



IPC Seminar Proceedings

Issues in South American Agriculture

October 25, 2004 - Buenos Aires, Argentina

The 34th IPC Plenary Seminar, "Issues in South American Agriculture," was held October 25, 2004 in Buenos Aires, Argentina. The seminar featured keynote addresses from Roberto Lavagna, Argentine Minister of Economy and Production and Martín Redrado, President of the Argentine Central Bank and former Secretary of Commerce and International Economic Negotiations. In the morning sessions, speakers discussed ongoing trade negotiations on the regional and multilateral levels. The afternoon sessions focused on the trade implications of developments in biotechnology, the Cartagena Protocol on Biosafety, and animal health and welfare policies.

The World Trade Organization: What are the prospects for agriculture in the Doha Round?

While participants agreed that a rules-based trading system is important for developing countries, and that trade can be a vital tool for development, many were skeptical of the prospects for agriculture in the Doha Round of WTO negotiations. Argentine Minister of Economy and Production, Roberto Lavagna, asserted that the previous round of negotiations – the Uruguay Round – did not benefit developing countries. He warned participants that the mistakes of the Uruguay Round risk being repeated in the Doha Round.

“While trade has played an important role in developing country development, it is not playing the role that economic theory would ascribe to it. This is partly a consequence of the unbalanced result of the Uruguay Round. Trade is a wonderful instrument for growth when complemented by other policies for economic development, reduction of inequality and promotion of global stability. In order to achieve the gains held out by Adam Smith and David Ricardo, the appropriate rules must be in place.”

Jorge Zorreguieta, IPC Member and former Argentine Secretary of Agriculture, described the frustration of developing countries with the expanding mandate of multilateral trade negotiations. “Negotiations are no longer limited to simple tariff reductions, but tackle other subjects like services and investment.” According to Lavagna, new elements of the negotiations take the focus away from the old, pending issues like agriculture. “There is a history of leaving aside issues that are most important to developing countries.”

About the IPC

The International Food & Agricultural Trade Policy Council (IPC) convenes high-ranking government officials, farm leaders, agribusiness executives and agricultural trade experts from around the world and throughout the food chain to build consensus on practical solutions to food and agricultural trade problems.

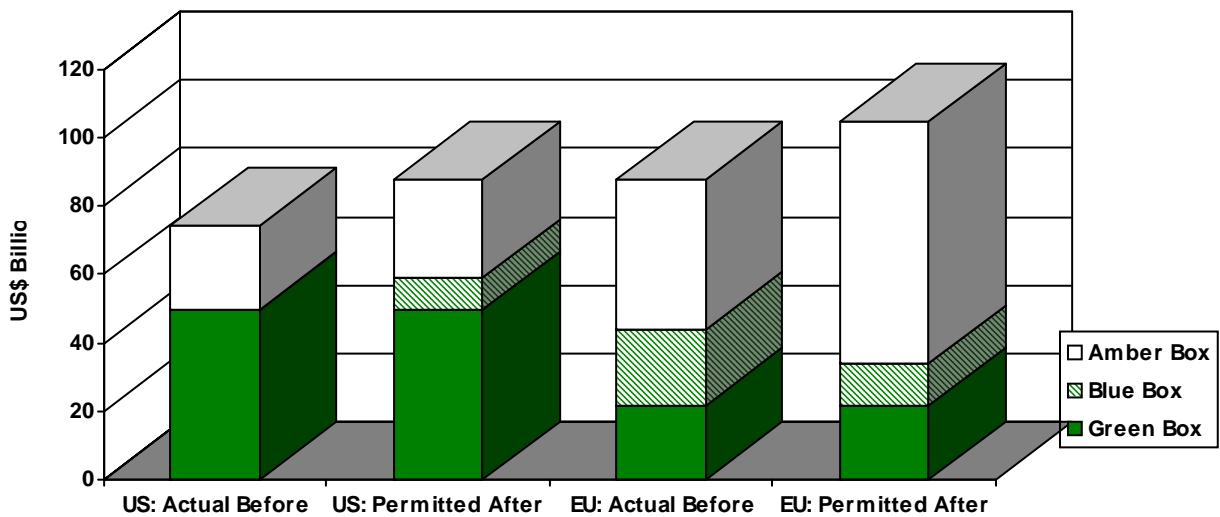
An independent group of leaders in food and agriculture from industrialized, developing and least developed countries, the IPC's thirty-six members are chosen to ensure the Council's credible and impartial approach. Members are influential leaders with extensive experience in farming, agribusiness, government and academia.

