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## FOOD SYSTEM PROPOSAL AND STRATEGIES IN APEC

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**Key words:** AFS(APEC Food System), ATCWG(Agricultural Technical Cooperation Working Group), FEEEP(Impact of expanding Population on Food, Energy, Environment and Economic Growth)

### ABSTRACT

This study tried to both enlighten the background and intrinsic perspectives of the APEC food system and provide logical bases for food importing members. Since food exporting member economies were persistent to insert trade issues into the agenda of ATCWG, a strategic approach to the AFS issue in the ATCWG is required for importing economies. Implementation of the AFS would destroy many trade barriers in food importing countries. According to the APEC principles of voluntarism and flexibility, food importing members can minimize the impact of trade liberalization on domestic food and agricultural production. At the same time, they should emphasize that there are other mechanisms dealing with food trade issues both inside and outside the ATCWG. Importing members also should persuade the exporting members to expand their exports but not to dominate the market.

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## I . Introduction

At the Seventh Meeting of the Agricultural Technical Cooperation Working Group(ATCWG) of the Asia Pacific Economic Cooperation(APEC) in June 2003, the United States proposed a way of moving forward the APEC Food System(AFS). The US has already submitted the same proposal to the First and Second Senior Officials Meeting(SOM) of APEC in 2003. The US proposal urged APEC member countries to select concrete goals and focus on achieving them in 2003 and 2004 in order to accelerate implementation of AFS.

There are four suggestions included in the proposal. First, APEC members complete a self-assessment of all the impediments it faces, internal and external, to increasing productivity in agricultural and food sectors as well as an assessment of obstacles to increasing its capacity to trade in food. It emphasized that this assessment should include strong business and private sector input and that it should recognize the non-food roles of agriculture and that it also target technical cooperation needs, market access and non-tariff barriers.

The second suggestion is that APEC members could share their experiences and identify obstacles that the region faces collectively in creating an APEC Food System and reaching Bogor goals in the food and agricultural sector when they complete the self-assessments. Also, it suggested that APEC could analyze the results of the assessments using an outside consultant.

Thirdly, it demanded that the assessments and the ensuing study could also be used as a basis for each member to draft a vision of the future of its food and agricultural sectors. Finally, the proposal strongly recommended that APEC Senior Officials should search for an economy to host a formal, first-ever meeting of agriculture ministers to discuss implementation of AFS and a mechanism for closer cooperation in such implementation.

The US, strongly supported by New Zealand, intended to

lead APEC member economies to accelerate implementation of the AFS. She reminded that APEC Leaders called on officials to implement the AFS formulated by the APEC Business Advisory Council(ABAC) in 1999 as an initiative aimed at creating efficient food and agricultural sectors to ensure abundant and cheap food while promoting rural development. Moreover, the US indicated that progress of the implementation has been slow since officials have completed only one of the seven ABAC priority recommendations and urged the participants in the 7th ATCWG meeting to consider the 2001 Shanghai APEC Economic Leaders' Meeting and the 2000 Brunei meeting. She even demanded that members use the template which New Zealand proposed for the implementation report through the separate Individual Action Plan(IAP) of the Osaka Action Agenda for the Bogor goals.

Although some member economies presented their opinions and indicated the duplication of the US proposal on AFS and WTO/DDA, many other members might not even fully understand the implications of AFS and the intentions of the US, New Zealand, Australia and Thailand in bringing this issue continuously to attention. The first purpose of this study is to review the background as well as detailed contents of the AFS since understanding AFS history is essential to realize why member economies proceed hesitantly with the AFS. More than five years have passed from its first submission and members have yet to realize the meanings and consequences of the proposal. The other purpose of this study is to discuss strategic policy measures of the food importing members on the AFS proposals which were submitted by food exporting members.

## **II. Background and Contents of the APEC Food System**

In 1995, APEC Leaders in Osaka identified food as an item requiring joint action for sustainable growth. They agreed on “the need to put the impact of fast-expanding population and rapid economic growth on food, energy and the environment(FEEEP)

on APEC's long-term agenda, and to consult further on ways to initiate joint action to ensure that the region's future economic development is sustainable." As a response to this order, the Task Force on Food was formed in 1996, and reported about joint activities to deal with various challenges regarding food affairs. APEC Leaders endorsed the report at their Kuala Lumpur meeting in 1998, and assigned major tasks to ATCWG.

At the same meeting, ABAC also submitted recommendations about the APEC Food System. ABAC advocated that the AFS can efficiently link together food production, food processors and consumers, and harness the resources of the region wherever they are located in order to meet the food requirements of its people and can maximize the contribution of the food sector to the welfare and prosperity of all economies in the APEC region. It also proposed that the work program should involve close public-private collaboration and parallel cooperative action and be implemented as a long-term project to achieve its recommendations.

