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***Industry's Approach to Further Multilateral  
Trade Negotiations in Agriculture***

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## **The Seattle Ministerial**

For four days in December, the world will revolve around Seattle. Billed as the Olympic Games of world trade, the Third Ministerial Convention of the WTO will attract global headlines as 2,000 media descend on the city from all over the world.

Seattle is a trade-dependent city. The timber giant Weyerhaeuser exports lumber out of the Port of Seattle. Cargill exports bulk grain. Seattle is the home of Boeing, Microsoft, and the fast-growing internet stock Amazon.com.

Seattle has a history of hosting big trade events. It hosted the World Fair in 1962 and the first APEC Leaders' Summit on Blake Island in 1993.

The Seattle Host Organisation, co-chaired by Bill Gates from Microsoft and Phil Condit, the CEO of Boeing, has raised US\$9 million dollars to stage the event.

Although the Ministerial is a government-to-government meeting taking place behind closed doors it will draw thousands of onlookers: government bureaucrats, journalists, corporate trade officials, lobbyists, industry groups and activists from labour, environment and other causes.<sup>1</sup>

They will all be pressing their favourite issues: whether it's tariffs on lumber, subsidies for European-made jets, copyright protection for software, liberalisation of agriculture, protection of the environment or opposition to genetically modified foods.

The National Farmers' Federation and the presidents of the peak farm organisations in the fifteen Cairns Group countries will be there. As will French and Japanese farmers and over 700 non-government organisations (NGOs) that have officially registered with the WTO.

## **Agriculture and the Mandate for the Negotiations**

The Convention lasts for less than a week. It is not a forum for speech making. It is a forum for negotiating the final text of a Ministerial Declaration, which will define the structure, scope and length of the round.

The Declaration will include agriculture and services, which are in the "built-in" agenda agreed in the Uruguay Round. Industrial tariffs will probably be on the table and most WTO members are looking for a short round of three to four years. But beyond that, there is little agreement.

The European Union is calling for an "ambitious and comprehensive" trade round, which would include negotiations on investment, competition policy, the environment and customs reform.

The US wants a more "manageable" agenda and they describe the EU's proposals as the "ABA strategy – anything but agriculture"<sup>2</sup>.

Brussels naturally denies this. It says the round has to be comprehensive to bring on board all 134 WTO member countries.

Australian farmers and their Cairns Group counterparts are looking for a "tight" negotiating mandate with big cuts in agricultural support being the "centrepiece" of the round.

Cairns Group farmers have been waiting since the end of the Uruguay Round to achieve some meaningful liberalisation in agriculture. They don't want an overloaded negotiating agenda because it could easily "spin the wheels" on agriculture for another decade.

## **The Role of the Cairns Group in the new round**

There are many threats to progress on agriculture in the new round. The so-called "new trade agenda" - which is mainly a set of European demands - includes items such as health and safety standards, animal welfare, biotechnology, labelling and consumer information, the environment and "multifunctionality".

EU Trade Commissioner, Sir Leon Brittan, has said, "these issues in fact matter more to the general public than import duties and subsidies and in one way or another the WTO will have to address them"<sup>3</sup>.

America, our traditional allies in the agricultural trade liberalisation debate, is sending mixed signals on the new round. Organised labour and its allies have stalemated US trade policy for the past four years, persuading Congress to deny the Administration any new trade-negotiating authority, despite the strength of the American economy.

A ballooning US trade deficit in the midst of an election campaign has encouraged congressional moves to protect US steel and you will be well aware of the Administration's protectionist decision on imported lamb.

The Japanese are behaving true to form. The LDP government believes that the coalition government gave too much away in the Uruguay Round, so the Japanese want to go backwards on agriculture in the new round.

This gloomy outlook places the spotlight firmly on the Cairns Group of agricultural-exporting countries to advocate for a bold reform agenda. As Australia chairs the Cairns Group, it places a big responsibility on us. But such a leadership role is clearly within our capability. We led the debate last time around, and we can do it again.

## **EU agriculture reforms and the WTO**

The EU is probably our greatest obstacle to agricultural liberalisation. Europe's failure to decouple domestic support in the Agenda 2000 reforms means that it is obliged to argue for the maintenance of the blue box in the new round.

The Cairns Group wants the blue box eliminated. We want spending on blue box policies capped and subject to amber box reduction commitments. The clear intention of the European Commission, however, is to turn blue box direct aids into social/environmental payments that would qualify for the green box.

As far as Cairns Group farmers are concerned, the EU position is a scam. In the Uruguay Round the EU converted a large part of its “aggregate measure of support” (AMS) into compensatory payments, which were placed in the blue box and protected from international challenge by the peace clause.

These direct subsidies now provide nearly 60 per cent of the total income of EU arable farmers, compared with an average of less than 30 per cent prior to 1992-93. EU cereal production is now substantially greater than before the introduction of these so-called “production neutral” reforms.