Reactions to the July Framework

Participants agreed that the guidelines for a Doha Round agreement approved by WTO negotiators in July 2004 – known as the July Framework Agreement – is a sign of progress, but differed in their opinions of its potential to be the basis for real trade reform. Tutwiler pointed out some of the positive and negative aspects of the Framework Agreement.

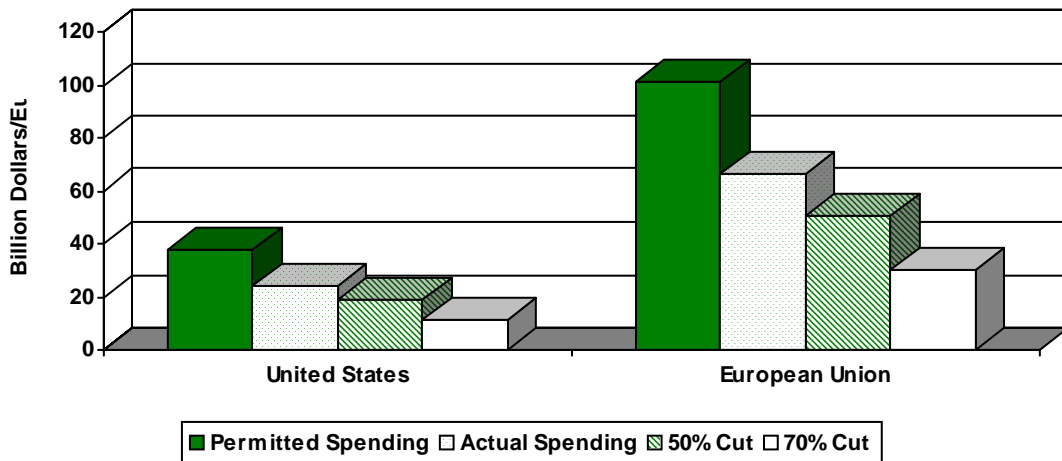
The most positive aspects of the framework for domestic support are the product specific caps on domestic subsidies and the 5% cap on the Blue Box. The United States and European Union's agreement to an immediate 20% cut in permitted Amber Box support as a down payment for further cuts is symbolically positive. However, as Figure 1 illustrates, because permitted levels of Amber Box support are significantly higher than actual levels, the 'down payment' will have no immediate impact.

Figure 1 – A 20% Down Payment is not a 20% Cut



The July Framework does not specify how much further Amber Box support will be cut beyond the 20% down-payment, but cuts of 50-60% from permitted levels are being discussed. As Figure 2 illustrates, a 50% cut in permitted levels will not mean a 50% cut in support.

Figure 2 – A 50% cut is not a 50% cut



Significantly positive progress was made in negotiations on export competition measures. In addition to the European Union's offer to eliminate direct export subsidies, WTO Members agreed to eliminate the subsidized element of export credits and subsidies to state-trading enterprises (STEs); to discipline food aid so it does not displace domestic production; and to strengthen disciplines on export bans, embargoes and restrictions.

Market access is the most important aspect of the negotiation – and the most difficult. Commitments to reduce higher tariffs more than lower tariffs; substantially improve access for all products; reduce tariff peaks and tariff escalation; and create a special safeguard for developing countries could technically lead to broad improvements in market access. However, whether or not there are real, meaningful increases in market access is wholly dependent on the details that are yet to be negotiated, and there is significant risk of a diluted outcome.

For instance, the Framework Agreement allows all WTO Members access to sensitive product provisions and allows developing countries access to both sensitive and "Special Product" provisions. (*The Special Products designation will be applied to products which are particularly important for food security, livelihood security and rural development.*) To the extent that further negotiations exempt these categories from tariff cuts, it could thwart the stated goal of real increases in market access. Moreover, both categories are likely to apply to many of the same products – consider commodities like sugar, dairy and rice, for example.

The July Framework dealt with special treatment for developing countries in an ad hoc manner. The Agreement allows developing countries to provide trade-distorting support for low-income, resource poor farmers and invoke Special Product provisions and special safeguards. It also allows net food-importing developing countries to use export subsidies, STE's and special protections. The Framework also commits Members to addressing preference erosion. However, the definition of and differentiation among 'developing countries' has not been directly addressed.

IPC Member and former Secretary of Production and Trade in the Brazilian Ministry of Agriculture, Pedro De Camargo, was not optimistic about the Framework Agreement. He conceded that the European Union's decision to eliminate export subsidies in exchange for parallel reductions in other export competition measures was a major step. But, he insisted that the G20 should have extended the concept of parallel reductions and pushed to eliminate all forms of domestic support used as export subsidies.