Naturally, there exists some redundancy on approaches to the regional food and agricultural problems. The APEC Leaders' meeting, however, endorsed the recommendations of ABAC and according to the instruction of the Leaders, SOM created an ad hoc task force to investigate the issue. APEC examined the recommendations of ABAC taking into account the FEEEP report and finally adopted a series of joint actions to realize the AFS. Furthermore, the Leaders' meeting in 2000 endorsed New Zealand's proposal that urges Ministers to assign recommendations to relevant fora and to report the progress in the form of tasking matrices to each committees and further to the SOM annually.

Initial AFS recommendations reported by ABAC in 1998 consists of three areas. Rural infrastructure development, promotion of trade in food products and dissemination of technological advances in food production and processing. First, it emphasized an improvement in the availability of rural education to achieve the target of rural infrastructure development. At the same time, it demanded that each member promote increased

investment in physical rural infrastructure through ensuing sound macroeconomic and domestic regulatory environments. Furthermore, investment can be enhanced through development of funding mechanisms to facilitate and reduce the cost of private sector investment in infrastructure.

For the second recommendation of promotion in food products trade, ABAC proposed to reduce the cost of trade in food products through trade facilitation measures and to provide technical assistance to upgrade SPS procedures where these inhibit food exports. It also urged members to cooperate on harmonization of regulation and control systems on consumer requirements. Progressive elimination of unnecessary impediments to food trade, such as tariffs, WTO-inconsistent non-tariff measures, and export subsidies was considered as effective way of promoting food trade. ABAC also noted that members should pursue cooperation to assure nondiscriminatory access to food products.

The third recommendation of dissemination of technological advances in food production was to promote regional food technology transfer, to harmonize food safety-related regulations as they apply to technology, and to conduct research, development and marketing of food-related technology. It also suggested to consider some works that have already been done by APEC. As a result, the "APEC Post Harvest Network Project" has established a website to provide a comprehensive listing of all post harvest related products and services, and research activities and facilities worldwide. ABAC ensured that dissemination of new technologies is consistent with market principles and intellectual property rights and demanded distribution of information on environmentally sound food production and processing techniques.

Detailed contents of AFS are well specified in the seven priority recommendations that ABAC made to invigorate it. First, APEC Leaders should declare that APEC members will abolish all practices regarding the limiting of food supplies to other members for political or economic reasons and eliminate taxes

and quantitative restrictions on food exports. APEC should also spearhead an effort to make this commitment to non-discriminatory access to food supplies a binding rule in the entire WTO.

Second, APEC Leaders should declare APEC a “food export subsidy-free zone” in recognition that such agricultural export subsidies are damaging in their effort on developing economies struggling to implement sound agricultural development and well-functioning food markets. Third, ABAC wants to fulfill AFS's call for a self-assessment by each economy of all the impediment it also faces in increasing its capacity to trade in food with strong business and private sector input. It wants recognition of the non-food roles of agriculture, to target technical cooperation needs, market access and non-tariff barriers. Fourth, APEC should convene its first Agricultural Ministers' meeting in 2002 to discuss the self-assessments and steps to be taken to implement the AFS.

Fifth, APEC should create a chapter for the AFS in the IAPs to ensure implementation consistent with APEC principles of comprehensiveness, flexibility, WTO-consistency and non-discrimination.

Sixth, ABAC also argued that senior representatives of the World Bank, Asian Development Bank, and Inter-American Development Bank should be invited to relevant APEC meetings in order to ensure their participation in this element of the AFS. Finally, the number of economies participating in the APEC Food Mutual Recognition Agreement(MRA) should be increased to at least 15 by the end of 2002.

The current status of the AFS seems not so desirable since only the fifth recommendation, creating a separate chapter in the IAPs, has been completed as of June 2003. Although the World Agricultural Forum hosted an informal meeting of APEC agricultural ministry representatives in May of 2003, no meeting of APEC agricultural ministers has yet been held. Why don't APEC member economies follow their leaders' commitments to implement the AFS? There have been enough fora in APEC as well as in ATCWG to discuss the detailed rules and directions

for the AFS in each economy. There was sufficient time and there were sufficient resources to be employed to achieve AFS success. What prevented APEC members from proceeding effectively with AFS policies? Discussing that answer might be one of the critical objectives of this paper to enlighten the problems inherent to the AFS.

