

## Trade and Agriculture: BIAC Priorities for the OECD

*BIAC Discussion Paper*

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### **I. THE CURRENT STATE OF PLAY**

The world's food and agricultural system is constantly evolving to cope with looming global challenges. The system is tasked to improve food security worldwide, despite there being ever more people to feed (the global population is expected to expand from 7 to 9.1 billion by 2050<sup>1</sup>), shifting diets and consumer preferences in part due to urbanization and the growing middle class, a changing climate, and intensified demands from other sectors and actors for key agricultural resources (such as water and land). In light of these challenges, the response of the food and agricultural sector has been to invest and innovate in order to boost productivity and efficiency across the entire food chain, while endeavoring to mitigate the effects such intensification may have on biodiversity and the environment.

However, despite the best efforts of the food and agricultural sector to strengthen food security and productivity, ultimately its success hinges on **government policies that uphold the virtues of open and competitive markets for trade, investment, and innovation**. This is crucial to the ability of all actors along the food chain to play their roles in bringing food of sufficient quality and quantity to markets around the world.

But faith in world markets has come under pressure in a number of countries. The post-2007 spike in world food prices led a number of governments to believe they should do more for their own food security, and lessen their reliance on global markets.

While we are encouraged by the steps taken in November 2014 for the implementation of the WTO Trade Facilitation Agreement, the obstacles that had been holding back the process demonstrate the political stakes involved and the difficulties of reaching agreements in the WTO. With more than 160 countries taking part in a process decided by consensus, the grandstanding of any one country can result in global trade efforts being delayed or undermined. As a result, the conclusion of the WTO Doha Round remains elusive while there are calls for the WTO's negotiating mechanisms to be reviewed.

In the absence of tangible international progress on agricultural trade liberalization, barriers to markets continue to grow.<sup>2</sup> Subsidy strategies to ensure food security by some countries pose

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<sup>1</sup> FAO-OECD interagency report to G20 (2012) "Sustainable Agricultural Productivity Growth and Bridging the Gap for Small-Family Farms".

<sup>2</sup> The latest OECD-WTO-UNCTAD report (November 2014) to the G20 on Trade and Investment Measures finds that the total number of restrictive measures across G20 countries has risen by 12% since November 2013, taking the total to 962. Meanwhile, the 16<sup>th</sup> Global Trade Alert Report "The Global



a threat to trade in agricultural commodities. Regulatory and other non-tariff barriers also impose unnecessary restrictions on providing adequate food for all populations. New technologies face barriers to adoption, in part due to concerns about their environmental consequences and implications for consumers. A lack of clear understanding about new technologies, including their economic contribution, holds back their next generation versions from reaching markets.

Given the current state of progress in global agricultural trade, the OECD Global Forum on Agriculture (2 December 2014) has shown that **the OECD has a vital role to play** in identifying the merits of agricultural policy reforms for agricultural trade liberalization, sharing good practice for achieving such reforms, and fostering international cooperation towards these objectives.

While we appreciate ongoing OECD work in this area, as well as the plans for further work in 2015-16, BIAC presents its top five priorities for future OECD work in this space as follows:

1. **Deepen the OECD's evaluation and measurement activities of agricultural policies – including in emerging markets.** Particular attention should be paid to those emerging economies where higher levels of agricultural support are being provided and trade-distorting support measures are being adopted.
2. **Examine the political economy of reform surrounding policymakers' actions on trade and agricultural policies.** This analysis should examine the correspondence between international trade and achieving national food security goals.
3. **Provide analysis and promote frameworks that support international regulatory cooperation.** This becomes more important as the spread of bilateral and regional trade agreements, with their differing regulatory requirements, threaten to make international trade more challenging.
4. **Undertake detailed analysis on the costs and benefits of new technologies for agriculture**
5. **Analyze the impacts of measures for the protection of intellectual property on agricultural innovation and productivity**

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Trade Disorder” (November 2014) finds that over 70% of the changes to trade rules around the world since 2008 have curbed trade, rather than spurred it.



## II. BIAC PRIORITIES FOR OECD WORK ON TRADE AND AGRICULTURE

### 1. *Deepen the OECD's evaluation and measurement activities of agricultural policies – including in emerging markets*

#### **The impacts of tariffs and export restrictions**

On average, tariffs remain higher for food and agricultural products than for manufactured goods. As a result, import tariffs still remain important trade-restricting measures for food and agriculture, as do export restrictions.