He argued that there was no progress in the market access pillar, and as a consequence there will not be progress on domestic support. "No country is really willing to increase market access – even to the extent that it is written in the Framework Agreement. But, the United States will not agree to significant reductions in domestic support without significant increases in market access, so there will be no progress on domestic support either."

On the other hand, Rolf Moehler, IPC Member and former European Commission Deputy Director General for Agriculture, said the Framework Agreement was well-received in the European Union. In particular, Europe is pleased that WTO Members agreed to commitments on export credits, STEs and food aid; the Blue Box and the Green Box have been preserved; and the impact of increased market access will be tempered by the sensitive products designation. He said the EU will continue to insist on parallelism in phasing out all forms of export subsidies, have little flexibility on the Green Box, and not be very forthcoming on tariff reduction formulas.

According to Ajay Vashee, IPC Member and President of the Southern African Farmers' Union, African leaders are pleased that the Special Products designation, a special safeguard for developing countries and the issue of preference erosion were included in the Framework Agreement. He linked African countries' flexibility on special and differential treatment to developed country flexibility on domestic support. "If it appears that developed countries will continue to be able to hide subsidies in various colored boxes, African countries will aggressively pursue favorable terms for Special Products." He also insisted that the special safeguard must be designed so it is easy for developing countries to invoke and noted that African leaders are looking for a commitment to duty and quota-free access for LDCs.

"Regional integration implies both increased opportunities and challenges for the future."

Juan Forn, CEO of Molinos Rio de la Plata, stated that the regional integration process is important for Argentina because it offers increased market access opportunities and allows Argentina to avoid losing markets to other countries. Forn emphasized the importance of ensuring that regional integration efforts are really reducing barriers.

According to Forn, the agricultural sector represents 32% of Argentina's GDP, 36% of employment and 56% of exports. Argentina is also a major player in world agriculture, with 2% of world agricultural production and 5% of world agricultural exports.

Claudio Sabsay, Argentine Undersecretary of Agriculture, asserted that the agricultural sector is the engine of the Argentine economy. "More than 50% of Argentine exports are agri-food products." He credited the incoming foreign currency from agricultural exports for allowing the country to recover from economic crisis.

Mercosur – a regional trade agreement including Argentina, Brazil, Paraguay and Uruguay – is a major world agricultural power in its own right. Raul Padilla, CEO of Bunge Argentina, pointed out that Mercosur produces 50% of the world's soybeans and 10% of the world's maize. It is responsible for 52% of world soybean exports; 75% of world protein meal exports; 80% of world soybean oil exports and 40% of world sunflower oil exports.

Hugo Krajnc, Government Relations Manager for Mercosur, Bolivia and Chile for Cargill, agreed there is potential for Mercosur to be more beneficial. But, internal institutions must be improved, policies must be better coordinated among Member Countries, and the public and private sectors must have a shared view of the opportunities of integration. Krajnc said, "A single market does not have to be the end result, but continuing to reduce distortions is positive."

Through Mercosur, Argentina is involved in trade and integration negotiations with Andean Pact countries, the European Union and the Free Trade Area of the Americas (FTAA). Mercosur is also discussing pacts with other developing countries like India, South Africa and China. Padilla argued that if agreements between Mercosur and third countries are to be negotiated, governments must negotiate together so that all countries have uniform obligations.

Zorreguieta cautioned, while pursuing these other arrangements, Mercosur countries must remember to focus on the Doha Round as first priority.

National governments must provide a supportive economic environment in order for agriculture to benefit from more open trade

For a country to be successful in international trade, governments must provide a supportive economic environment. Forn and Padilla named predictable and stable macroeconomic policies, reliable infrastructure and logistics, and a strong, consistently enforced legal framework as essential elements of this supportive environment.

Lavagna and Martín Redrado expressed the Argentine government's commitment to creating a strong economic environment for the agricultural sector to succeed in. Redrado, President of the Argentine Central Bank, stressed his commitment to generating a permanent set of domestic policies that will allow sustainable economic development of the agricultural sector in Argentina. He noted that Argentina is facing significant economic adjustment, but contended that Argentina is better prepared to face adjustment than in the past, because it is pursuing a more flexible exchange rate policy, better fiscal policies, and is not dependent on external capital.

Lavagna agreed: "After a very deep crisis of longer than four years, growth is increasing, unemployment is decreasing, the number of people in utmost poverty is falling and investment has returned. GDP has returned to the average levels in the 1990's, with a better composition."

