

US OILSEEDS: IASC CONGRESS SAN FRANCISCO JUNE 2006

ADDRESS BY TIM GROSER, NZ PARLIAMENT

First of all I would like to thank you for this invitation. I am very conscious that this has been extended to me in my capacity as the former Chair of the Agriculture Negotiations, rather than in my current capacity as a newly minted politician. A foreign one at that!

I am often asked how I am enjoying my new life as a politician. There is a certain implied measure of incredulity behind this question of course. Why would anyone give up a fascinating job as an international trade negotiator and Chair of the crucial agriculture negotiations, nice Ambassadorial house by the Lake in Geneva, chauffeur, all paid for by that very gracious person, the NZ taxpayer, in order to become a politician at a considerably reduced salary?

On this occasion to pose the question is not to answer it.

Now, I don't know about the United States but in NZ we hold a poll each year which ranks about 30 professions in terms of the esteem the NZ public holds these professions. Right at the top, year after year, are firemen. Yes, firemen have come a long way.

It was not always thus: it used to be common practice, centuries back in Europe, for firemen to negotiate the price of putting out the fire of a building with the owner outside the building as the fire took place. Now that is what I call negotiating leverage. But today, firemen are the people's heroes, and deservedly so. The NZ public loves them.

Politicians, I am pleased to inform you, are not ranked bottom by the NZ public out of the 30 professions surveyed. No, not at all. We are second to bottom. Just ahead of tele-marketers and one behind used car salesmen.

So why did I decide to enter the 'dark side' and become a politician? Well, to find that out would probably require countless hours of psychoanalysis, not to mention long discussions with my mother. But let me keep it simple. For me, politics is the big game. Full stop. And in spite of the low esteem the profession seems to have in most democratic countries, I think politics really matters.

After 30 years, much of which I have lived in various countries, I believe political leadership is the single most important issue in every single society. If political leadership can inspire, a country can do amazing things. If political leadership is weak and directionless, the country will be directionless – second-guessing

everything, prey to ever risk-averse decision. If political leadership is corrupt and venal, the country will go to the dogs.

The great American economist of the 1960s, Harry Johnson, a giant of the Chicago School, once said 'there is only one scarce resource. That is good decisions'. Think about it. It is simple and profoundly true. A country like Singapore – a tiny place of 4.5 million people and you can literally fit Singapore into the area covered by NZ's largest lake, Lake Taupo. They have no resources at all. They have no farms; they import most of their water from Malaysia. As far as I know they have no minerals, no energy resources. But with consistently good decisions, and inspirational leadership, they have transformed what was a malarial swamp into an extraordinary, post-industrial society with a per capita income not far below that of the United States.

So for me, politics, in spite of the low esteem in which the public holds politicians, is the biggest game in town. I wanted to be part of it, basically all my adult life. No quite sure why, but I did not want to retire always regretting that I had never had the courage to give it a go.

Of course the timing was simply terrible. But I – obviously – control neither the timetable of the WTO agriculture negotiations nor the NZ domestic timetable. I would love to have finished the job in Geneva but frankly at the age of 55 I made a tough decision that if I did not stand at the NZ election last September, I might never have the opportunity again.

The second reason I made the decision relates to the politicisation of trade negotiations. In a sense, the negotiations on trade issues have passed right out of the hands of professional negotiators to Trade Ministers. I personally think this has gone far too far. But thinking ahead, I came to the conclusion that if you can't beat 'em, join 'em. So, given our political system, in order to become NZ's Trade Minister – I make not even pretence of concealing my ambition – I had to go into politics first.

There are important reasons for this profound shift in negotiating dynamics in Geneva from professional negotiators to Ministers. And to understand them will take you a long way towards understanding why this current round of WTO negotiations has proved so difficult to progress. I hope you will allow me to summarise a little history. It is central to my personal view about the decision the United States in particular is going to have take – probably in the next few weeks.

To foreshadow my conclusion: the broad deal is there on the table. The elements can be shuffled around in different ways, but broadly the deal is there. And the question then arises – as it does at the end of every negotiation – are those of us who wish to promote agriculture reform better off taking it, or walking away? And that of course requires some consideration of the alternative. But first a little history.

