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**Prospects for the WTO "Millennium" Round
Trade Challenges and Objectives: Cairns Group Perspective**

Ladies and Gentlemen

It is a pleasure to be able to participate in the 19 th European Agricultural Outlook 2000 Conference.

I am delighted to have the opportunity to present a perspective from a Cairns Group member country on trade challenges and objectives with regard to the forthcoming WTO round of trade liberalising talks.

In the time I have available I intend to cover the following key areas:

- What was - and wasn't - achieved in Seattle
- Underlying pressures for agricultural production and trade reform
- Cairns Group objectives for this round
- Multifunctionality
- Trade and the Environment
- The Sanitary Phyto-Sanitary Agreement, and
- Animal Welfare

I must emphasise that I am giving a New Zealand perspective, as a member of the Cairns Group, on these issues rather than the Cairns Group perspective. But I can assure you that there is solidarity within the Cairns Group and there is little daylight between my message and the overall Cairns Group position on agriculture.

Seattle

What went wrong in Seattle?

While all participating countries were responsible for the final outcome, the US did not help set the right tone in the lead up with their large increases in agricultural subsidy payments - although this probably had little bearing on the final outcome

Around the world the lack of political response to the misguided linkages between the WTO and the worlds problems encouraged the militant fools who subsequently protested on the streets of Seattle. We wanted the US to provide a venue for an important international meeting rather than a platform for these arguments to be played out. And by and large the trade ministers from the other 133 countries were too gutless to sort it out.

For all this, neither the protests nor any failures in the WTO process were responsible for the failure to launch the Round. Ultimately all member countries must share the blame but the

impasse between the EU (competition and investment) and the US (tariff peaks and anti-dumping) was significant.

Despite this, the Seattle Ministerial meeting got very close to successfully launching the Round. The text on agriculture was for all intents and purposes agreed. All parties will say that they conceded points that they did not want to and will be under pressure from their own farm lobby groups to do better next time. For example, the fact that "multifunctionality" dropped out of the text aggrieved many people here in Europe and also in Japan. The non-appearance of the word "elimination" with regard to export subsidies similarly aggrieved the Cairns Group.

As a result of the Seattle text all countries have a good understanding of what compromises are possible in making further progress beyond the mandated discussions on agricultural trade.

The protest groups were invigorated by the Seattle outcome. For all the wrong reasons many people in the world have a jaundiced view of the WTO. Faced with this, there is a real danger that many politicians may not demonstrate the required leadership to quickly get the Round under way.

Underlying Pressure for Agricultural Trade Reform

Some interest groups have celebrated the failure to launch the round in Seattle. However, their misplaced joy does not alter the fact that the world continues to be poorer for the want of further liberalisation of agricultural trade.

In their June 1999 report, Global Trade Reform, the Australian Department of Foreign Affairs & Trade calculated that halving the levels of world trade protection would lead to global welfare gains of approximately US\$400 billion per year. Similarly, full trade liberalisation would generate US\$750 billion per year.

This equates to 125 US dollars for each person on earth per year. This may not seem much to those of us lucky enough to live in wealthy developed economies, but gains of this magnitude would more than double the per capita income for the poorest people on earth.

I don't know about you, but faced with the reality of these numbers in a world that says it is concerned about poverty and the poorest people, I find it hard to be complacent or smug about the time that was lost with the failure to launch in Seattle.

The current wisdom is that we may have to wait until a new US administration is in place before real progress on the millennium round can be made. Maybe. But it seems to be a total contradiction that the US, as the valued champion of freedom and democracy in the world, can be such a hand-brake on economic progress which, in turn, is so crucial to world freedom and democracy.

Bringing the issue closer to home, the pressure for reform of the Common Agricultural Policy has not diminished either. Some European farmer groups may have welcomed the Seattle failure but it is doubtful that the EU Trade and Agricultural Commissioners did. They know that the CAP budget cannot handle EU enlargement and they need the external pressure of a multilateral round to drive through needed reform at home.

There is also background pressure from Article 13 of the Agreement on Agriculture, or the so-called "Peace Clause". If no progress is made as we close in on the end of 2003, many countries will become less interested in exercising "due restraint" and will want to challenge the most trade distorting domestic support and export subsidy arrangements through the WTO disputes process.

I think the Cairns Group would much prefer to see the resources needed to mount and defend such actions channelled into more productive work on agricultural trade liberalisation. However, the stakes are high. At the end of the day Cairns Group member countries have to achieve progress on agriculture and will take the necessary action - however reluctantly.

We also cannot ignore the pressures coming from the marketplace. The longstanding real agricultural commodity price declines, that have been driven by technological advance, cannot be overlooked by the bureaucrats shaping agricultural subsidy and trade policies.