### III. Problems of the AFS

According to the report to APEC in 1999, ABAC has placed its vision of an APEC Food System (AFS) as an essential element in achieving APEC's Bogor goals and as a vital step towards equitable development and stability in the region. ABAC argued that one purpose of this proposal for the regional food system is to make consumers accessible to the food they desire at affordable prices. The other purpose is to enhance productivity of the food sector through region-wide availability of food-related technological advances and through efficient resource use. ABAC asserted that it could improve supply security through co-operation and interdependence. It also boasted that the prosperity and vitality of rural communities would be enhanced through improved infrastructure development and through access to viable non-farm employment and industry.

To achieve these goals, ABAC specified four measures; strategy for building the rural infrastructure, food safety and SPS issues, achieving food security in APEC Food System, and a process of trade and investment liberalization. It emphasized that the realization of AFS depends crucially on creating the capacity within rural communities to become fully integrated as active participants in the mainstream of a modern market economy. This infrastructure development would encourage and enable broad-based sustainable economic activity in non-urban areas. ABAC also argued that non-urban development might contribute to poverty reduction and food security while protecting the environment through expanded off-farm jobs, increasing agricultural productivity and sustainable management of natural



resources.

Why didn't member economies participate actively in implementing the AFS? Why is it taking so long? What prevented them from liberalizing food trade and adopting the free market system? The first problem with ABAC's proposal for AFS is that it represents only the food exporting countries' perspective. Although accessibility to food in importing countries may increase, there's no guarantee for ever affordable prices. It is normal for the market to change price according to the conditions of both demand and supply. Once abolishing all the barriers to trade of food and agricultural products in importing countries, fundamentals of their agricultural production might be destroyed. They would have few alternatives when natural disasters, such as drought, flood, abnormally high or low temperature prevail in food exporting countries. The burden of risen prices must be entirely taken by consumers in importing countries. Exporting countries can't maintain affordable prices even for their domestic consumers.

The second problem is that the AFS ignored the nature of capital or investment flow. Not only private enterprise but also governmental entities should consider the profitability of capital in determining investment to new projects. In food importing countries where price competitive advantage is low, rural residents cannot survive in rural areas as long as measures of market protection are abolished. Promotion of food trade will forcefully reduce the income opportunities of domestic food producers in importing countries, which in turn, may result in decreased population of rural areas. This will consequently deteriorate rural vitality including available education, medical services, and other socio-economic activities. Typically, expansion of market access through free trade devastates rural areas which have locational disadvantages for industrial uses in food importing countries. It might prevent public and private investments from flowing into the rural infrastructure, such as irrigation and transportation, etc.

The third problem is with technology transfer between

advanced and developing members. Although ABAC emphasized that region-wide technological advances might enhance the productivity of food sector, most developing members have already experienced that the only technologies available are outdated or low-level rather than cutting edge food-related technologies. As a result, implementation of mandatory trade liberalization may cause polarization of technology levels between food exporting and importing members.

Expectations on efficient resource use in certain regions might be another problem with the AFS. Since agriculture is an industry with immobile factor of production, land, reduced production cannot be conveyed to full diversion of land in uses other than agriculture. Redistribution of resources are likely to be wasteful rather than efficient since employment of agricultural land in non-farm alternative uses are locationally restrictive.

Finally ABAC's proposal on AFS disregarded or undervalued the multifunctional effects of agriculture in each member economy. Every economy has its own ecological system that bears wildlife and maintains biological diversity. Moreover, in some specific climate areas, agriculture often play critical roles in minimizing soil erosion, preventing flood in wet season or suppling water in dry season. Thus APEC members cannot fully agree with the position of ABAC that AFS can improve sustainable management of natural resources. Rather, it prevents sustainable use of natural resources in an environment friendly manner in most member countries.

#### **IV. Evaluation of Discussions on the AFS Proposal**

In the seventh ATCWG meeting where the US presented a new version of the proposal for the AFS, there was a disagreement between member economies. Although the US suggested two actions, self-assessments of impediments and holding a meeting of APEC Ministers of Agriculture, there was no consensus on the need for them. Some members, mostly food importing countries such as Korea and Japan, indicated that the proposal of

self-assessment might duplicate work that is already being carried out in WTO/DDA. They were also opposed to holding an APEC Agricultural Ministerial meeting since member economies didn't agree that the AFS issue was more urgent than others in ATCWG. Other members, however, supported the US proposal. Food exporting countries such as Thailand and New Zealand, acknowledged that convening a meeting of APEC Ministers of Agriculture could further the work of the Doha round.

