Proceedings of the IPC Seminar

Agriculture, the FTAA & the WTO

May 12-13, 1997
Belo Horizonte, Brazil

International Policy Council on Agriculture Food and Trade

Co-Sponsored By:

Confederação Nacional da Agricultura (CNA)
Federação da Agricultura do Estado de Minas Gerais (FAEMG)
Inter-American Institute for Cooperation on Agriculture (IICA)

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hosted at:

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Agriculture, the FTAA & the WTO

May 12-13, 1997
Belo Horizonte, Brazil

FAEMG Headquarters & The Automobile Club of Minas Gerais

Agenda

Monday, May 12

7:30-10:00 **Seminar Opening Dinner & Reception**

Welcome: ***Honorable Arlindo Porto***, Minister of Agriculture and Food Supply of Brazil
Introduction: ***Lord Plumb of Coleshill***, Former President, European Parliament, IPC Chairman
Antonio de Salvo, President, Confederação Nacional da Agricultura do BRAZIL

Tuesday, May 13

9:00-10:30 **Session One: Implementation and Accomplishments of the WTO**

***Aart de Zeeuw**, Former Chairman, Agricultural Negotiations Committee, GATT*
Gilman Viana Rodrigues, President, Federação da Agricultura do Estado de Minas Gerais (Brazil)

11:00-12:30 **Session Two: Adjusting to Regional Trading Arrangements**

Jorge Zorreguieta, President, Argentine Sugar Producers Association, IPC Member (Argentina)
Rolf Moehler, Past Deputy Director General, DG VI, European Commission, IPC Member (Germany)
Roberto Aceves, Coordinador of Advisors, Subsecretary of Planification, SAGAR (Mexico)

12:30-2:00 **Luncheon: Integration in the Americas: the Role of Agribusiness** (Automobile Club)

Larry Boone, Deputy Director General, Inter-American Instit. for Cooperation on Agriculture

2:00-2:30 **Session Three: IPC Recommendations for the FTAA**

Dale Hathaway, Former Undersecretary for Int'l Affairs, U.S. Dept. of Agriculture, IPC Member

2:30-3:30 **Session Four: Problems for Free Trade in the Americas**

Rob Johnson, Vice President, Public Affairs, Cargill Inc., IPC Member (USA)
Enrique Ospina, Senior Research Fellow, Economic Studies, Banco de la Republica, Colombia

4:00-5:30 **Session Five: Assessing the New Trade Agenda in the WTO**

Bill Miner, Senior Research Associate, Center for Trade Policy and Law, IPC Member (Canada)
Arturo Vierheller, Advisor, Ministry of Agriculture, Livestock and Food Supply, Argentina

5:30-6:00 **Summary & Conclusions**

Bob Thompson, President & CEO, Winrock International, IPC Member (USA)
Pedro de Camargo Neto, Former President, Sociedade Rural Brasileira, IPC Member (Brazil)

7:30-10:00 **IPC Seminar Closing Dinner & Reception**

Brazilian Agriculture in the Future

Senator Arlindo Porto

Art.4: The Federative Republic of Brazil is governed in its international relations by the following principles:

> **Sole Paragraph**. The Federative Republic of Brazil shall seek the economic, political, social and cultural integration of the peoples of Latin America, with a view to the formation of a Latin American community of nations.
>
> **The 1988 Brazilian Constitution**

HISTORICAL OVERVIEW

Geopolitics versus Geoeconomics

The 1988 Brazilian Constitution established striving for "**the economic, political, social and cultural integration of Latin America with a view to building a Latin American community of nations**" as a permanent goal in foreign policy. The authors of the Constitution therefore not only formalized the century-old proposal of Simon Bolívar, the Liberator, but also truly grasped the inevitable phenomenon of globalization.

As a result, Brazil adopted a strategic policy to bring the entire region together as a bloc to become stronger and more independent in its relations with other countries and blocs. The goal set forth in this, Brazil's most important legislation, is being attained through the Southern Common Market, or MERCOSUR, an alliance now being expanded to include member countries of the Andean Pact, and soon all of Latin America. This integration process, uniting the Hemisphere and its 800 million inhabitants, does not clash with the establishment of the Free Trade Area of the Americas (FTAA), although it does set the pace and degree of integration within the FTAA.

Until recently, amidst a struggle for hegemony between socialist and capitalist countries led by the former Soviet Union and the United States respectively, the creation of political and economic blocs followed a geopolitical approach. This approach changed as the Cold War ended and the centralized economies of the socialist bloc crumbled. Once the phase of instant alignment with one of the two blocs had ended, the relationship among nations began to be ruled by a geo-economic approach, favoring primarily the creation of economic blocs.

It is within this context that MERCOSUR was established. Its trend towards growth has followed the same logic that determined the creation of NAFTA, the European Union, and the trade area in Southeast Asia — namely, geographic proximity, economic complementarity, cultural identity and language. MERCOSUR, currently the fourth largest economic bloc in the world, has the comparative advantage of being able to sign bilateral and multilateral agreements, either with other economic blocs or directly with countries within these blocs in a way that benefits each countries' interests, without jeopardy to the development of the FTAA (which aims at being only a free trade area instead of the community of nations referred to in our Constitution).

The formation of blocs, with a view to gaining efficiency, lowering costs, reducing public deficits and inflation, and capturing and protecting markets, pressured central economies to liberalize trade, leading to the establishment of the World Trade Organization (WTO). The WTO serves as a forum to govern future trade relations in a globalized world with as few barriers as possible.

Nevertheless, marked differences and characteristics of nations need to be respected to prevent globalization from becoming a process through which some countries accumulate power, wealth, and jobs to the detriment of developing or peripheral economies. In view of the existing protectionism as well as the direct and indirect subsidies which undermine free competition, the integration of Brazil into the globalization process requires due care.

In this connection, one of Brazil's strategies consists of reviewing the current protection mechanisms in domestic markets of other countries and, along with the consolidation of MERCOSUR, promoting trade liberalization by expanding bilateral or regional treaties. This strategy enables Brazil to make use of the comparative advantages and complementarity of Latin American economies, in addition to preventing its products from being displaced from markets which have started to open to third parties.

The union of Brazil, Argentina, Paraguay, and Uruguay also improved the individual access of these countries to other markets. As MERCOSUR expands and solidifies, advantages will increase since, under the customs union now in place, these full-fledged member countries (a group soon to include Chile and Bolivia, and Peru has already applied for membership) will have to renegotiate the current bilateral agreements. This will open the markets for MERCOSUR members and benefit all. In its first five years, MERCOSUR's trade liberalization led to a 171.7% increase in trade among the four countries, from US$5.3 billion in 1994 to US$14.1 billion in 1995.

