

**Speech to the Australian Farm Institute's  
Agriculture Roundtable Conference  
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**Topic:**

**A European perspective on the future of multilateral trade negotiations over trade in agricultural products and the role of the environment in future agriculture trade arrangements**

## **Introduction**

It is a pleasure for me to be here today to be back amongst what I consider to be my roots. As you have just heard from the session chair, I am an agronomist by training and once an agronomist always an agronomist – especially when your ancestors have been farmers.

I have been asked to give you a European perspective on the future trade negotiations on trade in agricultural products and the role of environment. These topics deserve much longer than the short time I have to speak to you today, so at best I can only touch on some of the issues in these very complex topics.

By way of introduction, I would like to stress the importance of international governance and the need to look ahead. From the European Commission's point of view the sustainability principle should be a key part of any such governance and shape policies that meet domestic demands and the need to progress the link between trade and environment in the international arena.

The EU, while reforming its agricultural policy, is building these elements into its policy framework

- to: meet consumer demand for quality and safe products;
- to maintain a healthy competitive agricultural sector respecting international rules;
- and, to protect the environment.
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## **Reforms of the CAP**

We cannot speak of the EU perspective in agricultural multilateral trade negotiations without speaking of agriculture policy itself, as it is the main factor influencing agricultural trade.

I know that at times in Australia, mentioning the Common Agricultural Policy is like waving a red rag at a bull. But such reactions should now be a thing of the past, since the CAP of today is very different to the CAP of even just 15 years ago. So, while the bull is still there the colour of the rag has become more soothing! The reason is that agricultural policy in the EU has undergone fundamental reforms in several stages, leading to unprecedented changes in the agricultural sector

and to the rural fabric of the EU. And these have sometimes had painful effects, even if those have been cushioned by sufficiently long transition periods to avoid major disruptions.

The first reforms were prompted by growing surpluses and budget expenditures. But even at that time, the need for more fundamental reforms was already envisaged.

As early as 1998, when I was secretary of a group working on the future of the rural world, we produced a first reform draft that was flatly rejected since it was too revolutionary at that time. We had argued that farmers were not there for the purposes of production but also to take care of the environment, produce quality products and diversify their sources of revenues outside of agriculture (for example, in tourism). The powerful agriculture lobby was at that time totally opposed to such concepts. So the first wave of reform of the CAP essentially took the form of moves to tackle unmanageable sugar mountains, milk lakes and their associated management expenditure.

This started in 1992 with the McSharry Reforms, the then Commissioner for Agriculture, which reduced support prices, introduced milk quotas and compulsory set aside and focused on reducing surpluses and stabilising the budget. These paved the way for the subsequent Uruguay Agreement in 1993 and the establishment of the World Trade Organisation in 1994.

The second and third waves of reform of the CAP were certainly also prompted by the need to solve inherent problems linked to a farm policy conceived after the second world war - at a time where Europeans were still suffering from food shortages - a policy that was challenged in the GATT rounds. But the reforms of the CAP were also motivated by needs to adapt to societal needs, and in particular, to growing environmental concerns and a new view of the role of agriculture stemming from, for example:

- the rapid urbanisation and progressive deterioration of the rural fabric;
- the decreasing influence of the farm lobby and the recognition that times had changed for farmers;

- the growing concern of the population toward safer and better quality foods. BSE or mad cow disease in particular had a tremendous effect on consumers;
- the growing concern of the population about the environment and the effect of new environmental laws to limit the adverse effect of industrial agriculture on health (directives on nitrates, pesticides...);
- the need to protect the environment and nature in particular. Do you know that since the Habitats and Birds Directive protecting the species and their habitats in Europe came into force, more than 15% of the European territory now belongs to the “Natura 2000 network of protected spaces” where agriculture is submitted to stringent environment rules.

As a result of the second wave or the Agenda 2000 reforms we capped the CAP in terms of the budget; there was a focus on sustainability; measures were introduced to promote market competitiveness and rural development was made a fully fledged second pillar of the CAP.