The Biosafety Protocol will have a major impact on international commodity trade

The Biosafety Protocol seeks to establish safeguards for biotechnology on a global scale by guiding and regulating the movement of living-modified organisms (LMOs or GMOs) across borders. Its purpose is to minimize the potentially adverse effects that trade in these products might have on the conservation and sustainable use of biological diversity and risks to human health, but it will also have significant impacts on world commodity trade. Professor Nicholas Kalaitzandonakes, of the University of Missouri, shared the preliminary conclusions of his ongoing work on the potential impacts of the BSP for the world commodity trading system. *His final work was published by the IPC in December, 2004 and is available at www.agritrade.org.*

Kalaitzandonakes's presentation illustrated that a few major crops – oilseeds, rice, wheat and maize – represent most of global land use, production, consumption and trade in commodities (Figures 3 and 4). There are many importers of these crops, but only a few key exporters. Most of these key exporters have adopted products of biotechnology for most of the major crops (Figure 5). Therefore, regardless of how it is structured, the BSP will significantly affect the global commodity trading system.

Figure 3: Few crops represent large share of global land use, production and consumption

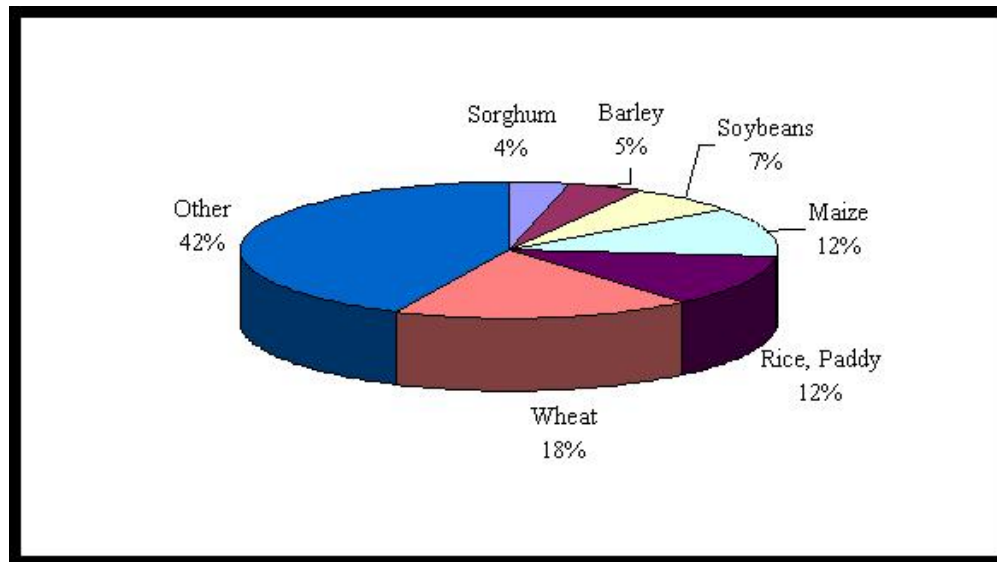
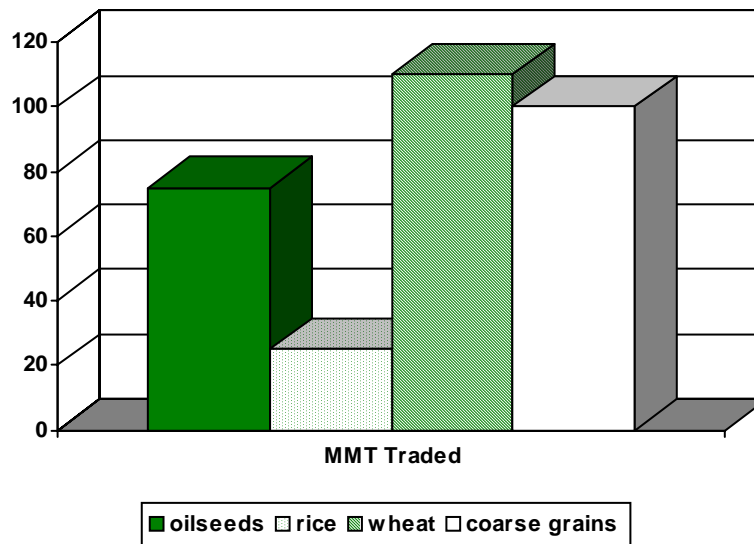