A STRONGER DEMOCRACY

Guaranteed Political and Economic Stability

The trade liberalization process also strengthens the region's democracy and political and economic stability. Changes in economic policies can no longer be made unilaterally or arbitrarily since they are bound to the commitments that countries have with their trading partners, and involve major interests served by multilateral agreements. In the MERCOSUR agreement, political aspects were covered by the inclusion of the "Democratic Provision" which condemns armament policies which affect the Hemisphere.

Brazil and our MERCOSUR partners do not want the world to wait until we reorganize our production methods — especially in agriculture — to only then fully open our markets. We are calling for equality in conditions and competition. A fully free-market system is not acceptable while the producers in other countries continue to receive subsidies, many of which are indirect, such as the absorption by their governments of transportation and storage costs. How can we fully open our markets while strong protectionist mechanisms block the entry of Brazilian products such as orange juice concentrate, coffee, meat, sugar, tobacco, gasoline, steel, and others goods.

It has been said that no one can escape globalization, even if one has to be forced into it. This scenario imposes a new price equation on the private production sector at the domestic level. It is not enough to simply add costs and the profit margin to set the target price since captive markets no longer exist. Today, all markets are attractive, especially Brazil's, which is now stronger due to the stability and increased consumer demand afforded by the Real Plan. Within this context, price setting must take into account the competition offered by foreign goods, and efficiency, competitiveness, and quality are a must in order to succeed. These aspects are also indispensable for seizing the opportunities that are being created in other markets besides MERCOSUR, all of which have demonstrated, to a lesser or greater degree, an increasing trend towards openness.

Private initiative has proven itself capable of finding solutions. Thanks to flexibility, boldness and creativity, it has more latitude in determining the productive economic environment of countries and the relations among them. Nations face a new political and institutional environment in which the role of the government is also being redefined, increasingly restricting the role of the State as an entrepreneur. The modern State, while consolidating its regulatory and oversight role, has limited its intervention in the fiscal and monetary aspects of the economy. Thus, the original notion of a State's domestic role — representing the Nation, resolving social conflicts, providing goods and services for the common good, especially in terms of health, education, containing violence and the administration of justice — has been recovered. Internationally, the State is the most important mediator for the interests of society and its producers.

NEW MENTALITY, NEW ROLES

Changes in Government and in Private Initiative

The assumption of new roles, either by private initiative or the government, is always traumatic. For the businessman, this is so because he has to face the increased competition which requires him to make investments, employ technology, and sharpen managerial and entrepreneurial skills, while taking the respective risks. For the government this is true because it has to change roles, forsake power and privileges, contend with administrative reform, dissolve corporatism, eliminate deficits, decentralize and streamline bureaucracy, promote education and research, and arrange for an infrastructure that reduces obstructions and, in our case, the cost of doing business in Brazil — known as the "Brazil Cost."

In this regard, we see an effort on the part of the Brazilian government to undergo reform. There are already proposals for administrative, social security, fiscal, and political reform. The Ministry of Agriculture and Food Supplies is implementing the PRIMA — the Institutional Reform Project of the Ministry of Agriculture and Food Supplies — the main objectives of which are to review outdated concepts and redirect action towards more modern procedures in public administration, and confer more efficiency and transparency to the Ministry.

Furthermore, it is the responsibility of the Brazilian government to solve two basic problems in order to reverse its trade deficit and increase its participation in international trade. The first problem, of an institutional and administrative nature, refers to the lack of consistent mechanisms to devise international trade policies and strategies. The second problem lies in the extreme shortage of infrastructure. For more than a decade, this sector was paralyzed and no major public works projects were undertaken. Meanwhile, many of the already existing projects deteriorated (for example, roads and ports) and the government was able to do little in carrying out projects in the energy and telecommunications sectors. There is currently a tendency to reverse this situation, but this will depend to a great extent on the privatization program of Fernando Henrique Cardoso's administration. Part of the funds will be allocated to financing facilities for private initiative, which will invest primarily in infrastructure, as illustrated by the privatization of the Vale do Rio Doce Company.

Through the National Bank for Economic and Social Development (BNDES), financing for infrastructure projects in Brazil is increasing and reached R$1 billion this year. In the first quarter alone, R$887 million, half of last year's R$1.7 billion, was disbursed. With an increase in demand for funds, the sector's budget, which early this year was R$3.5 billion, rose to R$4.5 billion, i.e., three times that of last year's. These funds will be further increased with the privatization of the Vale do Rio Doce Company and other state-owned companies in the electric power and telecommunications sectors. In the electric power sector, R$212 million has been earmarked for the R$860 million Serra da Mesa project. For the Sepetiba port, R$50 million will be invested out of a total R$150 million. Out of a R$400 million program for shipyards, R$18 million will go to shipping by sea.

The infrastructure sector takes up more than a third of BNDES's R$13 billion budget. The government has changed its approach in allocating funds — the focus is no longer on import substitution but rather on a policy that helps Brazil adapt to trade liberalization. It includes incentives for export companies, for the modernization of companies facing strong competition, and for infrastructure to reduce the "Brazil Cost." A prime example is the Hermasa project in the Amazon, which seeks to transport soy beans bound for Europe from the state of Mato Grosso in merchant vessels using the Rio Madeira waterway, thereby saving US$30 per metric ton when compared with the use of the Paranaguá port.

Similarly, through the FUNDIEST and the Minas Gerais Development Bank (BDMG),which has a working capital of R$380 million, the state of Minas Gerais is allocating funds for agribusiness and the electronics and autoparts industries.

Data is available to illustrate the shortage in infrastructure. For example, the country may lose US$5 billion a year in exports due to the high operational costs of the national port system. The Association of Brazilian Exporters (AEB) has calculated that in Brazilian ports, the loading of one metric ton of soy bean oil costs on average US$11, whereas in Argentina and the United States, the costs drops to US$3. In the Rio Grande port, the loading of cellulose costs US$15 per metric ton — US$9 in port fees and US$6 for stowage. In Antwerp, Belgium, loading costs US$7 — US$5 for operation and US$2 for stowage. Eighty-one percent of Brazilian exports are shipped through ports. In 1995, Brazil exported a total of 387.7 million metric tons, valued at US$16.5 billion, of which US$37.5 billion was by maritime shipping.

This year, the government is withdrawing from the rail system and will, in the coming months, privatize the Northeast network, which is the last stretch still under the control of the Federal Railway System (RFFSA). In the 10 years from 1987-96, the RFFSA accumulated a 3.77 billion debt. Investments of US$4.69 billion will be made to develop privatized networks over a 30-year concession period. By privatizing five networks, the governments made R$1.5 billion, R$432 million of which in immediate payment and R$1 billion to be paid over a 30-year period.

In addition to the aforementioned changes, Brazil must: 1) further reduce inflation; 2) gain competitiveness in the secondary sector — this requires either a massive import of capital goods and processing equipment or an increase in direct investments (which has reached US$1.91 billion in 1994; US$3.42 billion in 1995, US$9.4 billion in 1996 and a forecasted US$14 billion this year); 3) reduce the internal public debt, already at approximately R$200 billion (this would require the lowering of interest rates which today replaces the exchange rate as a leading anchor); 4) implement the fiscal, administrative, and social security reforms; 5) reduce the growing and alarming foreign trade deficit which in 1995 was US$3.15 billion, US$5.5 billion in 1996, and is expected to reach US$7 billion or more in 1997.

