policy. Cast in this light, the next few months in Washington could prove to be pivotal for the WTO agricultural negotiations.

Conclusion

The Cairns Group was instrumental during the Uruguay Round in placing agriculture on the trade agenda. The new discussions will require the same concerted effort from the Cairns Group to achieve much tighter disciplines on agriculture, particularly if those negotiations proceed in the absence of a broader round. The lack of negotiating tension between the US and EU over sugar is the reason why third parties such as the *Global Alliance for Sugar Trade Reform and Liberalisation* will need to continue to mount the case for reform to ensure that sugar has a prominent position on the agricultural agenda.

Solving the sugar problem will require a coordinated effort. By working with governments and explaining the imperative and benefits of opening markets for our industries, the Global Alliance is determined to ensure that there will be positive, progressive and meaningful liberalisation of sugar policies as a part of the WTO outcomes.