In this regard, it was fascinating to read in the recent Millennium Special Edition of The Economist that the real price of English wheat has fallen 99.5 percent since the year 1316. Imagine what the CAP would be like if the bureaucrats in Brussels were trying to hold the line and maintain the real price of wheat from 1316.

You may think it is silly to even bring the price of wheat in 1316 to this argument. What is relevant is that over the last 700 years there has been a remarkable improvement in the health and wealth of people and efficient farmers have continued to prosper. Trade policy cannot ignore these simple facts.

Further, how long will it be before consumers and taxpayers in protectionist countries decide they have had enough of buying overly expensive food and funding illogical agricultural subsidies? Apathy has ruled because of the lack of transparency of both the direct and indirect costs of protectionism. However the rapidly expanding reach of global communications and the internet mean it is only a matter of time before this scandal is exposed and acted on.

Beyond these real world pressures lies the intellectual arguments to support trade liberalisation. It seems that what really annoys many people opposed to the Cairns Group position is that they cannot mount an intellectually credible answer to counter it. One only has to critically examine "multifunctionality" (as I will shortly) to see what I mean.

The Cairns Group critics then resort to claiming that our position is "extreme", or that they need more time, or that, in effect, what is intellectually robust for the rest of the world somehow isn't in their case.

As for the "extreme" label, I would like to know what is extreme about aiming to put agricultural trade on the same footing that has largely worked well for industrial goods?

What is extreme about pursuing the goal of significantly increasing global wealth, and thereby helping to address the environmental problems of the world?

And finally, is it extreme to point out that the sooner some of us stop doing the wrong things, the sooner all of us will gain?

Cairns Group Objectives for the next Round

The Cairns Group objectives for the next Round have been well communicated over the past couple of years.

The Group's objectives for the agriculture negotiations have not diminished because of the initial failure to launch in Seattle. We will continue to pursue the following objectives vigorously.

We seek the:

- elimination of all agricultural export subsidies
- significant improvement in market access provisions
- and significant reductions in trade distorting domestic support arrangements

Lets look at these three key areas in more detail.

Export subsidies. These subsidies are the most obviously damaging and no argument can come close to justifying them. The countries using these subsidies do so in an attempt to tidy away surplus production created by their overly generous production subsidies.

In doing so they not only depress the world price for the subsidised products but hammer developing countries and countries like New Zealand that produce specifically for export.

Developing countries are sick of trying to compete with unfair export subsidised products which damage their domestic industries. Subsequent special access arrangements for developing countries are of little use if their domestic industry has already been crunched by rich country export subsidies.

Some people may morally try and justify domestic support arrangements for agriculture on the basis that it is a sovereign issue and therefore they are entitled to be economically illogical if they so choose. But export subsidies are morally bereft as they simply transfer the problem elsewhere.

In GDP terms, the relative cost to the wealthy developed economies that choose to do this is nothing compared to the enormous imposition on the countries who suffer the damage.

The Cairns Group also wants export credits brought under effective international discipline with a view to ending government subsidisation of such credits.

Market access. Essentially the Cairns Group see no reason why agricultural trade should not be at least on the same footing as industrial trade where average tariffs at 5 percent are about one tenth of those for agricultural products - and where domestic and export subsidies hardly feature.

Uruguay Round tariffication was valuable but some countries have continued to block trade by maintaining very high tariffs for their most sensitive products while claiming that their overall tariff level has been much reduced. These tariff peaks need to be crunched down.

Market access for value-added products must also be expanded and it is important that tariff escalation is curtailed. Similarly, the administration of tariff rate quotas must not diminish the

size and value of market access opportunities, particularly in products of special interest to developing countries.

The Uruguay Round usefully established 5 percent minimum access but this has been circumvented in many cases. It is important that this is tidied up in the next round and that minimum access is significantly extended beyond five percent.

Domestic support. The Cairns Group would like to see the elimination of all trade distorting domestic support arrangements. Where these subsidies distort production and trade, they result in further distortions (such as restricted market access and export subsidies) to help sort out the mess.

It is important to differentiate between the distorting domestic support payments and those which are decoupled from production. The Cairns Group believes that any subsidies should be provided through targeted and transparent policies which do not distort production and trade. The Green Box provides ample scope for this.

Multifunctionality

Lets look at multifunctionality. We all know that agriculture has an impact beyond the production of food and fibre. But the Cairns Group firmly rejects any suggestion that this makes agricultural production unique or justifies special treatment for this sector.