THE IMPORTANCE OF LATIN AMERICA IN THE FTAA

Determinants of the Pace and Degree of Integration

Latin America has a prominent position in U.S. trade policy. By 2010, exports to the region will exceed sales to Europe and Japan, according to U.S. trade representative Charlene Barshefsky. She believes that Latin America and the Asia-Pacific region are of high priority, adding that "they have the two fastest growing economies in the world." U.S. exports to Latin American countries in 1996 reached US$108.6 billion of which US$56.2 billion went to Mexico alone. Exports to Japan totaled US$68.4 billion, and US$128.3 billion went to the European Union. By controlling 77.9% of all trade within the Americas, the U.S. has established hegemony over the region.

Given the increasing competition offered by other economic blocs, the U.S. clearly has a great interest in the FTAA. Geopolitics notwithstanding, although the European Union still presents a growing challenge, the U.S. increasingly dependent on trade. From the early 1980's to the early 1990's, U.S. exports to Latin America increased four-fold, and today, approximately 11 million American jobs are tied to the performance of the U.S. trade balance, which in turn corresponds to 20% of its GDP.

Moreover, talks between MERCOSUR and Mexico to establish a bilateral trade zone are advancing. There is consensus on a list of products to be included in the agreement, which will enter into force next year. This will bring to the region the Mexican market, comprising of 95.5 million people and a GDP of US$337.1 billion. Also, agreements are being reached for MERCOSUR's integration with the Andean Pact (Colombia, Bolivia, Ecuador, Peru, and Venezuela) which may bear fruit in 1998. These are not unilateral initiatives since the U.S. has been approaching Chile and other countries with the same objective.

Let us recall the recent visit to Brazil by Spain's Prime Minister and the future summit meeting of the European Union in 1998 to study possibilities for integration with MERCOSUR, an interest also displayed by France and Canada.

THE BRAZIL FACTOR

MERCOSUR's strategic position, and Brazil as the member country with the most important economy, is strengthened by the fact that, of the four American economic blocs (the others are NAFTA, the Andean Pact, and CARICOM), it is the only one that works effectively and is rapidly integrating. Under current circumstances, MERCOSUR can not and should not relinquish the power to determine the pace at which the FTAA will be implemented, even if this amounts to only gradually gaining access to that market. Accordingly, member countries would also slowly have to make commitments.

Last year, according to the WTO, Brazil ranked sixth among emerging economies with the highest growth in imports, surpassed only by Argentina, Poland, Malaysia, the Phillippines, and China. However, it fell from 24th place to 29th on the list of countries with the highest growth in exports. In 1996, the volume of world trade increased by a modest 4%, an increase similar to that of the 1990-1993 period — only half of the 8.5 % increase recorded in 1995. For the first time, in 1996, global trade crossed the US$5.2 trillion threshold. Imports from Latin America grew 10.5% in 1996. Argentina recorded the highest growth in exports (34%), well above that of Poland (22%), Malaysia (18%), the Phillippines (18%), China and Brazil (17%), Colombia (16%), the United Arab Emirates (15%), Chile (15%), and Mexico (14%).

In 1997, the Brazilian economy is experiencing its fourth consecutive year of growth, after 13 years of stagnation and inflation. In the last three years, with the implementation of the Real Plan, GDP grew by almost 14%, more than half the total growth over the entire 13-year period. During this 4-year period, the monthly inflation rate fell from 40% to less than 1%, per capita income rose to approximately 9% (recovering from a 7.3% loss from previous years), and 1.1 million jobs were created.

The Brazilian trade balance in 1996-1995 recorded US$47.7 billion in exports (-2.67%) and US$53.2 billion in imports (-6.88%) leading to a trade deficit of US$5.5 billion. Agriculture and livestock exports reached US$12.97 billion (+6.9%) with a surplus of more than US$5 billion. This year, it is expected to increase by another US$2 billion, peaking at US$14 billion.

However, such positive results were not experienced by all sub-sectors of the agriculture and livestock sector. For example, the deficit of the fruit-growing industry increased to US$93.1 million (-25.5%), exports having risen only 6.7% to US$296.3 million, versus US$389.4 million (-10.6%) in imports. Until 1994, Brazil ran a surplus of US$76.1 million (US$268.2 million versus US$192 million). As a result of lower tariffs and enhanced import facilities (such as interest rates and payment periods), in the last three years exports increased only 10% compared to a 103% increase in imports.

Consequently, this year, Brazil will depend more on overseas savings with a total deficit in the balance of payments in the order of US$26 billion, with the domestic services account rising to US$19 billion (US$13 billion in interest rates) despite a projected US$14 million in direct investments.

The aforementioned factors are being carefully considered by Brazilian authorities and their MERCOSUR partners to determine the pace and degree of the desired integration. The interests that the Brazilian society seeks to preserve should be taken on in a clear and transparent manner. What are we willing to yield? We must remember that MERCOSUR has already officially demonstrated an intent to negociate agreements with its largest trading partner, the European Union and its 15 member countries.

MERCOSUR participates in international trade and so it is senseless to sign an agreement with only one group of countries.

GLOBALIZATION AND UNEMPLOYMENT
The Greatest Challenge of Open Economies

For Brazil's integration into the global market, it is important to understand the need for openness and for a sound strategy in the face of the dreadful and major problem that globalization poses to humanity as a whole. In Europe, there are 18 million people unemployed, of which 4 million are in Germany and 3.5 million in France. This is five times greater than the number of unemployed people in the 1960's. There has been massive unemployment over the last decade. In the past, a debilitating state of affairs would bring down production, although it would not be as damaging. Today, there are no mechanisms to reinsert people into society as production increases to the detriment of employment because of increased automation and cost reduction programs in which labor in particular is targeted.

Celso Furtado defines the crisis in the age of the social welfare state as the greatest illustration of solidarity ever witnessed and modern democracy's greatest victory and nobility. He believes that there is a solution to this crisis — not war, since, despite having been used in the past, it would destroy everything. The Brazilian industrial sector can no longer create jobs and is cutting positions. Compared with 10 years ago, there are fewer workers in this sector. The difference is that agriculture is absorbing the workforce, having created 4 million jobs from 1990 to the present, albeit some only provide a means of subsistence.

Only Brazil has land as an alternative to the crisis. To exercise this privilege, agriculture must become an enticing option for the young people who are today migrating to the cities. Following this approach, another outstanding opportunity that needs to be considered is that energy consumption will increase by 50% over the next 13 years. So as not to depend on fossil fuels, Brazil can use biomass as a source of energy, which only comes from land cultivation. It is therefore interesting that the plan to levy a tax on CO_2 emission is being reconsidered, since it will make renewable energy more competitive. Agriculture, as a source for generating energy, presents numerous possibilities for the Third World — and particularly Brazil because of the knowledge it gained from the Proálcool project.

