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**The Role of Agriculture in the World Trading  
System**

**Rob McRae**  
**Cargill Asia Pacific**

**Pacific Economic Cooperation Council**

4 Nassim Road Singapore 258372 Tel: +65 67379822 Fax: +65 67379824 Email: [info@pecc.org](mailto:info@pecc.org) [www.pecc.org](http://www.pecc.org)

# **State of the world trading system**

**By**

**Rob McRae  
President, Cargill Asia Pacific**

**To the**

**PECC General Meeting  
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## **INTRODUCTION**

Thank you for that kind introduction. I am honored to be part of this distinguished group of speakers. For those of you who may not be familiar with Cargill, here is a brief overview. We are a global company that started as a grain trader in the US in 1865. For the last 138 years, we have been closely linked with the agricultural and food business in almost all its forms. Today we are an international marketer, processor and distributor of agricultural, food and industrial products and services around the world. We have more than 98,000 employees, working in 61 countries, at more than 1,000 locations.

## **ISSUES & OPPORTUNITIES IN TRADE**

You have heard this morning – as indeed you will hear over the next three days of this conference – much said about the Doha round of multilateral trade negotiations. A

significant component of these negotiations revolves around agriculture. Over the next few minutes, I want to share with you our perspective of the principal hurdles facing the negotiators and to give you an idea why we believe a successful end to these negotiations is vital.

While the DDA (Doha Development Agenda) seeks to address a whole host of issues, it provides the best opportunity in a decade to reform agricultural policies in ways that lead to meaningful trade liberalization. Now – as you probably know, The Doha Round was launched in November 2001. WTO ministers agreed to a comprehensive agricultural negotiation that would seek:

- substantial reductions in trade-distorting domestic support ;
- substantial improvements in market access; and
- reductions of, with a view to phasing out, all forms of export subsidies.

There are other issues as well but these are the principal ones and let me spend a minute on what each of these issues entails.

**Domestic support:**

Economists have long recognized that market forces do a better job than government mandates in guiding investment, production and marketing decisions in the food and agricultural economy. Yet, historically there has been a heavy hand of government involvement in supporting domestic agricultural systems. Governments do this in three ways: by supporting production of specific commodities (which is the most disruptive); by supporting farming as an enterprise (which is less disruptive but still requires further

discipline and reform at the DDA negotiations), or by supporting rural development (which is the best long term option as it diversifies the economy, extends infrastructure and allows the markets to work efficiently).

Thus, in order for markets to be able to signal underlying supply and demand conditions effectively, supporters of reform should favor a migration of policy measures from commodity policies to farm-support policies and, eventually, to rural development policies.

## **Market Access**

As with domestic supports, there are important issues around both the degree of protection and the form in which protection is delivered. Reasonable principles to guide reform are: finding **less-distortive** forms of protection; and lowering the **degree** of protection.

The most disruptive forms of protection are those that provide an absolute margin of protection and that make price virtually irrelevant to trade flows. Absolute forms of protection include: bans or quotas, state trading monopolies, and variable levies. Absolute forms of protection are the most damaging and restrictive denial of market access and should be eliminated.

There are several issues around the degree of protection. One is the tariff escalation where protection rises with degree of processing. Another issue is tariff peaks or dispersion; wide ranges among tariffs in agriculture distort investment and production decisions. And, of course, there is the general issue of tariff levels.

Market-access gains can be achieved most feasibly through a progressive reduction in tariffs, especially an approach that reduces higher duties and tariff escalation faster.

These principles apply to developing countries as well, whose economies suffer just as much from the effects of high or dispersed degrees of protection.

### **Export Subsidies**

Export subsidies have long been regarded as a particularly disruptive form of market distortion because: they are commodity specific; they can be customer-specific; and they are unfair to producers who must compete with them on an unaided basis, either in domestic or export markets. The negotiators will need to address not just the varying forms of export subsidies but also the pace of reform.

The pace of reform has been a sensitive issue, especially for agricultural exporters who rely extensively on subsidy practices. On the other hand, failure to discipline unfair trade practices makes unsubsidized competitors reluctant to support progress in market access. And, lack of discipline on export subsidies can reduce pressures to address needed domestic policy reforms. For these reasons, priority will need to be given to the elimination of export subsidy practices of all kinds on an expedited basis.