Proponents of the concept argue that farm subsidies have to be paid to:

- keep the rural countryside looking good
- to provide employment and keep people in rural areas
- to preserve water and prevent flooding
- to reduce the average age of farmers
- to maintain family farming
- to preserve the environment

Why the concept of multifunctionality had to be invented and why production subsidies have to be paid to farmers to achieve these outcomes is puzzling.

There seems to be a big gap in the logic with regard to what happens in other industry sectors and in other countries that reject the multifunctionality argument in support of special treatment for agriculture.

Further, there is no reason why the Green Box cannot accommodate the concepts behind multifunctionality and thereby avoid the need to engage in an unproductive debate.

Lets look at some of these points in more detail.

Why has multifunctionality been condemned so strongly by many countries. Perhaps the answer to this question can be found by studying which groups are pushing the idea strongly.

Protectionists in Europe and Japan clearly lead on this - the same groups who have consistently tried to block agricultural trade liberalisation for other spurious reasons.

Therefore it cannot surprise the multifunctionality proponents that the rest of us see the creation of this concept and the woolly logic behind it as nothing more than a new pretext to try and justify agricultural trade protectionism.

In some respects the Cairns Group antipathy towards having multifunctionality recognised in the WTO Agreement on Agriculture is based more on what it may evolve to be rather than what it is currently said to be.

Truly decoupled payments do not threaten other countries. But payments that distort production and trade do.

Given the propensity of many countries to find ways of avoiding their apparent WTO obligations, the fear is that multifunctionality is not really defined and by recognising it in the Agreement on Agriculture it could then be used as a trojan horse to introduce payments to farmers that are distorting.

Without any production subsidies in New Zealand we are achieving very positive outcomes with regard to this list of desirable multifunctionality outcomes. In fact we are doing demonstrably better than the countries strongly promoting the concept.

Lets look at farm employment statistics to start with. OECD statistics released last year comparing the period 1986-88 with 1996-98 reveal the following:

| Farm Employment | |
|------------------------------------|--------|
| % change 1986-88 to 1996-98 | |
| United States | + 3.5 |
| Australia | + 1.5 |
| New Zealand | + 1.5 |
| Canada | - 8.0 |
| European Union | - 27.5 |
| Japan | - 35.0 |
| Korea | - 48.0 |
| Source: OECD | |

In the absence of any agricultural subsidy payments to New Zealand farmers, farm employment has increased 1.5 percent over this 10 year period while in the EU, Japan, and Korea farm employment has plummeted in spite of the heavy subsidies.

The US result may appear hard to explain given that their farm subsidy regime is pretty generous as well. However it would appear that the growth has occurred in the larger part of US agriculture which is not subsidised.

These figures strongly suggest that, if subsidy payments are being made to farmers to maintain farm employment, the policy is failing miserably.

The average age of farmers in New Zealand is 50 years. In Japan it is approaching 70 and rising. New Zealand does not have the stigma that is attached to farming industries that are propped up by subsidies.

Young people are not attracted to an industry where the government makes all the rules and caps one's ability to make money. It is little wonder that most young people are being lured away from the farms they were raised on where agriculture is protected.

If European and Japanese policy makers really want to lower the average age of farmers they should consider agricultural subsidy removal as the first step rather than inventing new forms of subsidies under the guise of multifunctionality.

The same sort of arguments are applicable to the goal of maintaining family farms. While personally I am very sympathetic to family farming (being a third generation farmer myself), the supporting arguments are essentially emotional and bear little or no relationship to the other goals identified by the "multifunctionalists".

Other farm ownership structures are capable of meeting all the other goals we might expect of the agricultural sector. However, I must add that family farming is still very strong in New Zealand even though we don't have subsidies and don't believe in multifunctionality.

New Zealand has attractive rural landscapes in the absence of production subsidies. In fact many people argue that our rural landscape has been enhanced since agricultural production subsidies ended 15 years ago because we no longer have government incentives to use land inappropriately.

The next question is, "why not pay farmers directly to maintain the rural landscape instead of lobbying billions of euros in subsidy payments at them in the hope that some will spillover to achieve this outcome"?

If the maintenance of hedge rows is important in the European countryside, why not make decoupled payments targeted at this outcome? If payments are made to farmers that do not distort production and trade, why should the rest of the world care?

Provided taxpayers are compliant with this use of their money why should the rest of the world care? The "Green Box" is already in place to handle this and it is not financially capped. The Common Agricultural Policy budget may be though!

The next point - one that is dear to the Cairns Group - is, "why should agriculture be singled out for special treatment? After all, the arguments behind multifunctionality can be attributed to all sectors of the economy.

Should all other industry sectors line up for payments if they too claim that they help maintain the rural population and environment? I suspect that a vast number of people could make this claim. Could the European budget handle this too?

