

## Issues in Agricultural Trade: The Americas

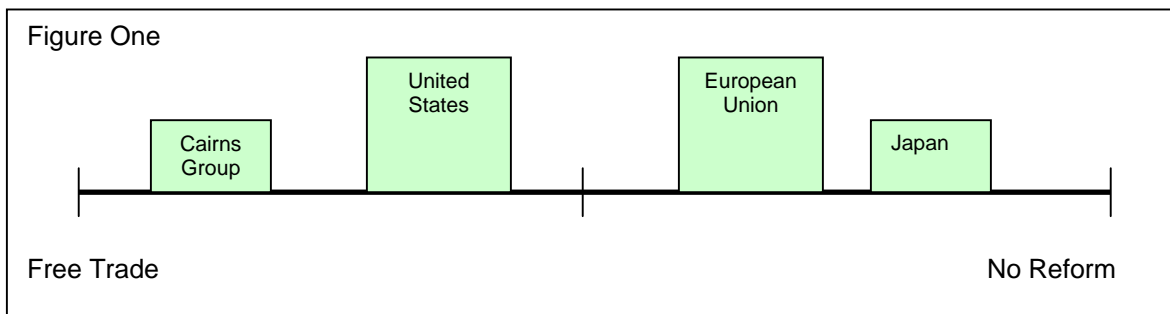
On February 4, 2004, IPC Member Marcelo Regunaga of Argentina led a seminar for members of the Washington DC agricultural trade community. Regunaga addressed issues related to ongoing trade negotiations and biotechnology.

### Trade Negotiations

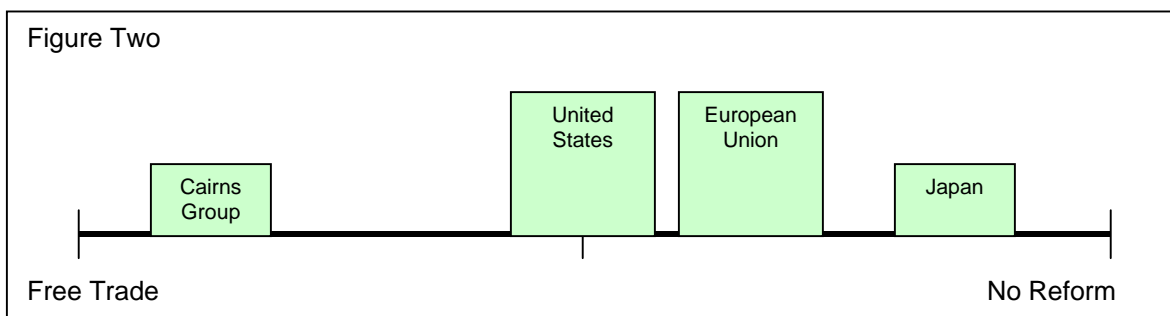
During the Uruguay Round negotiations, Argentina along with many other countries thought that their agricultural sectors would see a great deal of improvement from the outcome of the Round. After the implementation of the Agreement on Agriculture they found that this was not the case. At the launch of the Doha Development Round, Argentina was determined not to lose another opportunity. Their stance was, 'no agreement is better than another bad agreement.' In the run up to Cancun, most parties in Argentina with a stake in the negotiations supported this position.

If one looks at different countries' feelings toward more open trade on a continuum with Free Trade on one end and No Reform on the other (see Figure One), the United States has traditionally been near the middle on the Free Trade half of the continuum and the European Union has traditionally been near the middle on the other half of the continuum. Argentina, as part of the Cairns Group was close to the United States, but more near the Free Trade end.

In the past, when the WTO issued its draft positions its primary consideration was how to balance the positions of the 'real players' – the United States and European Union. Therefore, in the historical situation illustrated in Figure One, the outcome was in the middle.



