



INSTITUTE FOR INTERNATIONAL BUSINESS, ECONOMICS & LAW

**Agricultural Trade Prospects Post-Cancun:
Competitive Liberalisation or Dead in the Water?**

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Good afternoon. Thank you for inviting me to speak to you today on the prospects for agricultural trade liberalisation in the post-Cancun period.

Like other participants in the conference, when I arrived in Cancun on September 9, I fully expected negotiations on agricultural trade liberalisation to be the most difficult aspect of the meeting. Agriculture is at the centre of the Doha Round of WTO negotiations and agriculture is where a large part of the potential benefits of this round can be expected for the developing countries.

From a global poll conducted by our Institute at the end of July, I knew Cancun was going to be a difficult meeting. At that time, only 29 percent of respondents thought they would leave Cancun with an agreement on agricultural negotiating modalities. Over 60 percent of the Geneva Ambassadors polled thought a good outcome in Cancun was unlikely. So the stage was set for a bruising battle.

That said, I never expected:

- that agriculture would hardly be discussed in Cancun,
- that the meeting would fail so spectacularly on the relatively unimportant “Singapore issues” and
- that we would leave Cancun with no direction at all for the agriculture agenda.

This is all particularly frustrating because the negotiation on agricultural trade reform in the WTO started not in Doha with the launch of the Round, but almost two years earlier in January, 2000. That meant there had been a great deal of preparatory discussion already when two years ago in Qatar trade ministers set important milestones for the negotiation, including the target for agreeing on negotiating modalities by the end of March this year. The declared objective for the Cancun meeting was to already have comprehensive draft schedules on the table.

It has been a very bad year in the WTO. Trade negotiators failed to meet the March deadline for an agreement on modalities. There are a lot of reasons for this, including the fact that the so-called Harbinson text put on the table at that time was hopelessly optimistic about what could be achieved so early in the negotiations and was quickly rejected by nearly all the players.

In June, the picture got a bit brighter when the Europeans agreed to some important internal CAP reforms. Things started to look up when in August, the negotiations were energized by the tabling of a joint EC-USA framework text on agriculture.

It's a little hard to follow what happened next, particularly in the case of the Cairns Group. From the moment they saw the EC-USA text, Australian negotiators were clear that they didn't like it very much. The text waffled on the issue of whether export subsidies would be eliminated, offered less than dramatic market access opening possibilities and maintained the possibility of certain trade distorting domestic subsidies.

But the Cairns Group didn't react formally. No new counter-proposal was tabled.

Instead, a significant number of Cairns Group developing country members – led by Brazil – splintered off the Cairns Group, joined with China and India, and formed the so-called G-21 Group which quickly reacted to the under-achieving EC-USA text with a radical text of its own. The G-21 text contains a number of unacceptable positions in terms of letting developing countries off the liberalisation “hook”, however, it clearly served a useful purpose in moving the centre of gravity in the direction of an ambitious result and energized the negotiation going into Cancun.

On the next to last day of the Cancun meeting a new Chairman's text was distributed. From the standpoint of those seeking ambitious reform of agricultural trade distortions, the new text was an improvement. It significantly tightened reduction commitments for domestic support and suggested a product-specific AMS approach that had Swiss negotiators contemplating suicide. It included a commitment to eliminate any possibility of trade distortions from green box subsidies. The market access section of the framework was also improved with a commitment to substantial improvement in market access for all products. The initially strong text on export subsidies was retained with no change. The September 13 text was a very good basis on which to move to the next phase in the agricultural negotiations.

Unhappily, we didn't get to see a real agriculture negotiation in Cancun, so we don't know whether there was a lot of flexibility in the main players' positions – including the G-21. Minister Derbez, chairing the Ministerial meeting, decided to focus the early part of the negotiations not on agriculture but on the so-called Singapore issues. These issues, especially the proposal for a WTO agreement on foreign direct investment are controversial – and have been from the start – but their economic importance is very small compared with agriculture. In my view it's tragic that the Cancun meeting was permitted to fail on this basis.