To finish on multifunctionality. All cynicism and struggling with the economic logic of it aside, if Europe wants to make decoupled payments to farmers to achieve other outcomes, we have no objection. Any objections stem purely from our legitimate right to question proposed policies that have the potential to spillover and negatively influence agricultural production and trade.

Trade and the Environment

Environmental concerns are at the forefront of many peoples minds - and rightly so. As wealth rises, people desire a cleaner environment and have the means to pay for it.

Increased trade is important to raising global welfare. While it may be simplistic to claim that freer trade per se will improve the environment, the opposite claim that trade and the WTO damage the environment is plain rubbish. Therefore it makes no sense at all to restrict trade in pursuit of environmental objectives.

Within the Cairns Group the fear is that protectionists will want to use environmental concerns as an excuse to restrict trade. Rather than directly incorporate environmental issues in WTO agreements. I believe a far better approach is to try and eliminate the trade restricting practises that have negative environmental impacts; such as:

- generous production subsidies that encourage the over-use of chemicals and fertilisers; and
- export subsidies and restrictions on market access that crunch developing economies and leave them too poor to be able to care for their environment

Should examples arise where the flow of trade conflicts with credible environmental concerns, I believe the solution is to ensure that information flows. It is far better to have consumers empowered with information about environmentally questionable products than risk using trade blocking rules that could be far more damaging to the environmental movement in the long run.

The Sanitary Phyto-Sanitary Agreement

The SPS Agreement was a significant development from the Uruguay Round. The underpinning of WTO rules with sound science has provided far more certainty for the facilitation of trade. There have been some notable exceptions, such as the hormone beef dispute, but most people would agree that the SPS Agreement has made a very positive contribution to world trade.

However, there are two arguments being put forward in favour of renegotiating the SPS Agreement. Some argue that the enforcement of panel decisions is inadequate and want stronger enforcement provisions included. Others argue that a much stronger precautionary principle has to be introduced.

The latter issue is particularly important. The Agreement already includes the ability for countries that have identified valid food safety issues (and for which no sound science exists) to stop trade until a scientific determination can be made. The proponents of a more far-reaching precautionary principle want to go much further and be able to block trade when any doubt exists.

We all know that a negative hypothesis can never be proved in science and that some risk and some doubt is inherent with all food and food trade. A broad precautionary principle clearly opens the way for protectionists to unacceptably block trade.

There is a lot of sympathy for tougher enforcement but the fear exists that opening up the Agreement to fresh negotiation could lead to a dopey outcome on the precautionary principle. On balance, it does not make sense to re-open the Agreement.

Animal Welfare

Do animal welfare considerations have a place in WTO trade rules? Where would they fit? Like concerns about the environment, these are real issues we cannot ignore. However, it is very important to handle these issues correctly. Unless handled correctly, the accommodation of animal welfare concerns in WTO rules will be both ineffective and detrimental to agricultural trade overall.

The WTO legal framework refrains from passing judgement on the ethics of animal welfare where one country's morals, religion, and standards may differ from another. Who is right and who is wrong? Where no obvious method of objective analysis exists, it makes no sense to risk the integrity of the WTO by opening up the possibility of protectionists arbitrarily blocking trade.

During the Uruguay Round the EU unsuccessfully attempted to have welfare measures incorporated into the SPS Agreement. It is still not clear how specific animal welfare references could be introduced into the SPS or TBT agreements without the sound science required to maintain the credibility of these agreements overall. Anything less would be a large backward step.

Currently it appears that the best solution is to leave it to individual consumers to exercise their animal welfare preferences with their purchasing behaviour. If they object to battery chickens they can buy free range poultry products.

And should any business be silly enough to cruelly exploit animals, an international television expose would most likely be more powerful for bringing the errant company into line than questionable WTO rules. Consumers who refuse to buy the products from companies they despise have instant and real power.

Summary

The failure to launch the millennium round in Seattle was very disappointing for agricultural trade but the global pressure for reform has not gone away. In spite of the meaningful reasons why progress must be made at the WTO, the level of misplaced negative public opinion will weaken the political resolve to quickly launch the round.

The world is poorer while we wait. Not just in economic terms but environmentally as well.

The Cairns Group objectives of export subsidy elimination, significantly improved market access, and significant reductions in domestic support payments remain solid and will be vigorously pursued.

Multifunctionality does not make sense but use of the Green Box does.

Concerns about the environment and animal welfare continue to be important in the international context, but I believe should not be incorporated into WTO rules.

The SPS Agreement should not be opened for renegotiation in the next Round.

Perhaps the most important immediate challenge is to effectively communicate what the WTO is and how all people of the world can benefit from freer trade. This conference and all of us here can help achieve this.

Malcolm Bailey
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