Figure 4 - ... the same crops also dominate agricultural commodity trade



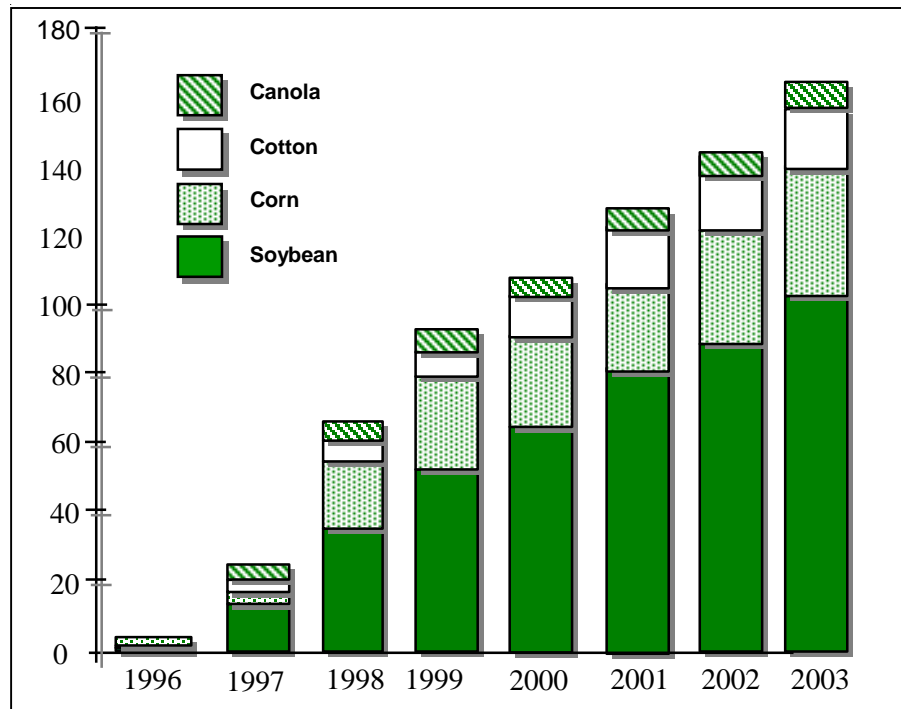
The scope of the BSP for LMOs for food, feed and processing is currently under discussion. The key points to be decided are: the type of labeling language to be used; how adventitious presence (AP) – the presence of LMOs in a non-LMO cargo – will be defined; what the threshold will be for AP; and how the BSP will be enforced.

The costs of complying with the BSP will depend on the how these points are decided. For example, Kalaitzandonakes warned participants that very low AP thresholds in the BSP will result in very high compliance costs. These costs will mostly harm low volume, inefficient destinations – namely, developing countries.

BSP implementation will also introduce incremental risks into commodity trade. The size of the incremental risk is also dependent on the decisions made with regard to these key points. For example, the tests currently used to detect the presence of LMOs are based on random sampling, and therefore, outcomes vary with each test. If enforcement relies strictly on these tests, it will significantly increase incremental risks. These risks are difficult to estimate and hence cannot be easily priced and insured. These risks also expand disproportionately when AP thresholds are lower, and they are amplified by the uncertain status of approved or unapproved events in countries without ongoing regulatory processes.

According to Kalaitzandonakes, both the incremental risks and compliance costs resulting from BSP implementation will change with increases in the adoption of GM crops; the number of GM events/traits; the number of GM crops; and improvements in testing technology, among other things. This presents a significant challenge to the world commodity trading system, particularly for developing countries that may not have the capacity to deal with increasing compliance costs and incremental risks.

Figure 5 – Adoption of Biotech Traits in Key Countries



Biotechnology is increasingly important in Argentina and China

According to Claudio Sabsay, Undersecretary of Agriculture of Argentina, Argentine farmers have increased their use of biotechnology every year since it was approved in 1996. “Biotechnology has allowed Argentina to reduce costs, improve management and decrease weeds without ecological impacts.” Soybeans are Argentina’s most important export and source of foreign currency, and Argentina relies on glyphosate-resistant, biotech soybeans. The incorporation of technologies, which generate real comparative advantage and do not jeopardize the environment, will help the economy to grow.

Marcelo Regunaga, IPC Member and former Argentine Secretary of Agriculture of Argentina, highlighted that the benefits Argentina gained from biotechnology would have been impossible without the strong regulatory framework developed through a rigorous and transparent process. He called for national and international regulations for biotechnology, developed on the basis of scientific criteria.

Jerry Steiner, IPC Member and Vice President of Commercial Acceptance for Monsanto, cited an FAO study that says there will be a need for roughly 55% more feed grains between 2000 and 2030 to meet rising demand for animal protein. “This means that production must increase by one and a half to two times each decade – as it has in the past two decades.” Moreover, this increase in production must take place on roughly the same amount of land, using the same amount – or less – water. Biotechnology is one of the key tools to tackle these challenges. He noted that investment in new technology development has been reduced recently as a result of trade restrictions imposed by the European Union; however, he highlighted that new products are being developed, which could have significant impact on future production.