This was followed by the third wave or the so-called Mid-Term Review reforms, which started in 2003, which aimed at an increased market orientation and introduced the decoupled, minimally trade distorting, single payment scheme which is considered as falling in green box support in WTO terms.

‘Cross-compliance’ was introduced which requires EU farmers to meet 16 minimum standards relating to good farming practices, in terms of environmental, animal welfare and food safety requirements, which are enforced by a new farm auditing system. This reinforces the message of the informal contract between society and agriculture as far as receiving support is concerned.

Rural development measures have been reinforced through what is known as ‘modulation’, whereby funds are transferred from the market-support mechanisms to rural development measures. These are aimed at increasing the competitiveness of EU agriculture by assisting in improving human potential, structural change and improving quality of agricultural production and products; improving land management and the environment; including the provision of stewardship payments; and improving the quality of life in rural areas and encouraging diversification.

The measures to improve the quality of agriculture production and products, include assistance to producers to adapt to changing private sector requirements beyond that required by regulation – an issue I will return to later.

To underline the significance of the changes to the CAP going on, we forecast that, in 2013, rural development will take up to 21% of the CAP budget for that year. To some, this proportion may not sound high – but it would have been unthinkable a few years ago. Indeed, one of the debates now current in Europe is whether the Common Agricultural Policy should be replaced by a "common rural policy".

While the mid-term review started in 2003 with reforms to the main arable and livestock regimes, it is still ongoing with political agreement on fruit and vegetables reform reached in June 2007 and discussion on wine – perhaps one of the most difficult crops to reform - currently ongoing.

Built into the decisions on the mid-term review is what we call the 'health check'. The health check is not about further fundamental change, but ensuring that the 2003 reform principles are working in practice.

- The 2003 Reform was the first major step to make the CAP fit for the 21st century. With it, environmental concerns have taken a more prominent place through the implementation of the cross-compliance, and compulsory modulation has allowed the strengthening of rural development measures. Of course we all know that more steps need to follow, in particular to address some major challenges that appeared in recent years.
- Indeed, a number of review clauses were foreseen in the final agreement, which we have grouped under the title of "Health Check" of the 2003 reform.
- The "Health Check" will address three main questions:
  - How can we make the single payment scheme more effective, efficient and simple?
  - Are the market support instruments, originally conceived for a Community of six Member States, still relevant in a more and more globalised world and a Union of twenty-seven?
  - How to face the new challenges for EU Agriculture: climate change, water management and bioenergy.

Not only the pressure for changes that I mentioned will continue to exist but in addition we are all responding to the challenges of climate change and water management. As Commissioner Fisher Boel recently said “We have woken up to these issues rather late, and now our policy responses

have some catching-up to do". The European Union wants to limit temperature change to an increase of 2 degrees Celsius compared to pre-industrial levels. This will be no easy task. Nor will it be easy for farmers to adapt to the impact of climate change which is already on its way. So you can expect mitigation and adaptation to climate change and water management, and its relationship to rural development policy, also to form part of the forthcoming "Health Check" of the CAP.

I have been too long maybe but our positions and offers in the current WTO negotiations are closely linked to the evolution of our farm policy and would not be possible without the courageous reforms that we have progressively put in place, reforms that have been in part prompted and made possible by environmental concerns.

### **WTO Doha negotiations**

After six years of negotiations much has been achieved and we have within our grasp the most ambitious multilateral round ever. As WTO Director General Pascal Lamy said at the Cairns Group Meeting last year "In this round, members have decided to show *triple or even quadruple* the level of ambition of the Uruguay round".

So what is on the table from the EU on agriculture? In short, a lot, thanks to the reforms of the CAP and the adaptation of the rural policy under the influence of environment in particular.

First, we are prepared for a 100% cut in all our export subsidies by 2013, provided others do the same.

Secondly, thanks to the reforms of the CAP, we could agree to a 75% cut in our overall trade distorting domestic support.

