



## **BIAC Discussion Paper**

### ***High-Level Meeting of the Committee for Agriculture, September 2001***

## **Agricultural trade and the OECD: An opportunity to build an open, efficient and safe food system**

### **Introduction**

With the WTO agriculture negotiations offering governments an excellent opportunity to continue the pursuit of open markets and expanded trade in food and agricultural products, the OECD has a unique role in developing tools to better understand the economic consequences of policy decisions. Greater access to international markets and trade will ultimately benefit *all* countries and stakeholders. Establishing a sound, global framework for a dynamic, fairly operating market will make a significant contribution to lifting communities out of poverty over time, and to achieving sustainability in agricultural production. Therefore, the major goals of WTO negotiations on agriculture should be to maintain and build upon progress made in the Uruguay Round, create new market access opportunities and to ensure that the benefits of an open market system reach developing countries. OECD should focus on completing the necessary data and policy analysis required for achieving this goal.

### **The case for trade liberalization and economic growth**

Under current trade policies, trade in agricultural and processed products has increased steadily. Despite these favorable trends, government intervention in the agricultural sector is still more intrusive than in any other sector. According to the OECD's own studies, the level of protection and support of agriculture exceeds 70% in some countries. At the beginning of the 1990s, budgetary support for the agricultural sector in the EU, US and Japan accounted for some 15% of government spending, a figure comparable to what was spent on education.

Trade distortions in the agricultural sector harm stakeholders in both developed and developing countries. Export subsidies for example, tend to destroy markets in developing countries by driving down prices to levels where local farmers cannot compete. Although developing countries argue, with some merit, that liberalization of international trade has not yet benefited them to the same extent as developed countries, trade barriers in the agriculture sector adversely affect *all* countries by impeding innovation, investment and economic growth. Economic growth in the agriculture sector provides opportunities for the poor in developing countries by offering increased access to food, land, income, employment, financial services, technology, and capital for community services and education.

We therefore encourage governments to adopt policies, over the short term, to progressively reduce, and over the longer term, to eliminate trade-distorting agricultural price-support mechanisms, all other forms of trade-distorting subsidies and non-tariff agricultural trade barriers. Governments should supplement such reductions with policies that promote private sector initiatives, particularly to help small businesses become or remain competitive in open markets. At the same time, communities, businesses and markets also need time to adjust, in order to take full advantage of the benefits derived from a smoothly operating open market. Consideration should also be given to the difficulties that developing countries might encounter in this process.

Farmers are no longer the only commercial interests with stakes in these negotiations. Processed foods now account for an increasing amount of trade in agri-food products globally. Because of the close relationship between raw materials and value-added food products, the effects of changes in agricultural support mechanisms on these products should be taken into account. Furthermore, liberalization of trade in processed foods must become a top priority during the agricultural negotiations. The growth of global trade in the processed sector is slowed by a number of factors, including tariff peaks (atypically high tariff rates); tariff escalation (higher tariffs on processed foods than their commodity components); Tariff Rate Quotas (TRQs)—with prohibitive over-quota rates and inefficient administration; and trade-distorting subsidies and domestic support measures. Increased market access and equitable trade liberalization should play a key role in current WTO Agriculture negotiations.

To achieve meaningful improvements in trading conditions for agri-food products, it is essential to eliminate or significantly reduce all tariff and non-tariff barriers to trade as well as trade-distorting subsidies in this sector. Specifically, we recommend the following:

### **Market access**

- Additional tariff reductions should begin from applied rather than bound rates in order to ensure meaningful reductions.
- Tariff peaks and tariff escalation should be eliminated. (Suggestions include the Swiss formula used to cut industrial tariffs during the Tokyo Round, or tariff harmonization around agreed bands.)
- Additional reductions in tariffs through a zero-for-zero approach for particular products.
- Elimination or further liberalization of tariff-rate quotas, through elimination or expansion of quota levels, elimination of in-quota tariff rates, and significant reduction of over-quota rates to levels that permit commercially meaningful access.

### **Subsidies**

- Elimination and prohibition of export subsidies on primary (agricultural) products, conforming the agricultural export subsidy rules with the prohibition on export subsidies for non-primary products (which have been prohibited since 1948).
- A progressive approach towards elimination that reduces higher export subsidy levels at a faster rate than lower export subsidy levels.

### **Domestic support**

- Further substantial reductions in domestic price support programs.
- Establishment of commodity-by-commodity reduction commitments for domestic support.
- Further reductions in domestic support and review of support mechanisms in order to move progressively toward green box programs.

- Opposition to efforts to increase levels of domestic support which result in additional trade distortions.