Nearly four years after the negotiation started immediately after Seattle and two years after the warm glow of Doha, we are pretty much dead in the water in Geneva. Not only do we not have agreement yet on the framework and modalities that were to have been agreed six months ago, but we do not even have a target date to aim for in terms of seeking agreement to an approach. This is seriously bad news for the WTO negotiations and it is seriously bad news for South Australian agricultural producers and traders.

And there may well have been other collateral damage from Cancun. What does the G-21 mean for the future of the Cairns Group and Australia's historic leadership role? It's probably too soon to try to answer that question, but it was clear in Cancun that Brazil was savouring its new leadership role.

Today, I have been asked to review the state of play in the WTO and also to address the implications of the bilateral FTA with the USA. I support the FTA negotiations, but I need to be clear that there is a world of difference between what the two agreements can produce. Only in the WTO will we be able to reach an agreement that reduces trade-distorting production subsidies lavished on farmers in the United States and Europe. Only in the WTO will we be able to achieve the stated objective of eliminating export subsidies to agriculture. And only in the WTO are we going to see something done about real access for agriculture products in markets like Japan and Korea.

WTO is the biggest game in town, but it's not the only game. This is recognized in both Canberra and Washington where Mark Vaile and Bob Zoellick are enthusiastic proponents of "competitive liberalisation". Competitive liberalisation is another way of saying that the right kind of regional and bilateral agreements can usefully complement multilateral negotiations and even work to put positive pressure on eventual WTO results.

The most immediate example of competitive liberalisation in practice is the free trade agreement now under negotiation between the United States and Australia. This negotiation, due to be completed by the end of this year, is a very significant development and the package that results from the talks will be an economically and politically important agreement for both countries.

Both the Americans and the Australians profess publicly that everything is on the table in the negotiation and that there are no *a priori* exceptions. Both say their objective is a comprehensive negotiation. "Comprehensive" in this context has to be interpreted to mean that no area is ruled out for negotiation and that requests for policy modifications and liberalisation will be entertained and acted on even if a final outcome does not produce immediate free trade across-the-board.

There will be elements to the FTA with important implications for agriculture – and South Australia's interests in agriculture trade. It will be important for Australia to use the FTA to secure improved access to the USA market for beef, dairy products and sugar – products that are all now heavily protected in the USA by tariff rate quotas with very high out-of-quota duties. Enhanced access to the American market is also important to the future of the wine industry in this country.

For their part, the Americans are looking for changes in the way the AWB conducts its operations and have suggested it would be important to review the scientific basis for many of the quarantine measures now maintained by Australia.

Last Sunday, I saw Andrew Lindberg on television maintaining that the AWB should be off-the table in the negotiations with the USA and that his firm's monopoly operations do not distort trade in wheat. He also argued that the system is the only way for Australian producers to get top dollar for their crops.

Historically, the U.S. view has been that the government granted monopoly leads to a lack of transparency and that single desk operators should consequently be forced to publicly notify purchase and sales prices as well as transactions costs. We will see what happens to the single desk in the FTA, but I can tell you that I have met some people here in South Australia who wouldn't mind seeing some changes to the way AWB conducts its business.

Both the USA and Australia subscribe to the WTO agreement on sanitary and phytosanitary measures and both agree that quarantine measures are necessary and should be based on scientifically sound risk assessment. But this does not amount to a blank check in setting quarantine regulations and testing methods. A lot of people believe certain Australian

quarantine measures are over the top. Australia lost a WTO dispute on quarantine measures affecting salmon imports. Recently, the European Communities has brought a WTO challenge on other Australian measures. In July, the US won a WTO case against Japanese fire blight restrictions. Australia has been excluding apples from New Zealand and elsewhere using similar restrictions. And I won't say any more about this issue at this stage other than to note that I don't know of anyone who has ever successfully imported a chicken into this country.

To be credible Washington will need to find ways to significantly liberalize existing barriers to beef, dairy and even sugar imports from Australia. With a degree of creativity in the negotiations, this should be achievable.