Thirdly, we are prepared to accept a more than 50% cut in our agricultural tariffs. There will also definitely be new market access, even for sensitive products.

Agriculture is of course only one item on the broad agenda, albeit central to the current triangle of core issues which need to be resolved before progress can be made on other issues.

The triangle of issues are

first, agricultural market access, where other WTO members are looking to the EU to provide a lead and where, other than sorting out some important technicalities on how to deal with sensitive products for industrialised countries, we believe we are in the landing zone, even if for special products for developing countries we are less advanced.

Secondly, agricultural domestic support, where the US needs to make concessions, and where recent statements suggest we are again in the landing zone.

Thirdly, non-agricultural market access or industrials, where we are looking for the advanced developing countries, such as Brazil, India and other G20 countries, to open up their markets more and it is here where the differences are the greatest.

So while agriculture continues to have the limelight the real sticking points perhaps lie elsewhere.

Once agreement has been reached on the modalities for agriculture and industrials there are a range of other issues in Single Undertaking which need to be resolved. In this respect, it should be remembered that the bulk of the economic gains in the Doha Round, even for Australia, will come, not from agriculture, but from commitments by WTO members to open up their markets for services, and from cutting the red tape affecting trade flows worldwide through what is known as trade facilitation.

The round must also deliver on its development promise and tackle issues such as duty free and quota free access for LDCs, the effects of preference erosion, aid for trade etc.

So where are we? Intense negotiations are continuing in Geneva, working through the details of the July draft texts on modalities proposed by the Chairs of the agricultural (Falconer) and NAMA (Stephenson) negotiation groups. These papers put pressure on each of the key players to make further concessions and, encouragingly, all WTO members have agreed that these texts provide a basis for further negotiations. Progress is being made, albeit slowly, and only on secondary issues for industrials. It is hoped that the chairs of the two negotiating groups will produce new texts later

this month, together with a possible text on services. These might be followed by senior officials exchanges and then ministerial contacts before the end of the year.

While there is a lot of technical work to do on complex issues, there is also the need for difficult political decisions to be made when the time is right. The problem is that time is running out, with the US elections looming. If this current window of opportunity closes, then there would probably be no progress in the negotiations for a number of years and the consensus is that you cannot just put what has been agreed into deep freeze and then expect to revive it some years into the future.

As I have just stated, there is much already on the table and to lose the progress already made would not only be a set back for trade liberalisation, but also for the whole institution of the WTO. We will see whether there is a sufficient imperative for an agreement, but we need to remain optimistic because the stakes are so high.

The reality is that trade negotiations, to the dismay of economists, are not just about full economic optimisation, but also about doing deals where everyone comes away with wins as well as giving something to the negotiations. For our part we need gains on industrials and services and some progress on the protection of our Geographical Indications - we are ready to produce less, but we would like to enjoy in exchange a recognition of specific products. For Australia, there is real pressure to give up the single desk for wheat marketing, and also to accelerate tariff reductions for automotives and the textile, clothing and footwear sectors.

### **Trade and the environment**

Whether by direct government regulation or the use of private sector standards it is clear that environmental values are increasingly impacting on trade. It is also true that as tariff protection is progressively addressed, trade liberalisation increasingly needs to address other issues affecting trade – such as 'behind the border' and sustainable development issues.

Within the WTO, when it was created in 1995, all Members agreed that "sustainable development" was one of the principal aims of the organisation. Later, the EU was one of the main proponents of

ensuring that sustainable development featured clearly in the mandate for the DDA negotiations. Whilst the current WTO round could be described as the first 'green round' what is being negotiated now is a very watered down package compared to the expectations of some, including the EU, at the beginning of the round. Nevertheless, it is hoped that good progress can still be made in clarifying relationships between WTO rules and other international environmental treaties, in helping to open markets for clean technology – whether in goods or services - and to reduce fisheries subsidies.