In the early Rounds of the GATT negotiations – these are the Rounds known as the Dillon Rounds, Torquay and other names now recognised only by historians – officials from a few developed countries got together, spent months in negotiations and then basically took the deal back to their political processes. It was considered a deeply technical matter. Like war, far too important to leave to politicians.

Well, more seriously, that interpretation only scratches the surface. The reason why the earlier Rounds could be left largely to professionally trained and non-elected officials was possible precisely because there was in place a strong domestic consensus in the countries concerned on the importance of promoting progressively freer trade amongst the developed world on industrial goods. In that sense, political leadership required to carry the forward the great project of trade liberalisation could indeed be assumed. Had that consensus not been in place – had the objective of progressive liberalisation of industrial products been controversial – there is no way unelected officials could have worked away efficiently, as they did.

This was backed in particular by the United States – an even more dominant power economically then than today, although the US remains unquestionably the pre-eminent economic power. There was in the 1950s, '60s and '70s, a very strong realisation on the part of successive Administrations, both Republican and Democratic, that trade liberalisation was a good thing and linked to strategic US foreign policy goals. After all, open markets seem to go together – both open markets politically and open markets economically.

So in the past, these Rounds could be managed without the same degree of high drama, without anywhere near the amount of involvement of Ministers. But it was not all as positive as this makes it sound. The rosy-hued past usually never is, once you get down and dirty and look at it in a hard-headed way.

Note that this strong political consensus of the past GATT negotiations left out of the whole system, again by consensus, the two deeply sensitive areas of world trade in goods – textiles and clothing and agriculture. It also did not deal with services and was once over lightly with respect to trade in intellectual property. But I will just focus on the two big exceptions in world trade in goods: textiles and clothing and agriculture.

The Uruguay Round fixed one of these problems – textiles and clothing and half fixed the other – agriculture. The fix to textiles and clothing was, in my opinion, an extraordinary one, but it seems to have done the business. What they decided in the Uruguay Round was to eliminate within a 10 year period, all the quantitative restrictions that would have been illegal under the normal rules for industrial trade but for a weird and wonderful agreement called the Multi-fibre Agreement.

With respect to the other the other major sector left out of the old GATT deal, agriculture, the Uruguay Round did only half the job. What the Uruguay Round did was essentially two things.

- First, it broke the back of the principle that agriculture could be left outside the system of international trade law. That was the biggest fight of all, given the enormous resistance from so many countries – even here in the United States, certain defensive agriculture lobbies would have preferred no deal on agriculture. Fortunately US political leadership took an overall view of the US national interest and kept the main game in sight. As a result, and over a tortured seven year period, we won the fight over the principle: agriculture would never again be outside the system.
- Second, the Uruguay Round achieved a massive shift in policy instruments used in world agriculture. A whole series of sacred cows – well sacred to the protectionists – went to the political meat works as a consequence. The EU was dragged, kicking and screaming, to the position where it gave up the absolute protectionist device known as the variable levy. The US gave up its historical rights under what was called the US waiver. The Swiss gave up their treasured ‘Swiss Protocol of Accession’ that protected forever their agriculture sector from change. The Japanese, Koreans, the deeply defensive Canadian agriculture lobbies such as dairy and poultry gave up prohibitive import quotas. Amongst developing countries, almost all accepted bringing in 100% of their agriculture tariffs into legal bindings – though often via a high ceiling binding. In short, everyone converted this absurd mix of frontier measures to what were called tariff equivalents. Similarly, some international policy instruments were developed for the first time to bring export subsidies under discipline and a loose structure emerged for disciplining internal support or production-linked subsidies. This was a huge collective policy shift internationally. We were, in effect, cleaning out the stables – the detritus of 40 years of neglect – and putting in place policy structures designed to be a platform for progressive liberalisation.

But what the Uruguay Round did not achieve was significant liberalisation at the same time. Some liberalisation was done, but not much.