According to Jikun Huang, Director of the Chinese Center for Agricultural Policy, the use of biotechnology in China is increasing – particularly in cotton. Today, about 65% (3.6 million hectares) of the cotton acres planted in China are Bt cotton (Figure 6). As a result, pesticide use has been significantly reduced, yields have increased and labor costs have fallen, but seed costs have increased. The net impact, though, has been very positive – net income for Chinese cotton farmers increased by roughly US\$155-225 per hectare.

Figure 6: Bt cotton adoption rates and planted areas in China, 1996-2004

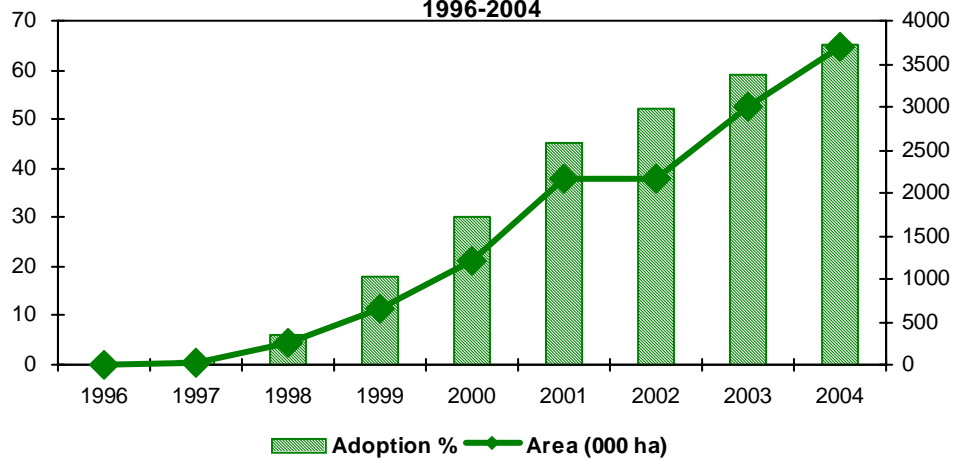


Figure 7: Impacts on Welfare (EV million US\$) in 2010 - Commercialization of Bt cotton and GM rice

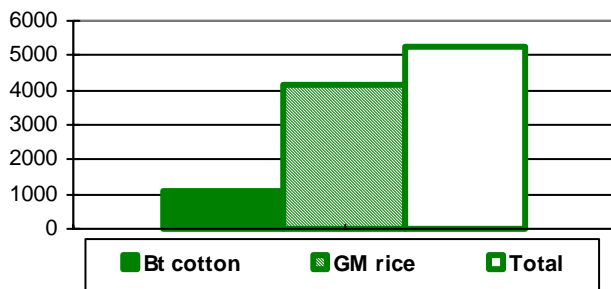
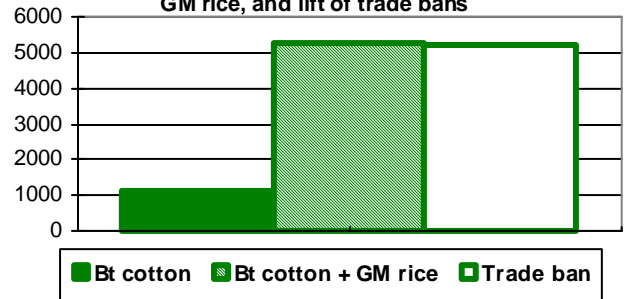


Figure 8: Impacts on Welfare (EV, million US\$) in 2010 - Commercialization of Bt cotton and GM rice, and lift of trade bans



Huang argued that the introduction of Bt rice would have a similar impact, but rice has not yet been approved for commercialization because of concerns for biosafety, food safety and the economy. It is estimated that reductions in pesticide use, increased yields and increased seed costs from Bt rice would result in a net benefit of US\$82-102 per hectare over conventional rice. If both crops were commercialized and the trade ban on GM rice by Japan, Korea, Southeast Asia and the European Union were lifted, farmers' welfare would improve even more significantly (Figures 7 and 8).

Increasing meat demand and escalating animal health and welfare concerns will present considerable challenges to animal agriculture

It is well documented that as people's disposable income increases, they change their diets to include more animal proteins, which drives demand for grain production higher. The increasing demand for animal protein combined with increasing regulations for animal welfare and recent animal health crises – like BSE and avian flu – present considerable challenges to animal agriculture.

According to Charlie Arnot of CMA Consulting, projections of GDP in 2025 mean that global meat production must increase by 366 million metric tons – 54% over 2001 levels. Kevin Wepler, Latin America Area Director for Elanco Animal Health, pointed out that meat production must become more efficient to meet this demand.