Recently things have changed. First, there are real differences within the Cairns Group member countries. Some Cairns Group Members, like Australia – historically the leader of the Cairns Group, have been looking outside the WTO for trade opportunities. Second, before Cancun, the United States' position moved toward the European Union position and the picture looked more like Figure Two. The Cairns Group, weakened by differences between the leadership and other members, remains alone on the end of the continuum, more distant from the United States position. The draft framework that was issued by the WTO before Cancun essentially reflected the United States and European Union position.



What was Argentina to do in this situation? The leadership of the Cairns Group was no longer pushing the issues at the WTO as strongly as it had and the United States position had moved closer to the No Reform end of the continuum. Argentina looked for other WTO member countries with similar positions or that would at least prefer no agreement to a bad agreement. Other countries were doing the same, thus, the G20 came to be. In Cancun this group of WTO members declared that they would not accept any proposal from the WTO that was along the lines of the US-EU proposals.

Argentina agrees with the G20's views on elimination of domestic and export subsidies, but does not share the market access aspect of the proposal. Part of the G20's proposal – export competition and domestic support – is on the Free Trade end of the continuum and the other part – market access – is nearer to the No Reform end.

Many G20 countries believe that the Group must be maintained because developing countries need a strong voice. The Cairns Group is not a voice for developing countries. It includes many, but not all of the key developing countries.

Most stakeholders in Argentina do not believe that United States Trade Representative, Robert Zoellick's recent push to move the WTO negotiations forward has enough support from United States trade interests to have a real impact. Trade in some commodities is particularly distorted by United States policies and the United States is not prepared for reform in these commodities. There are a lot of messages coming from the United States Congress indicating that the United States is not willing to cut farm subsidies. (**Note:** Spoken before results of the Australia-U S FTA were released.)

Argentina does not have the leadership to push the negotiations forward on its own at this point due to internal economic problems. The Government is working together with Brazil, but does not think that the world is prepared for trade reform and will not be prepared in time for the Round to progress on the proposed timeline.

Argentina is also negotiating regional agreements in several venues: the Free Trade Area of the Americas (FTAA); EU-MERCOSUR; and others. These negotiations will not take care of the protection that exists in key commodities and therefore will not bring more real trade liberalization.

There has not been nearly enough progress on key issues to complete any of the agreements within their established time frames. Because of the environment in which these negotiations are taking place, stronger political efforts are required to move forward. Perhaps that is what Zoellick is doing, but other countries question whether he represents the views of the United States Congress. Argentina is not too optimistic.

### **Biotechnology**

Argentina cannot expect too much from trade negotiations in the short run, so the country must focus on implementing domestic policies to improve competitiveness. In the early 1990's, Argentina established a set of domestic policies that allowed swift acceptance of biotechnology. Argentina was able to use these technologies easily because there was a good existing seed distribution system and Argentina's climate is similar to the United States where many of the products are developed.

Almost 100% of Argentina's soya crop is genetically modified as is about 50% of the corn. Adopting the technology has been good for Argentine farmers. With the use of biotech soya Argentine farmers are using better land-management, have reduced costs of production and increased income. Use of biotech corn is just now on the rise. In soya, farmers are using biotechnology on farms of all sizes. Production of crops that do not use the technology, such as sunflowers, has almost stopped. This has not been good for crop rotation and could have a negative effect on the farm economy.

Since Argentina is a biotech country, it is concerned about the unscientific barriers that keep these products from competing in some markets. The Government endeavors to be strict in all fora where biotechnology issues are discussed.

## **Discussion**

### ***...on the United States political climate***

One participant noted that the environment for trade reform in Congress was similar during the Tokyo Round negotiations. In the last six months of the negotiations, the United States Congress was presented with a good package that they could accept. For political reasons, Congress must delegate the responsibility for developing trade agreements to the United States Trade Representative's office.

He noted that many of the people involved with the Doha Round have always believed that the real deadline for completing the negotiations is not 2005 but 2007. Another participant agreed that the United States would make the necessary reforms to establish a new agreement in the end.