What were the chief consequences of this? Well, it meant for example, that the EU – with its massive production subsidies – was legally entitled to spend on trade and production distorting subsidies four times as much as the United States. That is still the law today. It meant similarly that the EU could legally continue to use export subsidies some 10 to 15 times greater than the US – even after it had met its commitment to reduce export subsidies by 24% in volume terms. It also meant acceptance of massive tariffs – as a replacement for all the prohibitive mix of market access barriers they replaced. Those of you around

during the 'last war', as it were, will remember the phrase 'comprehensive tariffication'.

So the question would naturally arise – did we, and I was NZ's chief agriculture negotiator for all those seven years, and more influential people than me on the side of reform, make a gigantic miscalculation? Should we have, after seven years, walked away from this deal?

Well what is very clear is that if we had collectively walked away from that deal, we would have been walking right back in history to the existing status quo. And that status quo was an absolute mess. After seven long years, there was no other politically feasible deal on the table. Getting the first deal ever on agriculture in place and getting extremely conservative, even fearful, political markets to abandon long-cherished policy instruments was as much as the traffic would bear.

Making a positive decision to go ahead depended then – as it will depend in the coming weeks – on two closely associated judgements.

The first and crucial judgment is to understand, not just intellectually, but emotionally, that the WTO, like the GATT before it, is an agent of evolution, not revolution. Would we in NZ prefer revolutionary change – radical liberalisation such as immediate elimination of all tariffs, all production linked subsidies? Of course, we would have preferred that and would again prefer it today. For all practical purposes, we don't have any tariffs or subsidies in NZ. We used to have them in spades – but we eliminated these measures in the 1980s unilaterally. We would like everyone to join us on that level playing field. It is dead flat. You can see forever.

But down there on the farm in NZ you don't find many fools expecting the world to join us in a hurry. We sell 90% of what we produce on the farm to the global market. Fools don't survive long in that environment. We understood all along that, so great was the political resistance to liberalisation of agriculture that this would have to be done on a progressive or evolutionary basis. We understood deeply – and still understand – the wisdom of the phrase 'the excellent can often be the enemy of the good'. Please remember that in coming weeks.

The second key judgement – intimately linked to the foregoing judgement – is to understand that you cannot rationally look at the result of an individual 'Round' as an isolated event. There have been eight such Rounds since the Second World War. Doha is the ninth. None of them can be rationally evaluated as a single event. If you attempt to do that, you will always reach the wrong conclusion. You would be in the tradition of those stock analysts who never saw a stock they liked. At the end of every multilateral trade round, since they always fall short of radical change, you would have walked away on every occasion. But, ladies and gentlemen, it would have been a short walk to nowhere.

I believe we are coming to the same decision point with respect to the current Doha Round and your voice – the voice of one of the world’s leading proponents of agriculture liberalisation – is likely to be quite influential.

The task of the Doha Round is to build on the Uruguay Round platform and tackle liberalisation in a serious and effective way. Of course this means that whether we like it or not, we are stuck with that platform as the starting point. It reminds me of that old joke about the tourist from Maine stuck in the mist of the Welsh valleys, trying to find his way to the coast. So in one of the old villages, he stops at an inn and, pulling out a map to point to the desired coastal destination, asks an old timer for directions. “Well”, says the old timer, “if I wanted to go there I wouldn’t start from here”.

The problem is, ladies and gentlemen, in the real world, you always start from ‘here’. And in the Doha Round, that means starting from the legal outcomes of the Uruguay Round. There are all manner of unlevel playing fields you need to navigate through. But there is no alternative. No other starting point.

For reasons I hope you can understand immediately, I have made a particular point of not commenting in public on how specifically I think the deal might be brought to a successful conclusion. It is not just not wanting to get in the way of my successor as the Chair of the Agriculture Negotiations. He has a thousand other people all telling him their preferred ‘solutions’. He does not need me. It is also because there is no ‘one’ right answer. All the main elements of the deal are there on the table – after all in a purely technical sense this negotiation has been underway since 1999. There are a dozen different ways to put the deal together.

But the broad outlines are indeed clear.

First, no matter what final numbers will be determined, we are going to have a massive cut in trade and production distorting support. It could be as high as 80% in the case of the EU. OK, the US is under pressure to improve its offer here. But no matter how you juggle the final numbers, you are looking a huge reduction in the current imbalance in favour of the EU over the US. They are currently allowed to spend four times as much as the US. This will be dramatically reduced in any deal that I can envisage. Compare this to the extraordinarily modest Uruguay Round cut of 20% over six years.