Since the establishment of ATCWG in 1997, food exporting members such as the US, Australia and New Zealand, have tried to demand the inclusion of agricultural trade issues in the agenda of ATCWG. Their endeavor failed because of opposition by food importing members that ATCWG was merely a forum for agricultural technological cooperation rather than one for trade so that they don't need negotiation but consultation in the forum. Food exporting countries however, weren't frustrated and tried to search for other measures to tackle the problem of trade issues in ATCWG.

ABAC was created by the APEC Leaders in 1995 to provide food exporting members with advice on implementation of the Osaka Action Agenda(OAA) and on other specific business sector priorities. Food exporting members entrusted ABAC with a study on APEC food system since ABAC's work included response to the various APEC fora requests for information about business-related issues or providing the business perspective on specific areas. ABAC submitted their separate report on AFS to APEC Leaders' meeting in 1998 to be endorsed and took charge of the ad hoc task force on food.

Obviously, their work has been duplicated with FEEEP which was endorsed at the 1995 Osaka Leaders' meeting and the Priority Area 3 on "Production, Processing, Marketing, Distribution and Consumption of Agricultural Products" in ATCWG. Japan compiled and presented a discussion paper on Area 3 of ATCWG to the seventh plenary meeting in 2003. In this paper, Japan reviewed that activities of Priority Area 3 originated with two earlier proposals, FEEEP and AFS. Japan

pinpointed major joint actions proposed in the FEEEP report relevant to Priority Area 3 as well as the recommendations submitted by ABAC in 1998. It also indicated that similar services are offered by relevant academic societies, international organizations, or training institutes. For example, FAO and USDA publish data on supply and demand of food while the Outlook of PECC(Pacific Economic Cooperation Council) collects annual reports that contain not only quantitative but also qualitative information on annual focal issues and covers most items of the FEEEP proposal, which is the basis of ATC reports.

Trade share of production is relatively low in most international grain markets(Eor et. al. 1997). So small changes in production might have enormous impacts on trade through the huge changes in prices. This also implies that food and agricultural products have historical backgrounds as non-tradable goods rather than as tradable. That means populations should consume locally grown food products.

International food markets also have the oligopolistic characteristic. That is, the market shares of major exporting countries maintain more than 90 percent for feed grains, soybean, and corn while those for wheat and rice exceeded 80 percent. This fact shows exporters retain the price decision power since the share of several importing countries stayed at lower than 50 percent level. In the seller's market, elimination of trade barriers in importing countries and attaining free trade can result in market instabilities.

Japan concluded that ATCWG should concentrate primarily on drawing concrete and feasible action plans that are to accomplish original objectives and abandoning inefficient activities. Current joint activities should develop plans or systems to achieve long-term food strategies in the APEC region. The seventh plenary meeting of ATCWG was closed with an alternative proposal of holding a High-Level Meeting on Agriculture which could include issues relating to rural poverty and starvation, food safety and security, trade, rural development etc.

## V. Strategic Responses to the AFS

As we observed so far, food exporting member economies, in lieu of some multi-national enterprises, were insistent to include trade issues on the agenda of ATCWG. Once they succeeded in inclusion of the issue and their proposals being indorsed by APEC Leaders, they strongly and continuously demand to go further to accomplish the AFS. That's why a strategic approach to the AFS issue in ATCWG is required for importing members. Unless food importing member economies respond collectively and cooperatively, the AFS which was already endorsed by the Leaders would abolish all kinds of trade barriers in food importing countries.

At this point in time, implementation of AFS seems to be inevitable. The key point is how and when. The results of AFS would be much different according to the patterns of measures to be taken and the speed of implementation. Importing economies need to remind exporting economies of the APEC principles of voluntarism and open regionalism in the Bogor declaration as well as flexibility in the Osaka declaration.

According to these principles, food importing members can minimize the impact of trade liberalization on domestic food and agricultural production and marketing by taking progressive and flexible timetables for free and open trade of food. At the same time they should search for measures that can maximize the multifunctional roles of their domestic agriculture. While emphasizing market instability resulting from abolishing trade barriers on the one hand and depending on the APEC principles of voluntarism and flexibility on the other hand, importing countries should arrange separate and independent liberalization schedules in their regions.

Food importing economies must also indicate that there are other forums for discussion of food trade issues both inside and outside of ATCWG. Moreover, the duplication problem can be raised as long as the agricultural negotiations in the Doha

round of WTO continue. More substantially however, importing members should be able to persuade the exporting members that they might expand their exports and their market shares but might not intend to dominate the market itself since the basic APEC spirits are cooperative and concerted liberalization for the balanced and equitable economic growth rather than competitive and forceful liberalization for self-prosperity.

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