Many governments continue to believe that import tariffs and export restrictions are useful tools for promoting self-sufficiency, seen as helping domestic food security. We believe the OECD has an important role in continuing to inject fact into this highly political debate. Such analysis should seek to build an enhanced understanding of the policy tools available to policymakers that would be most effective in promoting food and nutritional security.

For example, the OECD could usefully identify and examine the impacts of import tariffs on food security and rates of malnutrition and stunting in different emerging markets. The OECD could also study the results of cases where countries have pursued policies of self-sufficiency.

#### **Public support**

In the WTO system, countries are able to self-select themselves for developing country status. As a result, emerging economies are able to increase agricultural support levels under the WTO's "Special and Differential" provisions for countries designated as developing without having to accept the disciplines applied to developed countries. In practice, many emerging economies are raising support levels.<sup>3</sup> One challenge for instance is that public support can often occur at the regional or local levels, which may not always be captured in country reporting to the WTO. This can undermine efforts for a global level playing field for agricultural trade. For there to be successful WTO negotiations in the area of food and agriculture, a clearer picture is needed of what is happening in terms of agricultural support across all markets, the ways in which that support is being given, and the results it generates.

The OECD could play a valuable role by extending its policy evaluation and measurement work to examine public support in more detail – both in OECD markets and a growing number of non-OECD economies. This work should shed light on the levels of agricultural support spending over time, and specifically examine the ways in which the support is being given (for example, by the use of differential tax provisions).

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<sup>3</sup> For example, one major economy has reportedly raised its agricultural support provisions by more than a quarter in the past two years.



## *2. Examine the political economy of reform surrounding policymakers' actions on trade and agricultural policies*

All countries seek to ensure food security for their citizens, but the political economy of reform in national contexts can lead to policy conclusions that vary significantly across countries. For example, the obstacles raised by certain countries in the drive for trade liberalization for food and agriculture products in the Uruguay Round and then the Doha Development Round revealed a certain lack of faith in global markets to deliver food security.

The OECD could usefully examine the political situations in countries with respect to their trade and agricultural policies. In monitoring and providing recommendations for countries' policies, due attention should be placed on considering whether such recommendations can be implemented in politically acceptable ways. This may require adapting policy recommendations, providing flanking measures, and/or sequencing policies as appropriate, with clear communication of their costs and benefits, in order to increase their likelihood of acceptance and implementation. The goal should be to identify effective approaches to make a strong case at the national level for increasing participation in open and competitive markets for agricultural trade.

Complementary OECD analysis could consider the impacts that restrictive trade policies can have on per capita consumption and rates of malnutrition. The work could also deepen understanding of the impacts of specific policies aimed at promoting local production through schemes such as mandatory Country of Origin Labelling, and policies that seek to strengthen food security through interventions in the market (for example, through state-sponsored stockpiling of food).

## *3. Provide analysis and promote frameworks that support international regulatory cooperation*

Differing regulatory processes between countries create unnecessary, duplicative and often contradictory barriers to producing a safe and abundant global food supply. Recent examples of this can be found to affect international business, such as cases whereby GM varieties are not authorized and imports delayed. Other examples include cases whereby civil society raises concerns in current trade negotiations because standards on endocrine disruption by chemicals used in the productions of food crops are not harmonized. There are also issues of regulatory complexity arising from the many bilateral and plurilateral trade agreements now being negotiated with their differing sanitary and phytosanitary (SPS) and rules of origin provisions.



Arguments that aim at consumer security or maintaining health standards can become non-tariff barriers to trade if independent analysis and guidance are lacking. In some instances, these standards are intended as barriers to trade and are designed intentionally to discriminate against imports. In many other instances, however, barriers to trade arise due to a lack of harmonization and not because of intentions to restrict trade – for example, differing labelling requirements, variations in product compositional standards, or unique testing regimes.

A wide range of issues, including maximum residue levels (MRLs), SPS measures, manufacturing plant/factory registration systems, genetically-modified organisms (GMOs), and endocrine disruption testing, would benefit from further analysis and greater international regulatory alignment across jurisdictions.

We therefore encourage the OECD to take an active role in the drafting of frameworks and the development of independent standards, definitions, and assessment guidelines, in order to promote international regulatory cooperation for trade in agricultural markets. More specifically, we suggest that the OECD carries out more work on the typology of trade restrictive measures and investigate their impacts on businesses.

For example, further analysis and policy guidance could bring important understanding to the following three issues:

**a) Promote the harmonization of maximum residue levels:**

The harmonization of MRLs - the pesticide residue level not to be exceeded in a commodity – is an issue of foremost concern to many internationally operating companies. If commodities are shipped to a country with a lower MRL or lacking standards for a certain residue, the commodity shipment may be seized or rejected, contracts may be cancelled, and spoilage or loss of the commodity may occur.

