



## **AN OPEN AND EFFICIENT GLOBAL FOOD SYSTEM**

BIAC calls upon OECD governments to work together with the private sector in building an open and efficient global food system. To achieve that goal, prompt action is required to:

- Promote further reform of agricultural policies
- Eliminate existing barriers to agricultural trade and investment
- Improve living standards and accelerate economic growth world-wide, particularly in the developing world
- Ensure better food quality, consumer protection, and enhanced environmental sustainability.

### **Background**

Globalisation of the world economy and industry has accelerated since the early 1980s. It is being driven by international trade and investment and the integration of the world's financial markets, spurred further by rapid advances in transport, telecommunications, and information technology. Its causes are many and complex, but its effects are clear. Globalisation is a major contributor to world economic growth, prosperity, and higher living standards.

Globalisation has come to the agro-food sector as well. Globalisation has resulted in greater opportunities to export and import agricultural products from an expanding list of countries. Trade in agricultural products has climbed steadily, and trade in processed products has been especially robust. Trade expansion has been accompanied by an even more dramatic increase in foreign direct investment in this sector. Data from the OECD show that foreign affiliate sales world-wide exceeded processed food exports by a ratio of 5 to 1, although the pattern varies markedly by country. For example, for U.S. companies, sales by foreign affiliates are approximately four times exports of processed food.

Despite these favourable trends, government intervention in the agro-food field is still more intrusive than in any other sector and can have an adverse impact on international trade flows. New efforts to reduce government intervention and liberalise agricultural trade are necessary to expand the benefits of globalisation in the food and agricultural sector to a growing and increasingly demanding world population.

Given the increasing pressure from global markets, it is imperative that agriculture in OECD progresses into the next century on a sound competitive footing. Greater efficiency (including lower costs) and more flexibility in the agricultural sector are, in turn, essential for the downstream activities of the agro-food industry, which themselves face increasing competition in domestic and international markets.

## **Objectives**

### ***1. Promote Further Reform of Agricultural Policies***

Although there has been much progress in the past ten years, the level of protection and support to agriculture, as measured by the OECD, still represents 35% of the value of agricultural production in OECD countries. Some countries have levels of protection that exceeds 70%. Overall market price support still accounts for 60% of total support. Furthermore, within OECD countries total transfers from consumers and taxpayers due to agricultural policies totalled \$280 billion or 1.3% of GDP in 1997. Protection on this scale impedes innovation and growth as governments use supply restrictions of various kinds to limit the size of surpluses which often can be disposed of only through costly subsidies.

As OECD Agricultural Ministers stated in the communiqué concluding their meeting in Paris on March 5-6, 1998, policy reform is an ongoing process that is not yet complete. More needs to be done. the shift away from price support towards direct payments and other policy measures less distorting to production and trade must be intensified. BIAC fully supports the call by Ministers for a policy framework to ensure that the agricultural sector:

- responds to market signals
- is efficient, stable, viable, and innovative
- provides consumers and the food industry with access to adequate and reliable supplies,
- contributes to the sustainable management of natural resources and to the quality of the environment
- promotes food security at the national and global level.

### ***2. Eliminate Existing Barriers to Agricultural Trade and Investment***

Agricultural trade is freer since the conclusion of the Uruguay Round, but tariff levels remain high, non-tariff measures continue to inhibit trade and investment, and export subsidies distort the operation of agricultural markets. Agricultural negotiations in the WTO scheduled to begin at the end of 1999 provide an excellent opportunity to confront the remaining barriers to trade in the agro-food sector by lowering tariff levels; attacking technical barriers to trade; reviewing the trade impact of sanitary and phytosanitary measures and quality standards; and imposing strict disciplines over export subsidies and export restrictions. Regional negotiations on agriculture under the framework of the New Transatlantic Marketplace, the FTAA, and APEC can give strong added impetus to WTO work. In approaching these regional and multilateral negotiations, we urge OECD and other WTO members to be mindful of the strong linkage between agricultural trade policy measures and domestic policy measures. As OECD Agricultural Ministers have stressed, "further reform of domestic and trade policies has to be compatible."

