OECD AND AGRICULTURAL EXPORT CREDITS: A SINGULAR FAILURE

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Sitting half a world and six years away from my involvement with the OECD and export credits, my immediate reaction, when asked to contribute this agricultural story, was "what was all the fuss about"? Having moved on in life and career, the issues inevitably lost relevance and clarity for me. So my first step was to idly Google agricultural export credits to see what websites have contemporary relevance in this somewhat esoteric field.

The result was an eye-opener and immediately took me back to my default negotiating stance of many years; what could have caused this? Simply a routine US Department of Agriculture (USDA) announcement of the availability of GSM-102 credit guarantees for fiscal year 2010 export sales. Sounds innocuous until a close examination revealed the usual mix of rich countries, including three OECD members, being given GSM credits for the purchase of US agricultural commodities on terms of up to two years. Incredible that in this day and age, a dinosaur such as the Commodity Credit Corporation (CCC)/GSM[1] still exists and that the world trading system has not yet been able to shut it down – but I am getting ahead of myself!

Trade liberalisation matters – including for agriculture

Best if I go back to the beginning. Australia is a young nation which has had to fight for a position in the world. Having had to stand on our own two feet reasonably quickly has led us to the view that as, perhaps, the world's most efficient producer of agricultural products

we should be able to sell such products where we wish for a fair return. We get quite upset at restrictions on our doing just that or subsidies which restrict our markets or penalise our returns. For this reason, we have been vociferous promoters of the liberalisation of international trade along with, we imagined, the interests of other developed countries of the world. Of course, the reality has turned out to be quite different and trade liberalisation has proved to be a tortuous path to tread. However, for many years the exception was the success of the OECD's involvement in export credits.

When I first started in the field of export credits my induction included exposure to an "export credits guide for dummies" which included a series of motherhood statements/laws which sought to make sense of a complicated field. One of these laws concerned the natural repayment period of an export credit being directly related to the useful economic life of the good concerned. So, for instance, while an agricultural export product would have a shelf life of only weeks, a capital good used as an input into a production process or forming part of a large project could have a useful life of many years. There were oddities of interest to those with a perverse mind (such as myself), like counting a stud sheep/goat/bull as a capital good with an appropriately adjusted credit period. Some may say that this is another example of the male of the species being over valued! Of course there were other laws such as co-insurance and pricing for risk which were also to feature in future OECD negotiations, again for the wrong reasons.

I actually had two careers in export credits, having had an initial stint as a bag carrier for my boss in the late 1970s/early 1980s at several OECD export credit meetings. Then, the issues all revolved around interest rates and aid distortions and Australia's interests were largely aligned with most other member countries. There was a natural order to negotiations. It was safe to bet that if we had a doubt concerning a proposal it was always acceptable to go along with the United States. The United States was a champion of reining in subsidies in export credits and the results, in terms of levelling the playing field and the elimination of interest rate subsidies, spoke for themselves. However, when I eventually took over responsibility for Australia's export credit policy the situation had changed dramatically. Now the main issue concerned agricultural export credits and blinkered self-interest was revealing itself in the US approach to negotiations.

Subsidies for agricultural export credit shown to be unhelpful

One of the joys of negotiating in the OECD is that impartial in-depth analysis would always be available to flesh out the *pro et contra* of the topic concerned. This was demonstrated to the highest degree in the negotiations on agricultural export credits and was a credit to the professionalism of the OECD and the intellectual rigor of the export credit secretariat. The analysis demonstrated that while the use of export credits in agricultural trade was not a major problem (only 4.4% of world trade between 1995 and 1998), trade distortions were occurring as the terms of commonly utilised credits constituted export subsidies. The total subsidy element

was estimated to be USD 300 million in 1998; of this, the United States provided 86%, the European Union 7%, Canada 5% and Australia 2%. The United States was clearly identified as the largest user of export credits and its export credits had at, 6.6%, the highest subsidy component.

On the back of its in-depth data analysis, the OECD secretariat made two damming observations, observations which should logically have signalled the death knell for agricultural export credit subsidies. The first observation was that a possible justification for officially supported export credit programmes was that they may help developing countries overcome liquidity constraints in order to purchase necessary food which otherwise would not have been affordable. However, statistically and inconveniently for subsidisers, the bulk of officially supported export credits was provided for trade between OECD countries, where liquidity constraints are unlikely (as noted earlier, this is still the situation today). The second of the secretariat's observations was that the estimated benefits of officially supported export credit programmes to importers were small – "… perhaps only sufficient to gain a competitive advantage for the exporter" – and unlikely to help needy countries. In other words, the export credits were purely aimed at securing a competitive position *vis-à-vis* other suppliers.