We should start by looking at the recently concluded USA-Chile FTA. I understand that a similar approach has been tested with Australia. Assuming this is correct, the Chilean agreement's provisions for market access in agriculture seems to have both good news and bad news for Australia. For beef, Chile will gain unlimited access to the U.S. market at in-quota tariff rates after just four years. In dairy (cheese, milk powder, condensed milk and "other" dairy products), Chile will see quantities available to its exporters increased by around seven percent every year until limitations are fully removed in year 12. In sugar, the year-on-year increase is only five percent, but restrictions on quantities are again totally removed in year 12.

The good news is that nothing has been kept off the table and even these sensitive products will be subject to eventual full liberalisation in the USA. The bad news is that it may take a few years to get there – at least in dairy and sugar. No doubt the length of the transition period is the focus of Australian demands in the talks.

Earlier, I said we needed a bit of creativity in the FTA negotiation. It's well known that the Australian dairy industry successfully undertook a series of structural adjustments, the outcome of which has been the focusing of producers and processors on responding solely to market demands. In the global context, the industry is a "fair trader". In addition, the industry, while efficient, is small compared to other world producers and its likely focus in the U.S. market would be on shipping increased quantities of value added dairy products (mainly cheese) not the bulk dairy commodities (milk powder and butter) increased imports of which would burden the operation of the American support program for dairy.

Australian dairy exports to the USA in 2001 amounted to just US\$ 84.3 million and a four-fold increase in that trade (an amount Australia might reasonably be expected to achieve over the medium-term if trade were liberalized) would put total imports from Australia at just 1.8 percent of the value of the gross value of producer milk receipts in 2001.

The numbers are pretty small seen from the US side, but sometimes even small numbers can be seen as creating problems for a protectionist American industry. In July, the American National Milk Producers Federation adopted a program that seeks to raise prices by fostering a ten percent reduction in dairy production levels. In my view, if Australia is going to get a better deal than Chile in dairy, it's going to have to clearly identify categories of product that are not seen as directly impacting American price levels.

Sugar is an altogether different question. Sugar policy in the United States market has fostered price levels so high that other industries like corn sweeteners depend upon continued high sugar prices for their own continued profitability. Actually, while Australia has made access for sugar an issue in the FTA talks, it is not at all clear that Australian sugar producers would benefit from enhanced access to the American market. This is particularly the case if the United States also liberalizes trade in sugar in the FTAA or USA-Mercosur

contexts. While Queensland was once the competitive leader in world sugar markets, Brazil is now achieving cane growing costs 30 to 40 percent below Australia's.

Recently I attended a conference in Perth where the President of the Western Australian Wine Industry Association, Denis Horgan, suggested that access to the American market is critical to the survival of Australia's 1,581 small and medium wineries. Horgan maintained that small wineries in Australia are being locked out of the domestic market by the Wine Equalisation Tax that results in their having to pay two and a half times the tax per litre that the 20 majors accounting for 95 percent of domestic wine sales do. This leaves the small operators with no alternative to exporting if they are to remain commercial viable. The USA is now the largest market for WA premium wine and the industry has a number of objectives in the AUSFTA negotiations designed to increase its access, including issues relating to tariff reduction, labelling and distribution. These issues are all the more important given that South African and Chilean wines now enjoy preferential access to the American market.

Wrap Up

Time to wrap this up. What are the prospects for agriculture and specifically South Australian agriculture in the post-Cancun period? The story is decidedly mixed.

While the FTA is no substitute for the WTO for agriculture in terms of dealing with a range of global trade distortions, enhanced access for wine and other agricultural products can make an important contribution to these industries' future economic development in Australia. Even in sensitive areas, I think we can reasonably expect Australia to gain enhanced access to USA markets as a result of a negotiation intended to end in just a few short months. And I don't see any large down-side costs to Australia of obtaining this access.

The WTO Round – on the other hand - is pretty clearly dead in the water and likely to remain moribund for some time. Don't expect the Doha Round to end in 2004. An added complication is that there may be some real fireworks in Geneva as a result of the failure of Cancun to extend the so-called "Peace Clause" shielding agriculture from dispute settlement which will expire at the end of this year.

Thank you for your attention.