Nevertheless, we can not remain exporters of raw materials and importers of technology, otherwise, no jobs will be created and not enough income will be generated for Brazil to solve its most serious domestic problems — primarily abject poverty and acute income disparity. In Brazil, wages account for 35% of the total national income as compared to a worldwide average of over 60%.

Efficiency is fundamental in achieving quality, productivity, and low costs and a key ingredient in solving globalization's greatest problem — unemployment. Once again, agriculture is a integral part of the solution, although it does not solve the problem entirely.

A study recently conducted by the BNDES indicates that a strong investment policy in job- creating sectors can lead to a slowdown in economic growth if certain implications are ignored. There would be no drop in economic activity, however, expansion would be much smaller than if sectors were selected by combining employment demand with the capacity that these sectors have in contributing to an increase in the country's overall production.

The ten most efficient sectors in combining job creation with economic growth are almost exclusively in agribusiness, which is comprised of coffee, oil and plant byproducts, meat and dairy products, sugar and the garment and furniture industries. These sectors are, in order of importance: 1- garments; 2- agriculture and livestock; 3- wood and furniture; 4- animal slaughtering; 5- trade; 6- the coffee industry; 7- other foodstuffs; 8- footwear; 9; dairy products, and 10- sugar.

BRAZIL, A PLAYER AND NOT AN OBJECT OF MODERN HISTORY

Despite the risks, Brazil must be a player and not an object in modern history if it is to benefit from the inevitable globalization. Market reserve, subsidies, seemingly shorter work days, and tax incentives are not solutions. Let the government provide the conditions suitable for economic agents to produce and be competitive. To that end, the need for constitutional reform, fiscal balance, currency stability, the reduction of the "Brazil Cost" (including taxes for social programs) and infrastructure is reinforced.

Once MERCOSUR is consolidated, the time will be ripe for the 34 countries of the Hemisphere to unite with a view to creating the world's largest free-market zone, with a GDP of US$8.3 trillion, stretching from Alaska to Tierra del Fuego. Integration, as opposed to isolation, is more advantageous but also more difficult. On the one hand, access is gained in theory to all markets and investors, but on the other, a unified global market exacerbates competition by exposing it to all competitors.

The ideal scenario would be for Brazil to gradually prepare itself for worldwide competition by successfully making each sector more competitive. This can be done by integrating ourselves through the development and consolidation of economic and technological areas. Only when we take advantage of increased scale can we compete with the powerful economies. Integration can be the geographic link between 11 of the 12 countries and is an integral component in attaining the sought-after synergy.

South America is rich in natural resources, has a growing population of 320 million, and has the potential for commercial and industrial development. In 1990, our participation in world trade was only 3.5%, whereas in the 1950's it stood at 12.5%. Our mistake lay in the lack of infrastructure, especially in transportation, communication and power networks. For the future, improved efficiency and competitiveness in terms of the cost of those systems that support trade is indispensable, from raw materials and energy (involved in production) to communication and transportation networks and other aspects of physical infrastructure. A shortage of ports, roads, rail- and waterways, telecommunication systems, and power generation and distribution systems is the leading cause for the region's declining participation in world trade. In addition to physical and technological aspects, bureaucracy is also a burden — it takes considerably fewer hours to unload a freighter in Singapore than it does in Latin America.

In the past, infrastructure in Latin America, which was intended to meet geopolitical needs, was developed with centrally- planning and government-controlled investments. The primary goal of these countries was to occupy their territories. They attempted to reach economic self-sufficiency and meet the needs of development. This led to the establishment of economic enclaves in large cities and economic centers, thereby giving rise to a concentration of income, marginalization, poverty, and ecological disasters. Today, by emphasizing geo-economics, this scenario is likely to change with the formation of development belts and respect for market forces and opportunities. This seeks to ensure that, instead of offering competition, public and private investment are mutually reinforced to maximize results.

To that end, a macro logistic view is needed, as proposed by the notable Eliezer Baptista. It would embrace all networks for collection, storage, transportation, handling, and distribution of goods, as well as roads, railways, and shipping routes. Telecommunications and power also fall under this category. Latin America is rich in sources of energy, but key regions still lack a stable and reliable supply. Efforts to develop resources single-handedly have caused serious environmental and social damage as well as economic inefficiency and inefficacy.

The region is also privileged in terms of energy resources. For example, Venezuela trails only Russia in this respect. Crude oil reserves are twice that of the U.S.

and hydroelectric power potential is far greater than the demand. There are rich natural gas reserves and the world largest tar reserves. Colombia, Venezuela, and Peru also have abundant natural gas and coal reserves. The Southern Cone has more than 60.000 megawatts of hydroelectric power potential, of which 40.000 megawatts are being tapped, in addition to Argentina and Bolivia's gas reserves. Crude oil reserves in the south include 1.6 billion barrels in Argentina and a potential 8 billion barrels in Brazil.

PRESERVING A SOURCE OF LIFE

Latin America, the Richest Area in Water and Biodiversity

With so many natural resources and still a low population density, Latin America has the potential of becoming a model for regional integration and sustainable development. Unlike China or India, which are already overpopulated and therefore suffer the negative environmental consequences, the Hemisphere may be the first to adopt a model based on preventive rather than corrective planning. Latin America can avoid environmental degradation and should demand that the environmentally indebted countries develop properly.

According to the United Nations Commission on Environment and Development, this represents "meeting the current needs without compromising the ability of future generations to meet their own needs." Even this requires a longer period of time and broader development and integration.

Countries and international organizations are concerned with the issue of water, which could possibly lead to conflicts. The distribution of water consumption breaks down as follows: 70% for agriculture, 30% for industry, and 10% for individual use. South America has two of the largest sources of fresh water on the planet — the Amazon Basin and the Prata Basin. The latter drains into Brazil's richest and most densely populated area, integrating the states of Mato Grosso, Mato Grosso do Sul, Goiás, the Federal District, Minas Gerais, São Paulo, Paraná, Santa Catarina, and Rio Grande do Sul.

This basin is definitely a strategic endowment that needs to be preserved. MERCOSUR produces 140 million metric tons of grains, primarily within the Prata Basin. Four percent of the world's fresh river water reserves are in Latin America, supplying 30,080 m^3 per capita, compared with 6,140 m^3 in Africa and 3,240 m^3 in Asia.

We should manage deforestation, mining, prospecting, and hunting/fishing activities, and address urban pollution and the abusive use of agriculture. Agriculture deprives land of its natural vegetational covering; displacement of soil leads to silt buildup; and the use of insecticides and fertilizers affects the quality of water. We can not suppress land cultivation or excessively limit the area in which it is carried out. However, cultivation must be controlled so as to preserve forests (36% of the world's tropical forests are found in Brazil) and important ecosystems in the Pantanal region.