Regunaga agreed that 2005 is not a realistic deadline, among other reasons, elections in the United States and European Union will prevent that from happening. It seems that 2007 might be a more realistic deadline.

### ***...on regional and bilateral trade agreements***

A participant asserted that bilateral deals cannot deal with many important agricultural trade issues. Regunaga agreed that regional trading arrangements cannot solve many of the real problems in agricultural trade; they must be solved at the WTO level. This is most certainly the case for export subsidies and domestic support. Countries can benefit from regional and bilateral agreements where lack of market access is a significant issue or where domestic agricultural and trade policies are similar. The European Union has common agricultural policies, so trade barriers are not a problem within the Union. On the other hand, MERCOSUR is a very imperfect customs union – agricultural policies differ significantly across members – so it is hard to create more open trade outside of increasing market access. The same problem exists in NAFTA.

### ***...on special and differential treatment and developing country designation***

Another participant asked Regunaga about recent proposals to divide special and differential treatment into two groups: those measures that help development and those that hurt. He asked if there was a movement in the G20 to change special and differential treatment to keep the harmful special and differential treatment measures from being part of the agreement.

Regunaga agreed that there are many forms of special and differential treatment that do not help developing countries, such as those that keep markets closed to protect non-competitive sectors. Argentina experienced this domestically. In the 1930's and 1940's the economy was closed to protect the manufacturing sector while it was developing. These policies remained for nearly seventy years with low GDP growth as a result. Special and differential treatment that isolates inefficient industries is not good for long term GDP growth.

The Argentine position on agricultural trade is not the same as Brazil or India, but there are times when a country like Argentina must compromise. Argentina does not agree with the G20 position on special and differential treatment or on market access.

Another participant cited work done by the World Bank, the IPC and other organizations that has discussed differentiating among developing countries to determine which countries receive special and differential treatment. She asked whether this could be accepted by the G20.

Regunaga said he agreed with the IPC's views that self-designation by developing countries in the WTO is not a good policy. He said that Argentina has tried to propose ways to differentiate among countries. He suggested that the World Bank definitions might be a good place to start.



In reality there has not been a big discussion on special and differential treatment in the G20. The G20 is a new group. The issues that might weaken the Group have not been discussed. It is more important to the members of the G20 that the Group stays a strong force in the negotiations.

***...on the Uruguay Round Agreement on Agriculture***

Another participant asked what elements of the Uruguay Round Agreement were particularly bad for Argentina and other developing countries. Regunaga answered that many countries thought that lowering tariffs in industry and services and opening their economy they would improve their situation, but markets did not open for the products that Argentina exports.

After going through the process of tariffication, many products have even higher tariffs than ten years ago. Average tariffs are lower, but for some key commodities protection is much higher because of the persistence of tariff peaks. If a country exports dairy, beef, grains and sugar – nothing was gained. Furthermore, Argentina opened its economy and committed to a maximum consolidated tariff of 35%. A percentage tariff cut is a lot more significant to Argentine tariff rates than for other countries with much higher tariffs.

A participant argued that while it is true that there are weaknesses in the Uruguay Round Agreement, Argentine production has been improving. Regunaga countered that domestic policy changes played a more important role in allowing Argentina to improve its competitiveness. When he is teaching he asks his students to explain Argentina's growth in Agricultural GDP over the last ten years. The answer is: first, world economic growth – particularly in emerging economies; second domestic policy reforms; and in a distant third, the Uruguay Round.

However, he maintained that the Agreement on the Application of Sanitary and Phyto-Sanitary Measures (SPS Agreement) is a very good agreement and that it is important that it is not reopened to deal with non-trade concerns.

Another participant asked Regunaga about food aid. Many G20 members are recipients of food aid, but others are advocating a cash-only system of food aid. It may not be possible for the United States to have a cash-only system of food aid. Regunaga replied that this is another subject where individual countries in the G20 disagree. Since the Group is so new, they have not debated food aid.