Arnot specified that meeting the demand would require significant increases in per hectare yields of grains and oilseeds; improved feed efficiency; reduced wastage; effective, cost efficient ways to meet environmental and animal welfare requirements; and investment in technology. "Dramatic increases in yields are needed, but alone they are not enough. To close the gap between projected yields and the feed needed to reach the 54% increase in projected meat production, we will have to increase feed conversions another 15-20%. That is possible, but only if we continue to invest in research and embrace emerging technology."

How should animal welfare concerns be treated in the WTO?

Attempts by developed countries to help farmers meet emerging animal welfare regulations might result in conflicts with their World Trade Organization (WTO) commitments. David Wilkins, Chief Veterinary Advisor for the World Society for the Protection of Animals, noted that it is the European Union that is leading the movement toward more stringent animal welfare regulations. “The animal welfare community would like to find a way for the Union to subsidize farmers’ compliance with costly animal welfare regulations through support categorized in the WTO’s Green Box category. There must be a way for producers to make a profit if this system is imposed on them.” According to Tutwiler, the IPC’s analysis says a one-time payment compensating farmers for meeting animal welfare requirements could be considered a Green Box payment. But, ongoing payments to maintain the system would have to be included in the Amber Box.

(Note: WTO Members are allowed to provide unlimited financial support to farmers as long as it is considered non- or minimally trade distorting. This type of subsidy is categorized in the Green Box. Subsidies that are considered trade distorting are subject to annual reductions and are classified in the Amber Box category.)

Wilkins replied that the idea of compensation meets some resistance from EU citizens. Critics ask why the European Union should pay farmers to comply with the law. “Tariffs do not cost Member States or the European Union money from their government budgets, but compensation would require the government to find money for farmers at a time when it is striving to reduce spending on the Common Agricultural Policy (CAP).”

Alberto de las Carreras, Vice President of the Argentine Chamber of Exporters, contended, “If animal welfare measures are allowed to be included in the Green Box, it will be the greatest concession countries could make. WTO Members can provide unlimited Green Box support to farmers, and Green Box support cannot be challenged by other countries if it disrupts trade. He suggested that voluntary labeling for animal welfare concerns would be the best solution. With labeling the farmer can compare the consumer’s demand with the price. “Labeling is not a perfect solution, but at least it is not a subsidy.”

Arnot insisted that consumers’ demands for organic, antibiotic free, family farmed, free range, welfare friendly, and other specially produced products should be seen as a market opportunity – not a regulatory requirement. “The market will ascertain shifting cultural dynamics and consumer preferences and respond more quickly and efficiently than any regulatory body.”

Recent outbreaks of foot and mouth disease and avian flu have required countries to rethink animal health regulation

According to de las Carreras, “just when experts thought that foot and mouth disease had been eradicated, a big explosion happened.” Some related this outbreak to increased trade. He said this outbreak has caused Argentina and some other countries to reconsider using vaccination to prevent animal disease outbreaks.

Lavagna recalled that for many years developing countries like Argentina supported a minimal risk approach to protecting animal health, while developed countries insisted that zero-risk was the only acceptable level. But, he asserted, “Recent outbreaks have led them to understand that zero-risk is merely a mechanism to destroy trade.”

De las Carreras agreed and noted that millions of animals were slaughtered during the BSE crisis in Europe – both the sick and those near sick animals. “Two-thirds of the animals slaughtered in the United Kingdom were probably healthy, but they were slaughtered as a precaution.” He noted that the World Organization for Animal Health (OIE) is moving to more flexible risk rules for trade. “Risk can be minimized but never eliminated. There is no disease that has zero risk of being transmitted.”

Animal health controls must be modified to confront animal disease crises

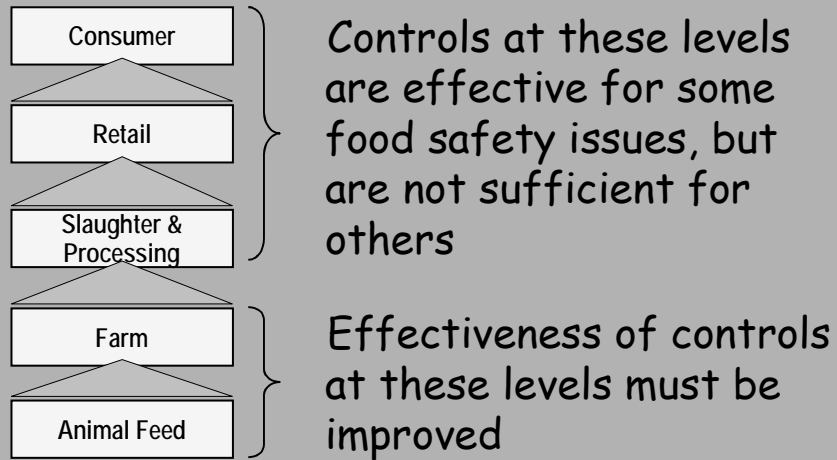
According to Switzerland’s former Chief Veterinary Advisor, Ulrich Kihm, regulations on animal health currently focus controls at slaughter, processing and retail markets. However, he asserted that to address animal health issues most effectively, surveillance must be increased on the bottom three rungs of the supply chain – the feed, animal and farm levels (Figure 11).

