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Alphonse and Gaston Visit Geneva: The Impasse in the Doha Round Agriculture Negotiations

Notes for a Presentation

by

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**SPEAKING NOTES FOR
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**ALPHONSE AND GASTON VISIT GENEVA
– THE IMPASSE IN THE DOHA ROUND AGRICULTURE
NEGOTIATIONS**

**NEWSMAKER BREAKFAST
SEPTEMBER 14, 2005**

1. We are back at the table again in Geneva after frustrating meetings in July and a summer break which has changed the leadership of the WTO and the pivotal negotiating group on Agriculture. But I expect we will be seeing for the next few weeks, at least, Alphonse and Gaston in Geneva.
2. New WTO Boss Pascal Lamy is determined to narrow differences on agriculture to make the Hong Kong Ministerial meaningful. But the E.U. and USA are into a game of you first Alphonse, no my dear Gaston..... after you. There are clear linkages between disciplines on domestic support – which is the root of the farm income crisis and increased reluctance to offer improved market access.
3. The agriculture negotiating group re-started yesterday and nothing startling had happened – but and we didn't expect much. The two principal players

talk the talk but they certainly do not walk the walk. And even if they wanted to, their hands are tied.

4. Senate and House leaders told USTR Rob Portman last week:
 - he can't make specific commitments to reduce U.S. agriculture subsidies;
 - he can't accept E.U. demands to reduce domestic support to catalyze some momentum in the negotiations.

5. Congress is not confident the E.U. will improve market access. So the E.U. will have to make the first move.

6. The E.U. wants Washington to accept real disciplines and cuts on domestic support. But this will not happen soon.

7. Hurricane Katrina has prevented Mississippi barges from moving grain exports – prices are dropping – and the safety net subsidies are increasing. It is hard to criticize these subsidies in this crisis environment – because they are serving the purpose of a safety net – they are disaster relief – but it will

be even more difficult to persuade Congress to discipline their very generous support to U.S. farmers.

8. The key players aren't in Geneva this week – they are all in Washington, USTR Portman and Secretary Johanns are trying to get their own stakeholders in line. Mme Fischer–Boel and Commissioner Mandelson are in Washington for different reasons. Will they all be able to get together? Perhaps – but what can they achieve if their strings are being pulled in opposite directions?
9. Commissioner Mandelson publicly called for the USA to share the leading role in making the negotiations a success. But is this a realistic expectation given Washington's suspicions of Brussels? The USA and the E.U. have other things to address as well – including aircraft which will make co-operation difficult.
10. The WTO system, if it is not broken, is seriously dysfunctional. And negotiations towards further trade liberalization are too frequently paralyzed. The WTO has become very much like a U.N. body – with all the North-South divisions – and administrative inflexibility that comes with this. But

it is not only the evolving nature of the organization that leads to the problems which have plagued the multilateral trading system.

11. Many developing countries got a bad deal in the Uruguay Round. They did not receive the benefits they expected. They took on obligations they did not fully appreciate or could not implement.
12. In Agriculture the disappointments are not limited to developing countries. Canadian farmers too were shortchanged.
13. There is a need to rebalance or the system will not work and further liberalization will be resisted. But rebalancing itself is being resisted – allegedly to prevent unraveling – actually to preserve the gains which the wealthier countries made at the expense of less affluent ones. This is unenlightened and aggressive mercantilism. It has become a systemic beggar thy neighbour policy.
14. And this is the root of the problem – the reason there has been no movement on market access and is not likely to be in the near future. We are releasing a study today about the Undelivered Promises and Betrayals of the Uruguay

Round – it analyzes why so many farmers around the world do not want their governments to engage in further liberalization.

15. The study discusses the Uruguay Round's failure to address adequately:
 - unfilled minimum access quotas
 - SPS measures
 - domestic support
 - food aid and export credits
 - trade remedy actions
 - regional trade preferences
 - farmers litigating to get around their own government's decisions to grant access (BSE in USA – pork in Australia).

16. Some countries came out of the Uruguay Round with very limited ability to provide financial support to their farmers. Canada for one accelerated subsidy reductions in part to meet budgetary concerns but primarily because Canada lives up to its obligations no matter how difficult this may be. Most developing countries did not have the resources to support their many small farmers even before the Uruguay Round.

17. The WTO rules simply did not take account of the very fundamental, subsistence nature of agriculture in many developing countries. Small farmers in these countries are totally vulnerable to cheap import competition. Small farmers in developing countries cannot be treated the same way as the agribusiness and corporate farmers which dominate agriculture in North America and will do so increasingly in Europe.
18. Developing countries opened their markets – either because the World Bank forced them in the 1980's to eliminate quotas which could have been converted into TRQs – or because their negotiators took on obligations they could not live with.
19. Problems occurred because some markets did not open as expected. The U.S. Congressional Budget Office recently reported that after the Uruguay Round there were some 5,000 tariff lines in 29 countries subject to special tariffication measures – or TRQs (Tariff Rate Quotas). These TRQs are supposed to guarantee minimum access to these markets. In far too many cases TRQs are not filled because of administrative protectionism.