There are ample areas where OECD work could be helpful, and BIAC supports the continuing efforts to improve OECD guidelines and models, such as the MRL calculator and its crop field trial guidance. Moving forward, OECD work could be particularly useful by examining diverging registered use patterns, regulatory criteria, crop groupings, methodologies, and import tolerances.

**b) Promote guidelines and methodologies for endocrine disruption testing and assessment:**

The OECD should continue supporting the work of its Endocrine Disruption Testing and Assessment Committee, and associated working groups. Updates on the success or failure of its test guidelines and their state of adoption by countries may be very helpful in resolving differences in country approaches.

In addition, BIAC would welcome work beyond considerations of toxicological testing for hazard characterization – such as new analysis on exposure, modelling, and risk assessment



methodologies. There are enormous differences between OECD member countries in terms of resources and expertise put into these equally important issues, and the development of harmonized and appropriate guidelines and methodologies would greatly benefit all parties.

**c) Promote coordination in the use of alternatives to animal testing:**

The OECD should continue to examine alternatives to animal testing, and the validation of animal alternatives. Again, there are differences between OECD countries in the use and/or requirements for incorporating these newer technologies which enable integrated testing approaches and a more holistic understanding of how chemicals interact with animals, humans and the environment. This is also one of the biggest barriers preventing a move away from animal use, and towards approaches which can better characterize responses across a range of species including our own.

#### *4. Undertake detailed analysis on the costs and benefits of new technologies for agriculture*

The development and dissemination of new technologies (such as biotechnologies, nanotechnologies, smart irrigation systems, animal cloning, and much more) play an instrumental role in increasing agricultural productivity, and their many applications are being rapidly adopted by farmers worldwide. Yet public concerns about certain technologies continue to fuel debate in trade discussions. They address not only questions on human health, but also on ethical concerns, socio-economic issues, effects on the environment, and food safety. The complexity of such debates and their impacts on agricultural trade therefore needs thorough and independent analysis.

The OECD could usefully undertake economic and statistical reviews to examine:

- a) control and monitoring of new products (e.g. GM foods and nanotechnologies), namely their intellectual property protection and biosafety implementation, and the impacts for trade
- b) evaluation of second and third generation technologies that are in pipeline, with identification of barriers to their development and adoption

#### *5. Analyze the impacts of measures for the protection of intellectual property on agricultural innovation and productivity*

Effective protection and enforcement of intellectual property rights (IPR) – including patents, trade secrets, and data protection – are essential to foster innovation, increase productivity and enable trade in all sectors including agriculture. Yet, there are still striking international



discrepancies between the various national laws and registration requirements, even between major trading partners. Research on the impacts of IPRs for agricultural innovation and productivity is strongly needed. Development of guidelines for further policy harmonization could prove valuable.

We appreciate the OECD's recent undertaking of work on IPR issues (papers are currently being discussed on plant variety protection and on agricultural patents). We believe the OECD could also usefully carry out more detailed analysis of the economic effects of strong IPRs in agriculture, including both sector-specific and country-specific analysis. It would be helpful to examine this within the context of both privately- and publicly-funded development of IPR, and to track the relative success of these approaches in reaching the marketplace. The roles of start-ups, SMEs and multinationals should each be considered. Finally, OECD countries and companies would benefit from policy tools that would enable them to develop strategies on how best to support innovation and new product development.<sup>4</sup>

### III. CONCLUSIONS

Delays and obstacles continue to hamper international progress on agricultural trade liberalization. Many countries meanwhile introduce protectionist measures, leading to distortions in world markets. These trends are counter-productive to enhancing food security. More needs to be done to promote the success stories and lessons learned from cases where countries have undertaken reforms to liberalize their markets for agricultural trade.

In order to reverse the tide of market barriers and promote a renewed understanding of the ability of global markets to support food security, we believe that the OECD has a unique and necessary role to play. The Organization is especially well-placed to generate sound analysis on the costs and benefits of policy measures concerning agricultural trade, which would be of support to ongoing trade negotiations in other fora. OECD cooperation with other international organizations, such as the WTO, FAO, and UNCTAD, will remain particularly important in order to promote the cross-fertilization of knowledge and good practices.

In this paper, we have identified five priority areas in which we believe OECD action would be particularly valuable. BIAC looks forward to constructive cooperation with OECD on these issues and others in 2015 and beyond.

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<sup>4</sup> With respect to country strategies, we welcome the OECD country reviews already being piloted which aim to increase innovation and agricultural productivity growth.