***...on the G20 and the Cairns Group***

IPC Chief Executive, Ann Tutwiler, noted that Regunaga had said that the G20 was focusing on commonalities at this point, however, she asked how much the G20 proposal could change as time passes.

Regunaga answered that the G20 is not yet ready to address differences among the members' positions. The Cairns Group really took four years to come together. Argentina has not yet left the Cairns Group because the Cairns Group proposals are really better than the G20's from Argentina's perspective. For a country like Argentina that has little political power, it is important to be part of several groups.

A participant asked whether the Cairns Group was still relevant. Regunaga answered that the Cairns Group will continue. The dynamics of trade negotiations sometimes needs different groupings for different problems. Currently there is a leadership problem in the Cairns Group, which is causing Argentina to shift its focus to G20 participation.

***...on European Union tracability and labeling legislation***

A participant asked about Argentina's thoughts on the EU's new tracability and labeling legislation. Regunaga said that he would like to see the United States bring a case against it in the WTO. The European Union's labeling legislation is an overt trade barrier. There is no solid, scientific reason for the new rules, only political reasons. The European Union has gotten itself

into a policy that it cannot get out of. Eventually, the high costs of food resulting from this legislation will cause problems. The wealthy people of this world are not in need of food. It is the poor who have no voice or support in world politics that need access to it.

This legislation will bring additional costs to all agricultural stakeholders. Additional costs incurred for health or environmental reasons are acceptable, but additional costs based purely on politics are not. Perhaps in ten years consumers will see the higher food costs and change their opinion on the need for the legislation.

A participant from an agribusiness company noted that in November, twenty-two agriculture, food and biotechnology industry trade associations issued a letter asking the United States government to initiate a case in the WTO against the European legislation. The group has not yet received a response. Regunaga thought that a case would not be brought by the United States because of the existing problems between the United States and European Union on other fronts.

One gentleman expressed concern that food labeling for religious or other reason should be allowed to continue. IPC Chief Executive, Ann Tutwiler agreed that there is a market for kosher, halal and non-GMO products. She suggested that voluntary systems of positive labeling can be very effective in distinguishing these products. What the European Union is doing now is neither the best nor the most cost-effective way of providing information.

Regunaga added that the legislation does not require labels identifying medicines as GMO or non-GMO; nor does it require cheese and wine to be labeled GMO if the enzymes used are genetically modified – as they are for most European cheeses and wines. In fact, producers are not supposed to use natural enzymes because of BSE concerns. This is inconsistent.

Regunaga noted that Argentina does not use very much fertilizer or pesticide, so it could be a good market for green products. He said that when serving as Secretary of Agriculture he implemented some regulations for voluntary labeling of organics modeled on the European Union's green laws.

The European Union labeling legislation on biotechnology is neither the best nor the cheapest way of providing information to consumers. The Union uses other strategies for identifying 'natural products.' A participant agreed adding that consumers are often so worried about whether their food is GMO or non-GMO that they do not consider the negative effects of pesticides.

Another participant asked Regunaga to estimate the cost of the European Union's tracability and labeling legislation for Argentina. Regunaga said that there are ongoing studies that are trying to establish this cost, but he estimated that it would be an increase of 8-12% of the price. He said that it is not just a matter of the cost of the labeling, but also the cost of investing in the necessary logistics to have such a system.

The United States has three to four times the infrastructure that Argentina has, and Argentina is one of the most advanced developing countries when it comes to agriculture. Some lesser-developed countries just cannot afford to invest in the necessary logistics.

### **Marcelo Regunaga**

Mr. Regunaga is an IPC Member and former Secretary of Agriculture, Livestock, Fisheries and Food for Argentina. Mr. Regunaga also served as Secretary of Industry, Commerce and Mining and was a negotiator for Argentina in the Uruguay Round. He is currently the Coordinator of the Unit of Agribusiness and Alimentary Industry of the Center of Management Education at the University of San Andres.