### **Health and safety regulations**

- There is no evidence that the existing WTO Agreement on Sanitary and Phytosanitary (SPS) Measures is not working as it was intended. It should not be re-opened. Sound science and risk assessment is the proper foundation of a credible health and safety regulatory regime.

### **Scope of the negotiations**

- No products or policies should be exempted from the new rules and disciplines.

### **Biotechnology**

- While the WTO should address issues related to trade in biotechnology products, it is not the most appropriate forum for all issues, and should give due account of measures undertaken in other bona fide international fora (such as the Codex Alimentarius for food safety standards and the International Plant Protection Convention).

### **Food security**

- International concerns about food security should be addressed through multilateral disciplines on the use of export controls on food, not through tariff barriers or trade-distorting subsidies.

### **Specific proposed agriculture policies**

In many countries, the first priority for the farm sector is to become economically sustainable. Economic viability usually depends to some degree on trade in agricultural products, at local, regional, national, and the international level. Such trade can help achieve the goals of sustainable agriculture: improving living conditions in rural areas, particularly in developing countries; ensuring increased food quality and quantity; providing employment opportunities; contributing to the protection of natural resources and the environment. Thus, economic policies that promote open and fair trade of agriculture products are therefore in the interests of all stakeholders. To achieve this goal, in addition to liberalization and market access provisions at the WTO, BIAC recommends that governments:

- allow the alignment of food prices at world market levels;
- work towards harmonization of food regulatory, customs, safety and other control systems;
- promote policies and activities that allow private initiatives (rather than *public* initiatives, which distort prices) to help small farmers acquire land, purchase seed, fertilizer and equipment, gain access to markets, obtain credit and other forms of financing and remain competitive as markets become more open;
- promote trade and investment in the agri-business sector through non-price distorting policies;
- promote best farming and environmental practices; develop and adopt cost effective, scientifically sound and environmentally sustainable policies for food products and production techniques;
- create channels through which innovations in good farming and environmental practices and sustainable food production can reach all economies;
- ensure a legal framework enabling the formation of farmers organizations; and

- develop an infrastructure that ensures the safe and efficient production, processing, and transportation of food within and between countries.

### **Conclusion: A role for OECD**

A fair and open trade policy is necessary to achieve economically-viable agriculture that in turn fosters the economic, social and environmental benefits of sustainable agriculture. An additional benefit of an open trade policy is that it provides agri-business with the financial resources to undertake voluntary initiatives and form partnerships that promote sustainable agriculture. OECD can be a major contributor to these programs. Specifically, we recommend the OECD move forward on the following action items:

- Undertake an analysis of the international effects of tariff and non-tariff barriers to trade in the processed food and beverage sector. This could include (1) A description of the tariff and non-tariff barriers affecting trade in the processed food and beverage sectors, including complex tariffs, tariff-rate quotas, regional trade agreements, licensing arrangements, certification and registration requirements, and variable levies; (2) An evaluation of the prevalence of tariff escalation for processed food and beverage products; and (3) An analysis of the impact of tariff and non-tariff barriers on trade and investment in the processed food and beverage sectors. The report could cover major products in the following processed food and beverage sectors identified by the Committee: dairy products; sugars and sugar-containing products; vegetable oils; meats; eggs and egg products; flours and other intermediate goods; grain-based foods; fruits and vegetables; edible nuts and nut products; alcoholic beverages; pet food; and other miscellaneous food and beverage products.
- Research is desirable to generate more reliable estimates of the likely economic impacts of mandatory biotechnology labeling, and to obtain a better understanding of the way in which labeling may influence consumer behavior. Potential areas of focus for this work should include: Structured and extensive analysis of the means by which compliance at each level in the supply chain including governmental participants would be achieved, and associated decision choices and costs, differentiating between upfront capital costs to establish systems and capabilities to enable the labeling regulations to be applied and compliance to be monitored, and ongoing operating costs. One means of undertaking this work may be to conduct a number of detailed case studies working from a range of representative retail food products back through the supply chain to farmers and their input suppliers, and/or to review the experiences with IP systems currently in place. Potential impacts to consider in these case studies would span the range of changes in the level and structure of demand; retail prices; responses of, and returns to producers, processors and manufacturers; cost structures; R&D expenditures; and farming practices.
- An OECD analysis with regard to the sustainability of current agricultural practices would be welcomed. This work could include the impact of subsidies and price-support as well as the consequences of the environmental regulations. OECD recommendations could be used in the context of Rio plus 10.
- The OECD Agriculture Directorate should enhance its cooperation with the FAO and seek to assist in capacity building efforts where appropriate.