Surveillance requires adequate laboratory capacity, which entails increased technical expertise and better infrastructure. It also requires epidemiological and disease expertise, an adequate animal identification and tracing

system, and trained personnel in the field. But, he pointed out that for many exporting countries this requires support to increase technical capacity.

Kihm also called for increased risk assessment. "For any disease, risk assessments allow science-based decisions." Risk management must be implemented through preventative measures, and risks must be communicated to producers and consumers so they are aware of the risks diseases do and do not pose.

Integrated controls along the food chain



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34th IPC Plenary Seminar: Issues in South American Agriculture
October 25, 2004
Buenos Aires, Argentina

Session One: The Impact of Regional Integration on Trade and Investment in Agriculture

How is regional integration affecting private sector investment in Latin America? What role are regional trade agreements playing in facilitating integration? What are the main barriers to integration and trade that can be addressed by regional agreements? By global agreements?

Chair: Jorge Zorreguieta*, former Secretary of Agriculture, Argentina

Martín Redrado, President of the Central Bank of Argentina, former Secretary of Commerce and Economic International Negotiations

Panel of agribusiness executives:

Food processing: Juan Forn, CEO, Molinos Río de la Plata

Primary Processing: Raul Padilla, CEO, Bunge; **Hugo Krajnc**, Government Relations Manager, Cargill SACI

AgroChemicals: Ezequiel Fonseca, Dow Agro Argentina and Director CASAFE

Session Two: The Doha Development Agenda, Taking Stock

Where do the negotiations stand? How does the framework agreement measure up in national capitols? What issues remain outstanding? How can they be resolved?

Chair: Raul Montemayor*, Philippine Farmers Federation

North America: M. Ann Tutwiler, Chief Executive, IPC

European Union: Rolf Moehler*, former Deputy Director General, DG Agriculture, European Union

Group of Twenty: Pedro de Camargo*, former Secretary of Production and Trade, Brazil

Africa Group: Ajay Vashee*, President, Southern African Farmers' Union, Zambia

Luncheon: Argentine Policy on Agricultural Biotechnology

Claudio Sabsay, Undersecretary of Agriculture, Argentina

Session Three: The Evolution of Global Biotechnology

How do industry executives view the evolution of the biotechnology industry? How are developing countries approaching biotechnology policy? How can the public sector play a strong role in biotechnology research?

Chair: Marcelo Regunaga*, former Secretary of Agriculture, Argentina

Jerry Steiner*, Vice President, Commercial Acceptance, Monsanto

Liberty Mhlanga*, former Director, Agricultural and Rural Development Authority, Zimbabwe

Jikun Huang*, Director, Center for Chinese Agricultural Policy, Chinese Academy of Sciences, China

Session Four: Issues in Animal Agriculture

How will the combination of emerging issues in animal health and human health, animal welfare, genomics, and the environment affect global production and trade in animals, animal products, animal feed, and animal nutrition?

Chair: Kevin M. Wepler, Area Director Latin America, Elanco Animal Health, United States

David B. Wilkins, Chief Veterinary Advisor, World Society for the Protection of Animals

Ulrich Kihm, former Chief Veterinary Officer, Switzerland

Alberto de las Carreras, Vice President of the Argentine Chamber of Exporters, former President of the International Meat Secretariat, and former Secretary of Commerce of Argentina, Argentina

Charlie Arnot, CMA Consulting, United States

Closing Session: The Argentine Economy Within the Context of World Trade

Roberto Lavagna, Minister of Economy & Production, Argentina

The IPC would like to thank the following firms and institutions for their support of this seminar.

AACREA; AEA; Bolsa Cereales de Buenos Aires; Bolsa de Comercio de Rosario; Bunge Argentina, S.A.; Cargill, S.A.C.I.; CARI; CASAFE-CropLife; Centro Azucarero Argentino; CIARA-CEC; COPAL; CRA; Dow AgroSciences; Molinos Rio de la Plata, S.A.; Fundacion Agronegocios y Alimentos; INAI; Monsanto Argentina S.A.I.C.; Nestle Argentina, S.A.; SRA

* Indicates IPC Member