Part of the reason for the reduced ambitions on trade and environment in the current round is the concerns of some members of the WTO of having the 'values' of other members imposed on them through trade sanctions. Whilst this is an understandable concern it would be fair to say that the values of societies worldwide are changing in the face of increasing environmental pressures, whether it be in response to increasing extreme climatic events, which are being associated with climate change, or to biodiversity loss associated to land management or water degradation associated to unwise use of fertilisers and livestock pressure or the endangering of fish species through over-fishing and the list can be long

Indeed, I would argue that one of the greatest pressures on agriculture coming from the environment is the response by corporations to reflect these changing social values in the products they place on the market and the development of more stringent private sector requirements for supply contacts.

If insufficient progress is made in the environmental sector in the current WTO negotiation, there is no doubt that the pressure of public opinion on governments will develop in the coming years toward more stringent rules applied to the non eco environmentally friendly products in countries that are applying already strict standards or even by people suffering in the developing countries.

The example of 'food miles' is a case in point. The concept reflects the strong public concerns about climate change and sustainable development and the wish of individual consumers to help tackle the problem through their purchasing choices.

There are a number of bottom-up private sector initiatives promoting 'food miles', and 'buy local' campaigns especially in the UK and Germany. But perhaps the most controversial was when the British supermarket chain, Tesco, introduced its aeroplane symbol on all food products air freighted in the UK, and then indicated it would implement 'food miles' labelling.

From a Commission point of view we will continue to engage on a voluntary basis with organisations setting positive standards to encourage them to take account of all aspects of sustainable development. We also want to see a debate on the role of private standards in international trade within a WTO context.

But we still expect that progress could be made on better harmonisation of EPAs and reduction of duties of green products.

This brings me to one of the other key points I want to make today – namely from the Commission's point of view the best means to address the potential impact of the environment on trade is through appropriate multilateral fora, through a cooperative, rather than defensive approach. This could, for example, be through a strengthened role for environment within the UN, with say the United Nations Environment Programme evolving in to a separate United Nations Environment Organisation, a move we support.

European citizens enjoy some the world's highest environmental standards. However, no matter how robust internal EU environmental legislation is, it cannot shield us from the negative consequences of trans-boundary and global environmental degradation, nor does it sufficiently reduce the impact of EU's economic growth on natural resources worldwide.

Confronting the global challenges of climate change, biodiversity loss and biosafety, deforestation, air and water pollution, and chemicals management -- to name but a few -- requires real commitment and effective cooperation at the international level. The EU is committed to promoting sustainable development worldwide. Indeed, the EC Treaty requires that Community policy on the environment promote, inter alia, measures at international level to deal with regional or worldwide environmental problems.

In seeking to carry forward the international momentum on the issue of sustainable development, the EU has proposed a new approach to the issue, which it hopes to make part of future bilateral trade agreements.

This new approach is not a protectionist device, but rather seeks to promote better cooperation and exchange of information between bilateral trading partners on sustainable development issues, in recognition of the clear effect of trade on environment and vice versa. It recognises a country's right to regulate, while also maintaining a strong commitment to high level environmental protection.

In conclusion, I would like to remind you that the EU has taken a leading role in the Doha negotiations and I believe we can fairly claim that if it was not for the EU, the negotiations would not still be continuing now, since it has been the offers made by the EU which have largely kept the Round alive –

whether it be the efforts by the EU to get the round started in Doha in 2001, the dropping of three out of the four Singapore Issues in Cancun in 2003;

the offer to phase out export subsidies in 2004 and the subsequent offer of a phase out date by 2013 at the Hong Kong ministerial in 2005,

and also agreement by the EU to use the G20 proposal on market access as a basis for further discussion.

But in a globalised world trade is not the only cross-cutting issue, environment and climate change in particular are even more important because they will determine the sustainability of our planet. We should so make all possible efforts to develop more sustainable agriculture together with sustainable trade. The current round offers us a first golden opportunity to start.

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