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New Zealand's Agricultural Trade Approach After Cancun

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1. Introduction

“The US farm lobby has more troops in Congress than Australia has in Iraq”. Anonymous.

The mid-term review of the WTO Doha Round of trade negotiations held recently in Cancun was concluded in a premature fashion by the hosts. Participants were not moving forward towards a process that would see the talks move towards a final agreement in 2004. This was a disappointment for New Zealand because we rely strongly on the WTO multilateral framework to further liberalise world trade. This is especially so in agricultural products where it was hoped that after the modest beginnings of the Uruguay Round, signed in 1994, progress could be made more quickly. The stop/start negotiations of the Uruguay Round were not dissimilar.

Cancun stumbled on the Singapore issues, and before agricultural proposals had been dealt with. This fortuitous situation provides an important opening for New Zealand agriculture but a great deal of work will need to be done. The other positive feature coming out of Cancun is that the slippage in timing is likely to be great (see below), so New Zealand has the time even with its modest resources, to influence the direction of the agricultural talks.

NZIER hosted a Roundtable discussion on the opportunities and challenges that now confront New Zealand, yesterday in Wellington. Participants included representatives from private sector organisations, government ministries and research organisations. This short paper is a précis of the views expressed at that meeting and the valuable background material of the Washington based International Policy Council which Dr Thompson chairs.

The discussion was aimed specifically at agricultural trade liberalisation efforts and focuses on the broad geo-political issues that are likely to be in play in the future.

2. Background

There is a strongly held view that the ‘special and differential treatment’, usually offered to less developed countries (LDC) in WTO trade talks, was captured by the EU and US at Blair House in the Uruguay Round. The result

was a decision to ‘address’ the strongly protectionist and peculiar nature of agricultural protectionism but little trade liberalisation. In other words, a framework was put in place but only small increases in access were permitted and few trade distortions reduced. In particular, the replacement of the prevalent agricultural import quotas before 1994 with tariff rate quotas has resulted in more quotas in place rather than less.

The Doha Round is supposed to be a Development Round and address the particular impediments to poverty reduction still experienced by over a billion people worldwide. A couple of key points emanate from that. First, trade liberalisation is a necessary condition for efficient poverty reduction but it is not sufficient. Foreign aid is a very poor substitute for trade liberalisation but foreign aid is an important complement to trade liberalisation to improve farm family skills, world marketing, institutional and infrastructure capacity and a host of other issues in developing countries. World poverty is mainly a rural phenomenon (70% of 1.25 billion people earning less than US\$1/day) and higher farm incomes can only come from increased productivity (skills, innovations and neutral domestic policies) and higher prices (trade liberalisation). A WTO Round targeting poverty is the right thing to be doing. However, illiberal high income country trade policies are only one third of the poverty problem, the rest is attributable to the policies of developing countries themselves (export taxes, education, inward-looking industry policy, research and development in agriculture etc etc).

Many, but certainly not all, activist NGO organisations are doing a major disservice to the poverty reduction cause by over simplifying this issue. Organisations such as the mainstream churches and Oxfam have begun to reflect an increasing awareness of the complexity of these issues. Secondly, it is very surprising that some major high income countries were surprised by the solidarity and strength of the G20 plus X and the Cairns group at Cancun.

Furthermore, friction between developing nations and the protectionist tendency of high income nations could potentially escalate. The Peace Clause will expire on 1 January, 2004. After that date LDC’s and Cairns Group members can complain to the WTO about non-compliance with the Uruguay Agreement on agriculture by the high income countries. As Steinberg and Josling (2003)¹ point out, this provides a two month window of opportunity for plaintiffs to pressure the protectionist states into agricultural progress.

¹ Richard Steinberg and Timothy Josling (2003), *When the Peace Ends: The Vulnerability of EC and US Agricultural Subsidies to WTO Legal Challenge*. *J. International Economic Law*, 6(2), 369-417. http://papers.ssrn.com/sol3/papers.cfm?Abstract_id=413883#paperdownload

A major threat to Cairns group interests is that the EC and the US will now drive harder for bilateral and regional deals in spite of the trade diversion effects involved.

3. Brazil, India and China

India has long been the leader of the LDC group that is now manifest in the G20. It is the least interested in freer trade among the large countries in the group including China and Brazil. But it is Brazil that has assumed leadership in this forum. If Brazil and China can steer the organisation in the liberal direction, the overlapped Cairns Group will have a powerful ally.

4. LDC's

There is a serious problem with the WTO system of allowing members to define themselves as developing countries. It permits high and moderately high income countries to claim this status and leads to too little adjustment pressure being applied to such countries.

The least developed countries are desperately short of analytical and negotiating resources in the WTO framework. This led to a volatile situation in the Cancun talks and LDC positions that are clearly not in their best interests.

There is a critical need for trade policy institution building in LDC's. This is one area where the World Bank and other international organisations can play an effective role so that the policy infrastructure can better reflect the needs and aspirations of the people they represent.

5. EU

Strange as it might seem, the EU is perhaps in the best position amongst the big three to further the Cairns Group cause in the short-run. It faces strong domestic pressure to restrain agricultural subsidy payments in the face of its discriminatory expansion of the membership recently. CAP reform is on its agenda though the major looming elections will blunt its early response to these issues.

In the Uruguay Round, the final agreement was much closer to the EU position than that held by the US. A successful outcome in the Doha Round will depend on how the EU responds to its internal problems and rises to the challenge put forward by developing nations at Cancun.

6. US

The US farm lobbies are not being prepared for agricultural policy adjustment. There is no enthusiasm for change especially with steel and farming states so important politically at present.

A fiscal crunch is coming in the US but no resolution is likely until after the 2004 presidential elections. The exchange rate may continue to depreciate in anticipation of this resolution, which in itself will improve the environment for serious multi-lateral, agricultural negotiations.

The upcoming elections mean there is almost no likelihood of meeting the 2004 WTO deadline. Furthermore, new leadership is expected at USSTR in 2005 which also makes it likely that a final agreement is unlikely in 2005 either. Our best bets are for 2007 or 2009. This would give New Zealand time to develop a well researched, flexible, and constructive negotiating position.

7. Australia

Just what has President Bush promised Mr Howard on agriculture in the US/Australia FTA talks, and can he deliver it? The quote at the beginning of this paper applies.

However, the FTA talks can be expected to divert Australia's political attention from WTO matters over the next few months and by that time US restraints will become acute. The Australian's were extremely quiet in Cancun.

8. Cairns Group

The Cairns Group is in an excellent position to mediate agricultural issues at present but the diversion of Australia's interests is a problem. The Hon. Jim Sutton laid the rhetorical foundations for such a role at Cancun.

9. A Way Ahead for New Zealand

Some convergence on agricultural issues was occurring at Cancun. The drafts being circulated were mirror images of one another which provides a way forward. If our time schedule is a reasonable forecast, New Zealand does have the time to pursue a number of strategies in pursuit of a good final agreement on agriculture.

In the short term there is little room to manoeuvre in the multilateral setting. However, New Zealand's 'honest, non-threatening broker' role could be valuably extended in the Cairns Group, with Australia, the G20, and with

the EC and US. A key player going forward is Brazil, their attitudes, ambitions for the Round, and general approach will need to be further understood by New Zealand so that they can be more effectively supported in their leadership role of both the Cairns Group and the developing world.

New Zealand will also need to become more active in suggesting least cost ways of supporting LDCs. The least developed countries need constructive assistance immediately to improve their negotiating positions to better reflect the needs of their own people. Further efforts must be made to mobilise support in a range of international organisations to support trade policy institution building in .