I also think it is cavalier to assume, from a reform perspective, that the current high tide in EU CAP reform can not flow out again. With that logic, one might have assumed in 1996 and the passing of the US 1996 Farm Bill, that reform was irreversible in the United States. But of course, precisely because that bold step by the then US Administration and Congress was not locked into international law, the reform of agriculture policy were reversed in a series of supplementary financial packages and then locked in place by the 2002 US Farm

Bill. It is naïve, in my view, to assume we can just pocket the Fischler CAP reforms for all time. They need to be locked in and the Doha Round is the way to do it.

Second, while the deal on export subsidies is a little more complicated than I am about to describe, any successful deal will eliminate export subsidies over a five year period. This has been a strategic objective of US policy for a generation or more. Effectively, the EU is the only user of what we might call 'pure' export subsidies. You used to have them in dairy – but on nothing like the scale. So elimination looks pretty good compared with the very modest 24% cut achieved in the last Round. Of course, it is politically inconceivable that we could be looking at elimination today, had we not taken that first timid step in the last Round. This is precisely what I mean about the importance of evaluating Rounds as part of a long, evolutionary process of policy reform. The alternative – revolutionary change – does not exist, except as a fantasy in the minds of wishful thinkers.

The biggest problem area by far is in access to markets. And it should be no surprise to anyone. Once again, we need to look back to the last Round to understand why.

Getting deeply conservative, even fearful folk on board the process of converting all border measures to tariffs came at a cost: we, those in favour of reform, had to accept often massive tariff equivalents. One can easily find ridiculous examples. But fundamentally many of the high tariffs reflected situations where some countries agriculture sectors were so ludicrously uncompetitive that their internal price structures were totally misaligned with international prices. Let me use the US butter tariff as an example. It is by no means the most extreme example. The US butter tariff is well over 100%. But so competitive is NZ that we have, on some years, been able to export thousands of tonnes to the US consumer over the top of that apparently absurd tariff. The Japanese rice tariff is on another planet. But while there is undoubtedly excessive protection built into it, their cost structures are many times that of Texan or Thai rice exporters.

Anyone who has studied carefully the latest papers from Geneva knows the real zone of tariff cuts is somewhere around 50%. That will be the average. Individual tariffs will of course be cut at different rates because we have agreement to what is called a 'tiered formula'. Now there are going to be some agriculture tariffs that politically simply cannot fit into that formula. They are called 'sensitive' products. Again, it is a matter of seeing this as an evolutionary matter. The whole of agriculture used to be considered 'sensitive' until the Uruguay Round. Now we are down to around 5%. We are making progress, ladies and gentlemen. Less than I would like, but we are on the right track.

Second and far more important than whether that figure is 4, 5 or 6 per cent is the question of the treatment of sensitive products. We have known for almost

two years that these sensitive products are not exceptions from liberalisation. There is a whole lot of badly informed commentary on this point. I suppose people just assume that the word 'sensitive' means one and the same thing as 'carve out' or 'exception'. But that is plain flat wrong. They all have to meet the agreed test of 'substantial improvement' on every sensitive product. I think it is already clear conceptually that this means some type of numerical relationship to the formula. We also know that there will have to be some mandatory tariff quota expansion and that this will be linked, probably, to domestic consumption.

With respect to developing countries, we have to divide them into two camps. First, there are 49 least developing countries. These are dollar a day countries. I don't wish them any disrespect but I once calculated that the sum of all their exports were in one year roughly equivalent to the export of the Philippines. Keep the relevancy test uppermost, ladies and gentlemen as we try to navigate this ship into safe harbour.

With respect to all other developing countries, we know they will have a slightly softer formula. We also know that there is no formula that could ever be agreed that will take out all the water in the tariff. In Indonesia, for example, the average bound tariff is around 50%; the average applied tariff is about 5%. Nobody is ever going to get even developed countries to agree to 95% cuts in tariffs. We are talking the real world here. Adults live in the real world. But of course in many cases the tariff cuts will create substantial new trading opportunities. And, crucially, by knocking out all or almost all of the 'water' in the tariffs, prepare the basis for an even more effective step forward in liberalisation in any next Round. Provided we get this one done of course.