### ***3. Improve Living Standards and Accelerate Economic Growth World-wide, Particularly in the Developing World.***

Economic growth rates in developing countries have significantly raised global living standards. This greater wealth coupled with population growth has increased the demand for higher value-added foods. Greater variety, improved quality, increases in supply, and convergence as a result. To meet these demands, the private sector must work with governments to achieve the most efficient, co-operative, reliable, safe, secure, and sustainable food supply. An open food system will further enrich the lives and improve the living standards of all citizens, as well as make food more available at an affordable cost to those who have in past been left out of the food chain.

Efficiencies in the food and agricultural sector will complement and promote economic development and trade liberalisation policies throughout the developing world. Such trends will also lessen environmental impacts resulting in more efficient use of water, land and energy. A modern, efficient food production and delivery system is a necessary component in achieving macroeconomic, environmental and social objectives in a sustainable manner. The agro-food industry contributes to protection of the environment and sustainable management of natural resources in agriculture through good farming practices. Governments should encourage voluntary industry initiatives to promote best practices, hygienic production, and environmentally sustainable food products and production techniques.

The challenge for developing country governments is to meet rapidly growing consumer requirements for a variety of quality food products through domestic production, investment and trade. As regional economies become increasingly interdependent, there is a growing awareness by governments that full trade liberalisation requires a set of mutually complementary initiatives and agreements. Improvements in the efficiency and safety of food production and distribution will have a beneficial cascade effect on all sectors. Lower cost, greater availability, and increased diversity of food will provide direct benefits to consumers through improved nutrition and augmented disposable income.

#### ***4. Ensure Better Food Quality and Consumer Protection***

Consumer concerns, particularly in industrialised countries, have mounted because of scare over the outbreak of food-borne diseases (BSE, E-Coli, listeria, etc.) and the increasing use of genetically engineered products (seeds, plants, and animals) and growth-promoting hormones. These consumer concerns should be addressed, but without erecting non-tariff barriers to trade. The crucial role of intellectual property rights for bioengineered seeds, plants, and animals as a fundamental basis for innovation must be maintained in inter-governmental negotiations, such as the UN Biodiversity Convention and its Biosafety Protocol.

Under an open food system, governments should work in co-operation with the private sector in developing acceptable standards and in negotiating mutual recognition and equivalency agreements. Public and private sector collaboration is essential to satisfy consumer demands about food safety and quality and to minimise the risk of proliferating barriers to the free flow of food and agricultural products. Measures to provide information to consumers, such as labelling, should provide sound science-based, non-misleading data, and should not function as non-tariff barrier to products traded between countries. Moreover, governments have a role to play in disseminating information, to deepen and broaden knowledge and understanding. Improved understanding will help all parties, from technicians to consumers, make appropriate choices about what new technologies offer.

#### **Strategy: Giving the Agro-Food Industry a Voice in Policy Deliberations**

Looking ahead, the agro-food industry needs more clearly defined role for consulting with governments about the industry's priorities in agricultural reform efforts, agricultural trade negotiations, and food safety programs. The Ministerial communiqué refers to the need to "improve the dialogue with non-governmental organisations, in particular those representing farmers, other actors in the agro-food sector including consumers, and those concerned with agriculture and the environment." The agro-food industry must be active partner in that dialogue, providing industry-driven solutions to agricultural and food problems. The industry is a major overseas investor and brings unique expertise to any discussion of agricultural reform, trade liberalisation, or practical problems of operating overseas. It is essential link in the food chain.

BIAC would like to ensure that manufacturers of processed goods and service providers in the agro-food sector have an opportunity to comment on plans to reform the agricultural sector and liberalise trade.

**A Definition of the Key Elements of an Open Food System.**

1. Food prices that respond to world market signals.
2. Elimination of government price support systems and a reliance by governments on direct payments to producers and other measures that are less distorting of trade and production.
3. Free, non-discriminatory trade and investment in the agro-food sector.
4. Development of infrastructure that ensures that rapid, safe, and efficient production, processing, and transportation of food, both between and within countries.
5. Strengthened regional and international co-operation to ensure that technological advances in food production and processing reach all economies, and to develop best practice norms that cross borders.
6. Harmonisation and equivalency of food regulatory and control systems, to reflect shared values.
7. Protection of the environment and sustainable management of natural resources in agriculture through good farming practices.
8. Adoption of best practice, cost effective, scientifically sound, and environmentally sustainable food products and production techniques.

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