20. The report examines two of Canada's most promising export sectors – pork and beef. These sectors are important because Canada, facing very low international grain prices took conscious decisions to focus on upgrading its grain production through livestock raising and processing. Both of these successful sectors have experienced serious access problems and their success has been challenged by competitors in the USA and elsewhere.
21. Important barriers remain for Canadian pork producers in exporting against minimum access commitments in the E.U. and Japan. Australian hog farmers are using the courts to try to reverse favourable health and sanitary decisions to block access to Canadian pork. Pork is one of the success stories of the Uruguay Round for Canada – we exported 930,000 MT worth nearly \$2.7 billion in 2004 – and we sold it to more than 130 countries.
22. But Canadian pork is virtually shut out of large, important like Japan and the E.U. and, in the case of the E.U., expanding markets. The Japanese safeguard has been manipulated indeed some of the manipulators are currently being investigated for criminal activity. The E.U. pigment import regime is a case study in administrative complexity and protectionism. And we have addressed it this way in our Report.

23. It has been particularly galling to Canadian pork producers that the E.U. was able to convert their variable levy on pork to TRQs that are well under 1/10 of 5% of domestic consumption. The E.U. did this by aggregating all meats and allocating very niggardly amounts to pork. The pork TRQs are highly disaggregated into several different pork items (e.g., hams, bone-in and boneless, etc.) while in-quota tariff rates (e.g., 20%) frustrate imports. Reducing reference prices for pork under the new regime will only exacerbate this situation by making E.U. production more price competitive. If the E.U. means to import a meaningful volume of pork in order to guarantee minimum access it must set the TRQ quotas at 5% of consumption and the in-quota tariff must be eliminated.
24. Canadian beef exports to the E.U. and Japan are also severely and unfairly restricted. BSE has been a problem which exceeded the actual risk. R-CALF initiated an anti-dumping investigation which cost Canadian cattlemen \$5 million and untold disruption to defend – successfully – but it was very expensive, very disruptive – and unnecessary in an integrated NAFTA market.

25. The U.S. BSE ban – has taken far too long to resolve given the integrated nature of the markets – and the presence of BSE in the USA. And this too was worsened by R-CALF litigation to delay opening the border. We now have another R-CALF appeal launched just last Friday, September 9.

26. The U.S. National Pork Producers Council launched an expensive and eventually unsuccessful investigation of alleged dumping and subsidization of Canadian live swine. This was the second investigation in less than 20 years. It makes no sense to have such investigations in an integrated market where U.S. hog feeders rely so heavily on Canadian weanlings which are then raised and fed in the U.S.

27. Now Canada seems to be getting its own back because Canadian corn producers have gone to war against subsidized and dumped corn imports from the USA. While it appears that their frustrations are more related to the Ontario government pulling their safety net program – leaving U.S. and Quebec farmers with generous subsidies and Ontario growers with much less- the corn producers are determined to do to the USA what it has done to Canada.

28. The corn producers want Canada to challenge U.S. feed grain subsidies at the WTO. It is indeed unfortunate that Canada did not do this when the government was presented with detailed analysis of U.S. programs in 2003. Being next door to the USA, we know first hand how their programs work.
29. Why has Canada done nothing at the WTO while Brazil has won twice and is ready to go again on soybeans – and Uruguay is consulting about rice subsidies?
30. It is not that we don't have enough lawyers – perhaps they are too busy with Softwood lumber.
31. What ever the reason, the job is not getting done – and the problem is becoming desperate.
32. Our policies, including our rather timid approach to defending our rights, are not improving life for Canadian farmers. Canada needs to change its policies and its approach. Had Canada challenged feed grain subsidies in 2003 at the WTO, the process would be over.

33. The corn growers are so frustrated they have filed the third dumping and subsidization complaint on U.S. grain corn since 1986.
34. Reading their website – income support is what they are looking for – but the Ontario government has been unsympathetic.
35. These investigations will not hurt U.S. corn growers. But Canadian hog and beef cattle producers know how serious de-integrating the North American feed market could be for them. Not to mention the adverse and potentially crippling impacts on Premier McGuinty’s ethanol mandate and efforts to attract ethanol processing into Ontario.
36. I didn’t come here to discuss the impending corn wars. Farmers are lined up against farmers – and industrial users, including corn farmers who have invested in ethanol co-ops, are concerned about piling additional duties on their own already high energy costs and the soaring Canadian dollar will undermine their viability.