The result of years of having to offer non-commercial repayment terms, particularly for wheat exports, led Australia to loose hundreds of millions of dollars as Egypt and Iraq defaulted and received extensive debt relief through Paris Club rescheduling. While repayment terms were undoubtedly out of touch with reality, Australia endeavoured to keep to market rigour in other areas. Thus, there was no attempt to offer a concessional interest rate or to provide an extraordinarily low co-insurance element, let alone to engage in a laughable "attempt" at pricing for risk – all elements of the GSM credit packages. While difficult issues were involved for Australia surrounding funding these trading losses, the real losers were the developing countries forced to come cap-in-hand to the Paris Club and often to bear the cost of IMF-imposed structural adjustment treatments. This is the thing about credit terms – regular and sustained usage leads to a build-up of debt; agricultural export credits is the worst kind of debt as the goods involved are consumer-oriented with no beneficial infrastructural or industrial development effects to service the debt.

Failure rears its head – just the once

Being green in those days (actually now as a Sustainability Manager I still am - but of a different hue), I approached the negotiations in good faith as I imagined everyone was doing. All the interdepartmental committee meetings putting together negotiating positions, submissions to ministers seeking political coverage, long but always interesting OECD meetings (including a particularly frustrating negotiating session where the United States said sorry but it was not in a position to negotiate), raging discussions over dinners in Paris, all seemed worthwhile, at least at the time. Negotiations inched forward over several years with the positions of the

protagonists becoming clearer, although motives were still obscured. Our wonderful Chairwoman (Birgitta Nygren, Sweden) gave her all towards securing an agreement, ably assisted by a committed secretariat. But ultimately this was all for nothing.

The US' insistence on including a non-export credit issue in the negotiations, State Trading Enterprises (STEs), was the major factor in the eventual failure of the negotiations. A brave eleventh-hour attempt at compromise wording by Birgitta Nygren enabled Australia to accept the proposed package. I was fortunate that the Australian Wheat Board (AWB) Limited was on its way towards its eventual privatisation and Australian government involvement was being reduced and eventually removed. I was able to cobble together some words which interpreted Birgitta's suggested wording to facilitate Australia's acceptance. However, this was never going to be acceptable to, or possible for, my Canadian colleagues. Leaving Canada isolated on the STE issue was one of the hardest decisions I have been required to make in my career and troubles me to this day. This was a major part of my motivation in agreeing to contribute this article – to set the record straight.

At the least, the United States move can be viewed as cynical and/or opportunistic; cynical, because the chances of a successful negotiation were dramatically reduced by the STE issue and this effectively drove the negotiation into the WTO Doha Round where it would be used as a bargaining chip. In addition, the United States would be comforted by trade negotiations history – that the negotiations were most likely to be protracted, thereby prolonging the life of the GSM programmes. And opportunistic because in the unlikely event of an OECD agreement, the United States would have achieved an offsetting gain to put against a toothless GSM.

All in all, a disappointing and unnecessary stain on the OECD's proud record in the export credits field, but that is international negotiations.

I started this article by observing the contemporaneous usage of GSM credits. GSM marches on albeit with several "teeth" removed (GSM 103, pricing for risk) courtesy of our Brazilian friends, while all around the world is changing – the world financial system has been torn down and is being rebuilt; Canada now looks likely to own AWB Ltd in the light of an Australian government decision not to block a takeover; the Australian dollar has recently (and briefly) reached parity with the Greenback, etc.

Reading through this article has given me concerns at it being labelled an anti-US rant. This was never my motivation or my inclination. I have tried to make it clear that the US' negotiating history regarding export credits in the OECD was second to none; this is one reason that the failure on agriculture was so galling.

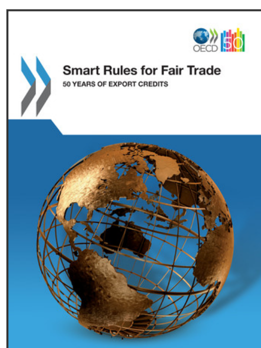
I have headed this article “A Singular Failure” in order to emphasise that the breakdown in negotiations was the exception not the rule within the OECD’s export credit family. Perhaps one day soon we will see a result out of the Doha Round: extended terms for agricultural export credits will be restricted to genuine cases of need arising from liquidity shortages in developing countries rather than as competitive advantages for exporters. I live in hope but with few expectations.

Cheers from the underside of the world to all my OECD friends!

The views expressed in this article are personal to the author.

Note

1. Commodity Credit Corporation (CCC): US Department of Agriculture administers export credit guarantees for commercial financing of US agricultural exports. The guarantees encourage exports to buyers in countries where credit is necessary to maintain or increase US sales, but where financing may not be available without CCC guarantees. The Export Credit Guarantee Program (GSM-102) covers credit terms up to three years.



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