Another natural endowment is Brazil's incomparable biodiversity which makes it the richest country in the world in terms of biological resources, with Colombia and Indonesia fighting for second place. Peru and Ecuador are among the eleven richest countries in megadiversity which together hold two thirds of the world's natural resources. Bolivia and Venezuela are among the twenty top countries with the greatest diversity.

International Agricultural Trade Negotiations under GATT/WTO: *Experiences and Future Challenges*

Aart de Zeeuw

GATT History: Difference between Agriculture and Industry

Experiences during the several GATT Rounds after the Second World War, and in particular during the Uruguay Round, are important for discussion on the future challenges and the possible outcomes of the trade negotiations, which will start around 2000.

Looking back at the history of the GATT, we must realize that because of the unfortunate results of protectionist policies before World War II, countries heavily involved in world trade, signed an agreement in 1948, known as the "General Agreement on Tariffs and Trade (GATT)", under which in principle, trade in goods between signatory countries should be free. Where such an agreemnt is not possible and countries need to protect their frontiers, only fixed tariffs may be imposed, and must be gradually dismantled, and which may not discriminate between countries.

In general the GATT has been successful in the industrial sector, a series of trade rounds has led to such high cuts in tariffs that one can almost speak of real free trade. This is definitely not the case in the agricultural sector. Exceptions to the GATT rules-making use of art. 11 (possibility of quantitative restrictions) and/or art. 16 (possibility of export subsidies), the permission to continue existing trade policy measures (grandfather clause), the use of protective instruments such as variable levies and voluntary exports restraint agreements, which are not covered by the GATT rules, have enabled countries to maintain or even develop highly protectionist trade policies in agriculture. For most basic products, the agricultural policy was based on securing farm income in the form of price guarantees. These are realized through border measures (variable levies and export subsidies, if necessary) or through price support whenever the market fall below the guaranteed price (deficiency payments).

Why this difference, compared with the industrial sector? The reason why many countries wanted to protect their agriculture was based on the reality that in many agricultural regions the farm population could not survive without protection. Substantial pauperization of rural areas could take place with all the negative social and environmental consequences.

We have to accept that no single country is willing to sacrifice agriculture on the altar of liberal trade. But there is a difference between an agricultural policy by which one cuts off ones own market largely or even completely from the world market and a policy which allows price fluctuations to work through to ones own market.

How to combine necessary protection with more liberal trade?

During the eighties it became very clear that in the developed world the price guarantee policy led to such a degree of over production, that long term market distortions, in the form of price supplements and the high cost of surplus disposal. Mainly on basis of studies by the OECD, negotiators in Geneva came to the conclusion that a policy of direct income support could better fit into a more liberal international trade policy, compared with a policy of price support.

Doing so, one can integrate agriculture into the normal GATT system (only decreasing fixed tariffs at the border). This means that the domestic market can no longer be isolated from the price movements on the world market.

The Course of the UR negotiations on Agriculture

If we look back to the course of the negotiations, we must conclude that it was a very difficult job to get a deal between the US and the Cairns Group on one hand, and Europe, Japan and Korea on the other hand. The first group wanted a very rapid and total break down of all border measures, accepting limited direct income support, not related to products or means of production. The second group accepted a progressive (not total) and slow break down of border measures and subsidies and more possibilities for income support (also related to means of production as acreage or number of animals).

There were several important moments during the Uruguay Round negotiations. The first was the Punta del Este declaration itself in 1986, in which countries agreed that the negotiations in agriculture must lead to more open trade and less trade distorting support.

After two years of negotiations (Mid-term Review), when negotiators agreed on a formula of progressive and substantial reduction of border protection and trade distorting subsidies. In fact, this meant that total elimination of border measures was not anymore a point of discussion. Still it was almost impossible to make real progress in spite of the fact that there was a growing willingness to negotiate on the basis of a framework consisting of tariffication of import barriers; differentiating internal support, and of a substantial reduction of import barriers and subsidies, also internal for export.

On that basis, the Chairman of the Negotiating Group on Agriculture produced a Frame Work Agreement in July 1990 (the "De Zeeuw Paper"), half a year before the planned final Ministerial Meeting in Brussels. This paper was based on the principle of accepting a separate commitment for border protection (tariffication, followed by a substantial reduction of tariffs and a minimum access), internal support (also a substantial reduction of trade distorting support and a strict definition of the allowed support, the so-called "Green Box", and export competition - effectively more reduction, compared with other forms of support and protection. At the Brussels conference in December 1990 this paper was rejected by the EU and other Europe countries, as well as Japan. These countries, with the exception of Sweden, were at that time not ready to accept this proposal, because that has meant the necessity to change their agricultural policy fundamentally.

After the failure in Brussels, the negotiations went on, in particular between the US and the EU. The real breakthrough, came in July 1991 when the European Commissioner for Agriculture, MacSharry, proposed to change the EU agricultural policy in such a way that income support per ha and/or per head of animal should at least partly replace price guarantees for some basic products (cereal, oil seeds, protein crops). Apart from the political rationale behind this proposal - high guaranteed prices lead to overproduction and to excessive levels of intervention stocks or to exports to already over-supplied world markets and rapidly rising budgetary expenditures. This change made it much easier to accept a GATT compromise.

In January 1992, the Director General of the GATT, Arthur Dunkel, presented a paper which was based on the same principles as the "De Zeeuw Paper", but was more detailed and took into account some results of the bilateral negotiations between the EU and the US (e.g. 36% reduction of tariffs and export subsidies, 24% reduction of subsidized export volume, 20% reduction of trade distorting internal support per product, a limited "Green Box").

Perhaps the most important moment was in 1993 when finally the US and the EU made a deal on the basis of the so-called "Blair House Paper". This deal weakened the "Dunkel Paper" somewhat (e.g. EU-support per ha and/or animal and most of the US deficiency payments in the "Green Box" (known as the "Blue Box"), reduction of internal support of 20% not per product but only in total, a smaller volume reduction in export support - 21% instead of 24%). The Cairnsgroup and other European countries could follow, sometimes with pain, (e.g. Switzerland). Japan and Korea could accept the deal because they got an exception for rice. Developing countries have the flexibility to implement reduction commitments over a period of 10 years instead of six years and are allowed to apply lower rates of reduction; the least developed countries shall not be required to undertake reduction commitments at all.

Effect of the Agricultural Agreement in International Trade

Will the agreement really lead to a fair and market oriented international trading system? It will over the long term, but only in a limited fashion over the short term. In the long run, the agreement will lead to a market oriented international trading system because it forces governments to change the basis of their agricultural policy in such a way that further price guarantees will no longer be possible. This gives a market oriented international trading system room to develop.