The reality is that even if EU payments appear to fulfil the conditions for decoupled payments as defined in Annex II of the Agreement on Agriculture they do not act as a disincentive for production.

The EU knows that these payments cannot be justified. Hence the creation of “multifunctionality”. If the Commission can turn these payments into eco-compensations for the provision of public goods, such as rural environment and rural landscape, then they will try to legitimise them under the green box.

A major problem in the forthcoming negotiations will be the absence of agreed procedures for determining whether a stream of environmental benefits supplied by a green box policy justifies the cost of the trade distortion. There is a great danger that some countries will exploit the meaning of “minimal trade-distorting effects” and manipulate the green box exemption to maintain protection of their domestic agriculture.<sup>4</sup>

## **Australia’s objectives**

When the negotiations get under way it will be virtually impossible to avoid getting bogged down in this kind of detail. Therefore, an important objective for the Cairns Group will be to rise above this confusion and keep our sights clearly focussed on the big picture.

For Australia, the big picture is to secure a level of protection for agriculture that is no higher than exists for manufactured goods. Treating agriculture the same as other goods has some strategic advantages. The precedent for more liberal trade has already been set and the implicit message is that there is nothing special about agriculture.

It is the “agriculture is special” arguments that are so often used to justify inefficient and wasteful protection. Even where agriculture does have special requirements that justify intervention, policies targeted at those special needs are more efficient than subsidies for food production.

The National Farmers' Federation believes that the mandate for the upcoming trade negotiations in the WTO should be a single undertaking as opposed to a

series of packages that are concluded one after the other. A single undertaking, whereby nothing is agreed until everything is agreed, is an important negotiating position for a small country with agricultural interests.

## **The three pillars**

The Uruguay Round Agreement on Agriculture put in place a framework, known as the “three pillars”, under which distortions to agricultural trade could be reduced through WTO negotiations. If the new round of negotiations is to succeed in liberalising agricultural trade then reforms must be achieved in all three areas – market access, domestic support and export subsidies.

The new round will only provide minor benefits if liberalisation is limited to one area, such as export subsidies. This is because measures in the other areas can offset the effects of reforms in the first area. Australia will continue to suffer from distortions in world agricultural trade if a successful outcome on export subsidies is not matched by liberalisation in the other areas.

### ***Export subsidies***

The total elimination of export subsidies is, of course, a prerequisite for the stabilisation of world agricultural commodity markets. Cairns Group Farm Leaders have called for all export subsidies on agricultural products to be “outlawed”.

### ***Domestic support***

Export subsidies are closely linked with domestic subsidies; so changes in one has implications for accomplishing the goals of the other. Together, these policies are a fundamental cause of trade distortions in agriculture. Governments protect farmers through domestic policies, which are facilitated by export policies.

### ***Market access***

A substantial reduction in border protection measures and significant advances in market access are also a fundamental objective for Australia in the new round. The Uruguay Round tariffied non-tariff barriers and prised open previously closed markets with tariff-quotas, but in practice some countries were able to get around their minimum access obligations.

In order to achieve deep cuts in tariffs, Australia will have to make a bold call. For example, all bound rates could be brought down to current applied rates and then halved. This has a lot of appeal. It means that the “tall poppies” would face the biggest reductions.

But before such a call could be made, some serious issues need to be resolved. The level of commodity disaggregation is one of these issues. Aggregation in the Uruguay Round clearly allowed the EU to continue high support levels for sensitive commodities.

## **SPS Agreement**

Recently, members of the WTO completed a review of the SPS Agreement without recommending significant changes. However, a disturbing outcome from the review was an insistence by the EU on language that said, the SPS review “at this time had not been exhaustive”.

This reflects a desire by the EU to prevent WTO rules from eroding its ability to take health measures based on “consumer concerns” – for example the EU ban on beef produced using hormones, which is WTO illegal because it is not based on science.

Furthermore, it has been suggested that the EU will try to seek “clarification” of the SPS Agreement in the new WTO round.

The National Farmers' Federation is opposed to reopening the SPS Agreement since it could weaken its scientific underpinnings. Considerations of “clarification” or changes to the SPS Agreement do not fall under the commitment to negotiate agriculture in the built-in agenda.

## **Genetically Modified Organisms (GMOs)**

In April this year, US Agriculture Secretary Dan Glickman said of GMOs as a subject for the new round, “I do not see how this issue would not be raised. It’s a logical issue to talk about”. This statement is not surprising given the huge gap that has opened up between the EU and the US on GMOs.

Since the 1996 BSE scare, European consumers are no longer confident that agricultural science is looking after their interests as well as those of producers. Attitudes have hardened and there is growing intolerance to perceived doubtful practices in the food chain. GMOs, which are predominantly owned by American companies, are feeling the backlash.

Leading European food companies, like Unilever and Nestle, have announced that they will stop using genetically modified ingredients in their products sold in the UK. Geber, a subsidiary of Novartis, which is a producer of GM products, announced that it would no longer use GM ingredients in its baby foods.