The negotiations are scheduled to conclude by January 1, 2005. We are more than half way through the time schedule and there is yet a mountain left to climb. I want to share with you why climbing this mountain is a matter of great urgency.

By 2015, there will be more than 6.8 billion people in the world. Even today, more than 3 billion of the world's people live in abject poverty; more than a billion are estimated to go hungry every day.

Why is this? Simply put, poverty causes hunger. And bad policy – particularly bad agricultural and trade policy – causes poverty.

Agricultural development is a primary engine of economic growth. That is the primary difference between Asia and Africa: much of Asia's agriculture took off and paved the way for industrial development and broad economic growth, while agricultural development and overall economic growth continue to lag in sub-Saharan Africa – with policies that discourage efficient agriculture largely to blame.

The solution, however, is not for each country to strive for self-sufficiency in food and attempt to produce all their own food themselves – regardless of the cost to their economies and environment. No – the answer is to have a global trading system that ensures food security. Food security means having **access** to food. Japan, South Korea and Taiwan are prime examples of how wealth leads to food security.

Since 1981, Taiwan went from supplying about 30% of its own food to 15% - while its per capita GDP more than doubled during that time. South Korea has experienced the same trend. It cut its self-sufficiency nearly in half – from 50% to 25% - since 1981 and saw its per capita GDP nearly triple.

Nevertheless, for many of the world's people, agriculture remains a subsistence activity. Ninety percent of the food produced in the world is consumed within the country producing it, and most of that usage lies outside of the commercial system. A company like Cargill only begins to touch the food system as commercial production emerges and agricultural products flow to urban centers and into international markets. But as commercial food trade emerges, new opportunities arise to eliminate hunger and enhance food security.

The first opportunity is to lower food costs. Access to low-cost imports helps keep food costs down, especially for the poor who often spend 70 percent or more of their personal income to eat.

Second, food trade creates choice. Trade offers variety; it also provides access to foods year round that often can be grown locally only on a seasonal basis. And, it provides efficient local farmers new marketing opportunities. The result is higher living standards for those able to participate.

Finally, food trade provides more reliable access to supplies at lower cost. Crop production often fluctuates 25 percent from one year to the next within a growing region. Global production, however, typically fluctuates less than three percent annually, as good crops in some places offset poor crops elsewhere. Moreover, storing food typically costs 20 percent or more of its value annually, while most foods can be shipped halfway around the world for 10 percent of their value, or half the cost of storage.

In other words, food trade lowers costs, widens choices and provides more reliable access to supplies. Each is important in achieving food security. But, with agricultural trade barriers on average 40 to 50 percent of a commodity's value, the trading system is prevented from making the contribution to food security it could. Unless these barriers are brought down dramatically on all agricultural products in all countries, the global food system needed to enhance food security will not develop adequately.

#### Trade Distortion, Market Access and Non-Tariff Barriers Issues

Unfortunately, agriculture is one of the most protected and heavily subsidized industries there is. Trade-distorting measures in the form of agricultural production subsidies, export assistance programs, import quotas and the like continue to challenge the establishment of an open food system which would address the global issues of food security and hunger elimination. Such actions distort trade flows and encourage excess production.

The Organization for Economic Cooperation and Development (OECD) calculates that agricultural protection in developed countries imposed costs of some \$327 billion on the global economy in the year 2000. That's equivalent to 1.3 percent of worldwide GDP.

We did, however, see some encouraging progress toward a more open agricultural system recently, when the EU announced a change in its Common Agricultural Policy that would sever the link between subsidies and production for most arable crops no later than 2007. While this action did not address tariffs and other market access issues, it nonetheless was a very positive step toward a more open food system in which crops are grown in places where it makes most economic sense.

What we need to do for agricultural trade in the WTO is what's already been done for industrial trade under its predecessor, the General Agreement on Tariffs and Trade (GATT). Through a series of eight GATT trade-negotiating rounds, industrial tariffs have been brought down from roughly 40 percent after World War II to about 4 percent on average today. That has allowed trade to grow from 10 percent to 20 percent of all usage of industrial products.

I believe that the WTO is the most viable avenue for reducing agricultural trade barriers. Only then are everybody's measures – including domestic and export subsidies – on the table.

## **CONCLUSION**

I've covered a lot of ground in a short time. If you have any questions on any of the areas I've touched on, I'd be pleased to answer them.

Thanks again for listening and having me here today.