Why will it be limited over the short term in most developed countries, in particular in the US and the EC? First, because access opportunities will not grow very much. In most developed countries tariffs as a result of tariffication are quite high because they are based on the period 1986-1988 when world market prices were much lower than may be expected for the near future (calculations of OECD and Worldbank). Furthermore, the safe guard clause will prevent a considerable growth of import if world market prices drop significantly. In conclusion, in most cases the tariff reduction of 36% on average and 15% as a minimum will not lead to many more import possibilities (internal prices will continue to be lower compared with the expected higher world market prices plus the agreed, often high tariffs).

More important, but also limited will be the effect of the growing minimum access commitment (3% of the national consumption at the beginning, growing to 5% after 6 years.) Second, because the limited (20%) reduction of total trade distorting internal support will not have a big influence, mainly because the "Green Box" includes support per ha and/or animal in the EU and a big part of the deficiency payments in the US (Blue

Box). Third, the choice of the reference period 1986-1990 will also prevent a big effect of the 36% budget reduction commitment on export; the 21% reduction on subsidized volume, in particular for cereals and some dairy products is more important, but still limited.

In summary, I expect a limited effect of the reduction commitments on the volume of international trade, mainly through choice of reference period, aggregation possibilities, a rather big "Green Box" (including the "Blue Box"), flexibility in execution of reduction measures, exemptions of tariffication in some cases a safe guard clause and exemptions for many developing countries.

The most important aspect of the Agreement is that countries are forced to make at least a start with a fundamental change of their agricultural policies and are not allowed to fall back on more protectionist measures than those agreed upon during the implementation period 1995-2001. Furthermore, that the new negotiations, which will start a year before the end of the implementation period (2001), are considered an ongoing process; in fact a further substantive reduction of border measures and trade distorting internal support.

One cannot expect a new deal to be realized without a real fundamental change of agricultural policies in those countries which still have a limited market oriented (national and international) agricultural policy.

Developments in the main involved countries

Can we expect that the next round of WTO negotiations will be an easy job? I don't think so. The discussions and the way of implementation of the agreement in the main involved countries show that there are still different views on the development of the future agricultural policy which determines very much the level of liberalisation of the international trade.

In the United States, the new farm bill introduces some major changes in US agricultural policy:

- No acreage control anymore, with the exception of peanuts and tobacco. Producers are free to produce in response to market incentives; no direct governmental influence anymore.
- Income support, fully decoupled from product or means of production and not related to price movements on the market for period of seven years.
- Export subsidy programs continue in accordance with the GATT Agreement
- The programs for sugar, peanuts, and tobacco are not changed (high internal prices and import restrictions through tariff quotas will continue).

If after seven years (2002) the US cannot decide to continue the above mentioned changes, the old basic support legislation comes back.

In spite of the mentioned exceptions, the US is positioned to take the lead to a further reduction of domestic supports and export subsidies in the next round of negotiations. The US believes they now have a better opportunity (with the new Farm Bill) to compete with other exporters on the world market (not only grains, vegetable oils and meat, but also dairy products) and I think they are right.

The new policy will certainly stimulate more efficient production methods. On the other hand, this development in the US shows the strength of groups who don't like the policy and who will certainly try to influence the political debate (not only sugar, peanuts and tobacco, but also the relation with the effect on the environment).

The CairnsGroup countries, of which Australia is the leader, are very much in favor of further liberalisation of international trade and will certainly try to influence the international discussions in such a way that the result of the next round will contain at least the following:

- Total elimination of export support
- Substantial reduction of tariffs and a maximum ceiling (e.g. no more than 30-50%), in order to get rid of tariff-rate quota's - a limited "Green Box", not anymore including the "Blue Box" (support related to means of production - per ha and/or per head of animal); in other words completely decoupled, no exceptions anymore for developed countries (e.g. Japan, Korea.)

Canada is willing to follow the other members of the Cairnsgroup for cereals and oilseeds but not yet for dairy and other products. For the time being, Canada wants to continue the existing dairy quota policy with limited import possibilities, just like the EC and Japan.

Japan has real political difficulties to implement the trade agreement. It continues to carry out as much as possible of its policy of production regulation and managed trade for the main products for the next six years, as it is difficult to achieve a political consensus on replacing price support by direct income aid. One may not expect that Japan will easily agree on further substantive reduction of tariffs and subsidies, because that forces a fundamental change in agricultural policy.

It will not be easy for the European Commissioner of Agriculture to integrate the different views of the members of the EU into a clear future agricultural policy. Many regions with weak agricultural sectors fear more open competition with third world countries (particularly the southern and mountainous regions). They would like to be sure that the common budget allows and guarantees a future high level of income support for the farmers in these regions.

Secondly, countries differ in opinion on the question of whether the EU wants to continue or even develop its position on the world market. Member states that have developed an important position on the world market, like France, The Netherlands, Ireland and Denmark want to keep that position and are more willing to change the agricultural policy into a more liberal one, compared to countries who are less dependent on the world market for their main products, like Greece, Portugal, Spain, Italy, Germany, and Finland. The first group is more willing to soon begin discussions on the future agricultural policy in such a way that the export position will be secured. The second group does not consider a change to be necessary as long as the EU fulfills its GATT obligations.

In the third place, the member states have different views on the probable extension of the EU to Central and Eastern Europe. There is no doubt that the EU inspired by political and strategic considerations, will accept the membership of most of the countries in Central and Eastern Europe, with the exception of the countries of the former Soviet Union. It is not yet clear on what terms, or when the different countries will enter the common market, but one may expect that the first group (Poland, the Czech and Slovak Republics, Hungary, and perhaps Slovenia) will enter the EU in the period 2001-2005.

But it is also in the interest of a future agricultural policy not to raise the prices in these countries. This will stimulate the production of agricultural commodities too much and will lower the consumption in these countries, which is socially unacceptable. In the long term, this means that EU policy cannot go on with a high price policy. Together with the expectation of a further break down of tariffs and subsidies during the next round of trade negotiations the expected entry of countries of Central and Eastern Europe will certainly stimulate further change from price support to direct income support.

Given the important differences within the EU, a rapid change in EU agricultural policy is not expected. Commissioner for Agriculture Fischler has published a report citing different options. He advocates extending the new cereal and oilseeds policy to other products., but is cautious in saying how this can be achieved, especially in regards to the highly protected dairy and sugar sectors; a similarity with Canada on dairy and the US on sugar. The position of other European countries, like Switzerland and Norway is comparable with the more protectionist group within the EU.

Possible Outcome of Future Trade Negotiations

In conclusion, the next round of international negotiations shall not be an easy task. However there is no possibility to fall back in the previous protectionist trade patterns. The rapid economic development of the industrial sector in the developed world is due to liberal trade. The agricultural sector cannot isolate itself from the general trend of liberalizing trade in goods, as well as services. This liberalisation is taking place through regional economic integration (e.g. EU, NAFTA, FTAA) and through world wide liberalisation, both of which are necessary.