This issue is serious for Australian agriculture, not only because access to modern biotechnology offers substantial benefits to the competitiveness of our industries, but also because the EU approach poses a fundamental threat to our existing rights in the WTO.

The European view is that science has not advanced enough to allow certainty that the GMO production process is safe. Australia should strongly oppose any discrimination among products on the basis of their production process and Australia should strongly oppose the use of trade barriers where there is no scientific evidence that a substance is harmful to human, plant, animal health or the environment.

Much of the public fuss about GMOs is misplaced, but governments and industry cannot ignore it. The best way to win public support is to offer full information; to regulate openly and responsibly; and to ensure that the benefits of GM food are passed through to the consumer.<sup>5</sup>

It is not in our interests to allow food fears and environmental qualms to become entangled in the rules of free trade.

## **Trade and environment**

Environment issues, however, are already closely linked with trade issues and there are suggestions that the environment should be on the agenda in the new round. The EU has called for the environment to feature prominently at the Seattle meeting and the G8 recently called for “environmental considerations to be taken fully into account in the upcoming round of WTO negotiations”.<sup>6</sup>

Deputy US Trade Representative, Susan Esserman, testifying before the House Ways & Means trade subcommittee, said that in the WTO the US is seeking to develop a way that would allow labour and environment groups to participate in the process along with business groups.<sup>7</sup>

These suggestions should be rejected. They are based on the false premise that there is something wrong with the WTO. If labour and environment groups are given an opportunity to push for green barriers to open trade, the trading system could collapse in on itself.

Any interference with WTO rules and open markets is anti-environment to begin with. It is economic progress and wealth creation that cleans up the environment.<sup>8</sup> Any relaxation of GATT principles in the interests of environmentalism could result in an upsurge in protectionism, thus undermining the improvement in both living standards and environmental quality that has taken place in the postwar period.

Environmentalists, however, have an entirely different view. Their formative experience is not the breakdown of the world economy during the 1930s, but what they perceive as the increasing environmental degradation of the last few decades. For the environmental community, it is the ecosphere, not the global trading system, which is fragile and in need of careful handling.<sup>9</sup>

These two world-views would suggest that the trade and environment communities are a long way apart, but this need not be the case. Renato Ruggiero, the recently retired Director-General of the WTO, said earlier this year:

The trade and environment communities are not divided over objectives. “We both want a strong, rules-based trading system as well as a strong and effective environmental system, and we both want the two systems to support one another” he said. The question is how do we arrive at these objectives. “We will not arrive there through unilateralism, through discriminatory actions and protectionism, with each nation free to impose its standards and priorities on the other following its own perceptions of the problem”<sup>10</sup>.

## Conclusions

The purpose of the WTO is to inject some discipline into the corrupt world of international trade. Its ultimate aim is to allow the principle of comparative advantage to rule. The “Millennium Round”, or whatever it is ultimately called, is Australia’s chance to enter the new century seeking a multilateral solution to the problems of international trade in agricultural products.

The National Farmers' Federation believes that there are grounds for optimism. But Australia will have to work hard to secure an international consensus for reform. Because Australia is one of the strongest advocates for agricultural trade liberalisation we have a responsibility to invest in developing the intellectual case for reform. This case must be built upon sound analytical arguments.

In the Uruguay Round Australia led the debate because of the power of our research and the professional way in which we presented our case. We have a high level of trade expertise in this country and a reputation as a leader and “ideas maker” in agricultural trade policy.

The over-riding objective for Australia in the WTO should be to secure a level of protection for agriculture that is no greater than exists for other goods.

We need a short round, of say three to four years, and an early priority for the round must be reform of the “modalities” for the implementation of commitments.

The National Farmers' Federation supports the early and complete banning of export subsidies; the abolition of blue box domestic supports; deep cuts in tariffs; and rules on subsidies in agriculture that are no less rigorous than those that apply to industrial products.

NFF is opposed to re-opening the text of the SPS Agreement in the new round and we believe that biotechnology issues should be resolved using science-based frameworks. We do not support trade restrictions based on production and process methods.

NFF does not support environment and labour standards being introduced into the new round and we are opposed to amendments to the exceptions provisions in Article XX, and the wider application of the precautionary principle in the WTO.

Farm leaders in the Cairns Group countries have organised a big program for their week in Seattle. This includes a press conference, distribution of literature to support our case for reform, and a seminar for the media to explain the issues I have discussed today.

We have a serious message to tell and there is a lot at stake. Our opponents are well organised and well resourced. Australian agriculture, and all of the businesses that are associated with it, will be the losers if industry does not make a maximum effort in pushing for ambitious reforms in agricultural trade when the new round of WTO negotiations are launched in Seattle.

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For more information on the Cairns Group farm leaders and the WTO see:  
**[www.cairnsgroupfarmers.org](http://www.cairnsgroupfarmers.org)**