For those who decry the deal out there on developing countries, let me just remind them once again where we are coming from. Nobody ever asked developing countries to make a contribution towards liberalisation until the 1990s and, collectively, this Round.

The situation started to change only recently. That is why, for example, you have an average agriculture tariff in India of 124%. India just signed onto the GATT in 1947 and no-one ever thought of asking them to cut their tariffs on agriculture until this Round. But contrast that with their giant neighbour, China. China acceded to the WTO under a totally different set of political understandings. Its average agriculture tariff, as a consequence, will be well below 20% at the end of its transition. It is not just this great country that sees unlevel playing fields. Think about how it looks from Beijing's perspective when they look across the Himalayas at their giant developing country competitor with tariffs six times as high.

These are the sorts of judgments that will have to be made, and possibly within the next few weeks. I believe the deal can be done by 1 August this year and I believe that if it is not done on the essential elements of the agriculture

modalities, then I indeed think this Round will be in deep, deep trouble. I know some of the more conservative folk have to move further in the direction of liberalisation and what is more I am convinced they know that. But there are always limits. The task of the endgame negotiation is to define those limits.

I don't really want to talk about a Plan B. I am not sure what a Plan B would look like. I do not for a moment believe that bilateral negotiations are an alternative to a multilateral deal. What bilateral deal, for example, will reduce the imbalance of domestic subsidisation running 4:1 against the US, in terms of the EU levels? What bilateral deal can lock in place the current high tide in reform of the CAP? What bilateral deal can eliminate export subsidies?

In many areas, there is no alternative to a multilateral deal, quite apart from it being by far the most efficient way to negotiate with 149 countries. Don't misunderstand me: I have no problem with bilateral deals. I have negotiated two of them for NZ myself. But they are complements, not substitutes for the main multilateral game.

What is clear to me, as the former Chair, is you can forget any possibility of any multilateral negotiation after the expiry of Fast Track negotiating authority – by whatever name. I suppose that some kind of 'cold storage' solution would be sought and perhaps found. But I think it is the height of naivety to believe that whenever we took the Round again out of cold storage to politically de-thaw it, it will look any fresher. You will still be starting with the same imbalances, the same water in the tariffs, and a massive weariness and cynicism around the world. It is not a good look. And of course a failure of the Doha Round will unleash a barrage of legal cases on agriculture, drawing on much recent jurisprudence. There will certainly be no peace clause in place if the deal is not done.

Well it is decision time – or close to it. The deal in broad terms is there. Is it perfect? No. Far from perfect. But the deal that I can see is a very considerable step forward in terms of cutting massive production subsidies, eliminating export subsidies and achieving perhaps a 50% cut in tariffs compared with the Uruguay Round. And of course, a success would pave the way for another Round. There will have to be a continuation clause in any final deal, although sensibly not too much negotiating focus has been put on that to date.

And if you are prepared to use my framework – never analyse these Rounds as single events, but as part of the same evolutionary process – you can already begin to see quite clearly what the shape of a next Round beginning in, say, 2012 might be.

For a start, a next Round building on the type of result I can envisage for the Doha Round would be totally focussed on market access. I may be exaggerating in a minor but I think acceptable way, when I say this, but there will be no negotiation over export competition – maybe a little tidying up on the compliance

side, but no real drama. With respect to internal support, well, surely the negotiating objective, having taken out perhaps $\frac{3}{4}$ of the production linked support in the Doha Round, will be to eliminate all remaining trade and production distorting support. That is achievable – but only if we break the back of this pernicious problem in the Doha Round.

You are then left with still substantial agriculture tariffs, but half the level, on average compared with where we stand today and with most, often all, the water or 'excess protection' taken out. We may not even need – here is a radical thought – a specific agriculture negotiation. At that point, you might even want to look at a single market access negotiation covering all developing and developed country industrial and agriculture tariffs. The end point in this reform process is to have a unified coherent single system. We cannot move there in one step. You can only do it incrementally, in the course of successive Rounds. And the next big step is to breathe deeply and do this deal.

Thank you.