In this context, it was very important that the Singapore Ministerial Conference reaffirm their commitment to initiate negotiations for the continuation of the reform process one year before the end of the implementation period (end of 1999), and that the long term objective of substantial progressive reduction in support and protection is an ongoing process. It is also of great importance that the agenda for the future negotiations be prepared in time. This will need to be done by the Committee on Agriculture of the WTO, which is responsible for the implementation of the results of the Uruguay Round (Chairman: Ambassador Nestor Osorio Londono from Colombia).

The following items will play an important role during the future negotiations:

1. There will be no real progress in agriculture if the sector is not included in a total package, together with other areas, like services, investment, etc.

2. The process of more liberal trade needs to go hand-in-hand with necessary reform of domestic agricultural policies.
3. One may expect further reduction of tariffs and pressure from exporting countries to introduce a maximum tariff level per product or at least different reduction percentages (the higher, the more reduction).

4. Tariff-rate quotas will be contested since they are not in harmony with liberal trade and difficult to handle. On the other hand, market access will be given in the case of high import blocking tariffs.

5. In additional to tariff-rate quotas, one may expect further discussion on the Agreement on Sanitary and Phytosanitary Measures (SPS), in particular in relation to its efficient implementation. Other non-tariff rate barriers may also threaten more liberal trade, such as blocking access to the sale of meat of animals treated with natural hormones or products which have been genetically manipulated, and that in spite of their scientifically proven safety. Most often, countries do not allow such products to be imported not on the basis of trade barriers, but based on the emotional, but real concern of many consumers. In these cases, the choice is to the individual consumer. A labeling system is a better solution than blocking imports.

6. State trading, in so far they hamper trade more in comparison with private trading, will be challenged. It will be necessary to strengthen rules.

7. Much pressure will come from many WTO members, in particular from the US and EU countries, to reduce, or even eliminate, export subsidies as the worst trade distorting measure.

8. The definition of the "Green Box" will be an important point of discussion. One may expect strong pressure to totally decouple support, and not continue

to accept income aid per ha/and or animal, on the condition of controlled production ("Blue Box"). One may expect more and more integration of income support in rural development schemes, in particular for social and environmental reasons.

9. A thorough discussion on the relation between trade and environment is to be expected. Not much focus has been given to this issue in this presentation as most environmental problems in agriculture have only a national or regional impact. Those which have an international dimension need to be solved through international agreement so that there may be an internationally agreed upon impact on international trade.

10. Further discussion on the special position of developing countries should also be expected. Those who want to play a more important role in international trade need to realize that a special position cannot be defended anymore, in the long term. It is different for those countries which have a poorly developed agriculture, and are not yet able to compete with other countries, who have a more efficient agricultural sector in local and international markets, and who do not export.

The FTAA, WTO, and Implications for Domestic Policies

Dr. Gilman Viana Rodrigues

This is an important moment for the private sectors of the Americas because we are about to launch the negotiations on the Free Trade Area of the Americas (FTAA), an economic block in the Hemisphere with great potential in the process of opening trade without barriers in the near future. Trade liberalization has proved that, despite the difficulties, mostly caused by the fast pace of the measures adopted and by the lack of understanding of the characteristics of the farm sectors in our countries, the benefits are remarkable. I would like to emphasize the point that the benefits of trade liberalization are greater than the possible losses which the farm sector has endured. This is my personal experience as a farm leader, despite all hardships we have faced in the recent past.

Too many fellow countrymen only envisage the difficulties, overlooking the possible benefits that trade liberalization has brought. The domestic prices are now aligned with international prices, our products are now valued in domestic and foreign markets, better signals now exist in markets and prices, thus eliminating the previous distortions which plagued our activities in the past. National currencies now have a different value in terms of purchasing power and now have a exchange value. Now our money has a different value, as never before. Consumers now benefit of products of better quality and fair prices, thus contributing to higher real income and satisfaction. Without the trade liberalization and the deregulation of agricultural markets it had been impossible to reduce inflation and to reach economic stabilization. We, as agriculture, nations and citizens, now depend on more market integration and fair trade to achieve satisfaction and happiness.

However, the integration which are now about to start in an hemispheric scale is not riskyless. The risks are not negligible, and are above all equal to the expected gains from trade liberalization. We have to be cautious and competent to avoid major setbacks in this process. Governments cannot be successful without the information and participation of the private sector in the new challenges of the process of negotiation. We will have to share the responsibilities of this process. This is the main reason we are together today. The private sector is an essential partner in this long process.

The farm sector has to state clearly his positions and conditions to participate in this process. It is involved the integration with developed economies. The farm sector will only participate if there is a clear recognitions of the conditions of competitiveness created by the integration process. Today those conditions are far from fair. They will have to change in this process. The situation is rather complicate and require caution. No country can seek unlimited benefits at the expense of other nations in this process. A fundamental requirement for the success of this negotiations is balanced results for all. This will only be achieved with balanced concessions, without discrimination of any country's interests.

Even though the agenda is decided in the process, it is not too late to re-consider the importance of agriculture. Important issues on agriculture have been spread in several different negotiating groups in the agenda. The important issue of subsidies now belong to a group which takes care of unfair trade practices; a decision which implies less importance to a critical issue in the process of integration of regional agricultural sectors. Market access for agriculture cannot be treated without the due concern with the question of subsidies. This is a threat to fair and balanced results which will not allow us to open our domestic markets to unfair competition created by subsidized exports to our countries.

Agriculture deserves a special treatment in terms of banning subsidies, just to take one example. The Argentinean proposal of declaring the region free of subsidies is not deserving the attention the question do require. Many countries are against this proposition that we fully support. In order to broaden and deepen Hemispheric integration the question of subsidies are in the forefront of the concerns of agriculture. Results in this front must be balanced and comprehensive in scope.

A successful integration is guaranteed if the economies of the countries are complimentary. This is not the case of agriculture in the Region. In the Americas the agricultural sectors are more competitive among all members, both in terms of feedgrains, foodgrains, oilseeds and fibers, and in tropical products. Substitution in production and exports require great care in the negotiating process, particularly when prospective partners do subsidize their agricultures. Developing countries of the Region cannot compete in fiscal funds for subsidization, both on exports and domestic policies. The recognition of differences in degrees of development of the farm sectors of the Americas is a critical starting point in the negotiations.

Our target is maximizing market openess through high levels of discipline in banning subsidies. Full consistency with the provisions of the World Trade Organization is absolutely necessary, but not all subsidies accepted in WTO can be accepted in FTAA. This is a principle to which we unanimously agree. We strengthen our commitment to support this principle.