37. Corn producers have had their safety net pulled out from under them – and are determined to get more revenue from the market place – even if it means “gut-shooting” their customers.
38. The corn situation is complex but it underlines at a very local level the problems addressed in our Report.
39. Smaller countries, including Canada, have been cheated out of their legitimate expectations from the Uruguay Round because the big players have not lived up to their obligations. They have misrepresented, misdescribed and used smoke and mirrors reporting methods to avoid any real disciplines on often obscene domestic support. Smaller players, who opened up their markets, have borne the brunt of these deceptions. They did not find new markets for their production which was displaced by imports. And they have experienced import competition at prices which at times do not even cover their cash costs.
40. Other countries, like Canada, assiduously eliminated subsidies, only to find their farmers need emergency support to make ends meet because of declining prices at home and in export markets. In addition Canadian

farmers have had to cope with the price suppressing effects of a U.S. dollar which has weakened by more than a third in recent years.

41. Many poor countries cannot afford even meager safety nets. The G-20 has thrown down the gauntlet – Hong Kong will go nowhere until the U.S. and E.U. discipline and reduce domestic support – G-20 has said quite bluntly, “the poorer countries are running out of patience with the non-committal response of the rich”.

42. Our Report identifies numerous instances of underfilled TRQs. These represent lost or denied opportunities for Canadian and other exporters. There should not be a product in any country where there is not at least 5% guaranteed market access without administrative “jiggery pokery” designed to frustrate imports.

43. Canadian farmers and farmers around the world need higher quality and guaranteed market access. Notwithstanding all the criticism which Canada’s supply management systems attract, fill rates for Canada’s TRQs are quite high – Canada cannot be criticized – it leads by example.

44. The WTO must insist on high quality guaranteed market access. There should be no tariffs on imports within the TRQ – how can duty free imports representing 5% of consumption disrupt a market?
45. There should be no administrative barriers to filling these quotas. Rigged entitlements, phony aggregation, and directed allocations without purchasing requirements are not unusual. Requiring that soybeans be imported for animal feed instead of permitting higher priced imports of food grade beans limits exports and opportunities.
46. So does allocating quotas based on historical performance without adequate provision for transfer if an importer is no longer in business. As does breaking down entitlements into uneconomically small units per importer – and auction systems which have the same effect as tariffs.
47. U.S. use of export credits has been condemned by the WTO Dispute settlement Panel and Appellate Body decisions on *Upland Cotton*.
48. The U.S. once again has been targeted in the Doha negotiations for improper use of food aid. Food aid is supposed to be provided for humanitarian reasons.

Too often the USA uses it for surplus disposal. The massive U.S. “food aid” exports of pork to Russia similarly affect Canadian interests. This destroys local production and steals legitimate market opportunities from unsubsidized competitors.

49. Preferential trade agreements are proliferating. Too often they grant preferred and guaranteed access to small restricted import regimes. A case in point of concern to Canada is the Mexico-Japan FTA which grants Mexico substantial preferential access to the Korean pork market. This access is potentially worth hundreds of millions in lost export opportunities for Canada.

50. But undisciplined domestic support –is the most serious cancer in the system and it must be excised – the sooner the better. Such support:
 - stimulates surplus production;
 - this production must be dumped in world markets;
 - there is no need for the subsidized farmers to recover their cost of production;

- the subsidies insulate the beneficiaries from import competition – they can urge market access concessions on others because they will be able to offset tariff reductions through domestic or income support.
51. These subsidies create an imbalance, which impedes market access for less affluent countries. They have created and exacerbated a global farm income crisis.
 52. The farm income crisis must be resolved by policies which do not stimulate excess production and supply. Farmers around the world argued in Geneva during the April, 2005 at the WTO Public Symposium on the Global Farm Income Crisis that the answer to securing higher market prices lies in restricting rather than stimulating production. Glut conditions in commodity markets can only suppress prices.
 53. The rest of the world will not engage in meaningful market access negotiations unless and until the production distorting programs of the USA and E.U. are brought under control and until this happens problems will continue. Our next report which will be out early next month will explain how E.U. CAP reform with decoupling and lower reference and market

prices will offset tariff reductions and continue to frustrate improved access to E.U. markets which now encompass 25 countries.

54. Without resolution of these domestic support issues, we will see more WTO trade litigation – Uruguay on rice, Brazil on soybeans and perhaps, if we find the will and independence, Canada on feed grains.
55. But the targets are big and we are little. It will be difficult to enforce a win. And retaliation is a mug's game.
56. But there are U.S. and E.U. interests outside agriculture interests who need and want to dismantle barriers to trade and investment in other manufacturing sectors and in traded services. The G-20 and G-33 have dug in their heels in resisting such liberalization. They cannot be forced to play – they feel that they were short changed in the Uruguay Round and they were. They have what the U.S. and the E.U. want – and new found leverage. As Pascal Lamy says – it is going to get messy – then hopefully it will get better.