The agricultural sectors have to state their conditions to participate in the process, such as the need for recognition of the different degrees of development of the productive capacities of the countries in the Region. Equitable participation of all private sectors in agriculture has to be recognized, without any discrimination in the process. The time periods of tariff reductions have to be consistent with the period of time required by the developed nations to reduce and eliminate their domestic support for specific sectors in agriculture. A time horizon is required to adjust domestic production of the developing countries of the Region. Finally, all non trade barriers, which are artificial restrictions to fair trade will have to be removed in a time frame consistent with the opening of domestic markets on the part of the developing countries.

The farm sectors of the developing countries in the Regions will only participate if the access to markets of the developed nations is allowed in a short period of time. Tariff reductions will have to be progressive, but countries with higher tariffs and higher non tariff barriers will have to make concessions at levels higher than the countries with relatively lower tariffs. It is necessary to recognize the need for deregulation and elimination of government interventions in domestic markets.

Without equitable and substantial results in agriculture, both in terms of elimination of subsidies and tariff reductions, the integration process will create distortions and unbalance to competitiveness of agriculture in the developing nations vis a vis the developed nations. Competitiveness has to be recognized. Tariff concessions will have to be balanced, otherwise the integration will not be satisfactory. Substantial results will only be achieved with the reduction of subsidies. And equivalent and balanced concessions if tariffs reductions are based on trade volumes. Those are satisfactory results. Agriculture, without the stated objectives, would not participate in the process of hemispheric integration.

A few questions still remain to be resolved in the negotiating process. The developing nations of the Region, which implemented substantial reforms in domestic policies, such as the reduction of the support price policies and of government funds lent to farmers will allow free imports from countries which still heavily support their agricultural sectors? Could we accept this kind of competition with domestic production of the developing countries? Certainly not.

It is totally unacceptable the current levels of unemployment in the farm sectors of the developing countries of the Region. Current levels of subsidization will further increase this level of unemployment in those countries, to an extent which possibly will create social unrest. The social unrest may bring integration to a setback or even would threat the stability of the democratic institutions of the emerging democracies of the region. Present levels of unemployment in agriculture in Brazil are creating a powerful organization of landless workers to an extent beyond control. Integration under such circumstances will not be sustainable, just to mention a small effect of rural unemployment.

This is the fundamental reason for an important principle in the negotiations of agricultural commodities. Tariff reductions will have to be made in a way consistent with the time frame necessary to eliminate all subsidies of domestic policies which still exist in the developed countries of the Americas. Still developing countries in the Hemisphere are keeping subsidies in their agriculture. Commodities still subsidized, even if the subsidies are accepted in the categories established the World Trade Organization will have a tariff reduction in member countries of FTAA consistent with a time frame necessary to phase out such artificial benefits. Agriculture is still in the national interest of all countries in the region. But the developing countries which banned subsidies to their domestic policies will have the right to protect the productive sectors of their economies.

It is necessary to negotiate an agreement with a clear commitment of reducing tariffs of sensitive products with the same speed of the reduction of subsidies in the developed countries.

The existing subsidies are a major obstacle for the exporting countries to access the importing markets of the region. The subsidization, both to exports and domestic policies, allow to granting countries to gain more than equitable share in importing countries. Those practices are not tolerable in an integration, because they distort production and exports and are unfair practices in an open trade competition.

In recognition of the differences of the degree of development in the farm sectors of the countries in the region, the reduction of tariffs of products in the interest of the developing countries will have to be immediate. This is the reciprocal treatment for opening the domestic markets of the developing countries. The most sensitive commodities are the tropical products and specific products in which the domestic countries are competitive. In the beginning of the negotiations lists of products of all countries in the region will be included in the category of immediate tariff reduction. This list will include a group of products on which there exist export interests.

Another group of products with great concern are the ones in which there exist unfair competition in the region. A longer time frame will have to be agreed in the negotiating process for these products. Commodities such as wheat, maize, cotton, milk powder, just to mention a few examples, deserve a careful treatment in the moment of negotiating the tariff reductions.

The countries which still keep tariff quotas for some agricultural products, or similar systems of non-tariff barriers, will have to grant access to their markets in the form of a zero tariff in a substantial share of domestic imports, right at the beginning of the FTAA. Those quotas of free access will have to increase faster thus improving the existing access to import markets in the countries which protect their agriculture with such instruments.

With a system of gradual access the developing nations will be able to benefit from their comparative and competitive advantages on relatively sizeable markets in exchange for the opening of their own markets. This will be a fair trade for all member countries in FTAA. Limited access in exchange for opening their markets will not be fair. All negotiators know in advance that this rule has to be respected, otherwise integration will not succeed at all. Protection will be countervailed with protection. The launching of the negotiations under the principle of reciprocity will proof advantageous to all countries.

The new agreement will have to recognize at the very beginning that free trade in the Americas will depend on the recognition that disciplines, far more strict than the ones adopted in the Uruguay Round for agriculture will have to be agreed. Agricultural products are more sensitive to subsidies, both to exports and domestic policies, than industrial products. Industrial products have been subject to disciplines for decades before under GATT. Agricultural subsidies have been subject to weak disciplines under the World Trade Organization.

There is full support in the Continent for a more ambitious set of disciplines for agricultural subsidization: most of the countries of the Cairns Group is in America. Above all, the developed countries which supported the ban of subsidies, together with the Cairns Group are also in America. There is no reason why those special disciplines should not be required under FTAA.

Negotiators of the developed nations of the Americas will have to understand that most of the countries in the region do depend on agriculture for domestic supply, food security, income, and employment. Damages to those sectors will have far reaching consequences for the entire population of those countries. Agriculture in most of the countries are labor intensive. Agricultural income and employment is critical to the stability of the democratic institution in the Americas. Those are the critical ingredients to be taken into account in the process of integration under the new agreement on FTAA.

If some countries will keep their systems of subsidies, the developing countries will have to resort to trade remedies. If there is unfair trade practices the fundamental proposition of agriculture will have to be regrettably commercial defense. Not protection. This is a hypothesis we do not want to consider in any event. Any negotiation which will result in the maintenance of the subsidy schemes of the past and the present will defeat the purpose of the integration under FTAA.

Infrastructure is an important element for agricultural development. Without an ambitious program of investments in infrastructure in the developing countries will not realize all competitive advantages in integration. As a pre-condition for successful integration, the development of infrastructure deserves a high priority in the agenda of the

FTAA. This question deserves a true negotiation before any step is taken towards the opening of domestic markets in the region.

At last, sustainable economic development has many special dimensions in the Americas. The first dimension is the growth of productive activities which have a potential for job creation. This does not mean protection, but the maintenance of jobs in agriculture in the region. The second dimension is the concern with the environment with an efficient management of natural resources. The third dimension is the guarantee of food security in countries in Latin America, which will guarantee the stability of the emerging democracies in the region. Social unrest can be avoided in the region. This is the true conditions prevailing in many countries in the region. Food and job security cannot be threatened in America.

Sustainable rural development, both in economic terms and in terms of the environment can make an important contribution to all basic economic and social targets in America. The reduction of poverty, the creation of jobs and income in rural areas an urban centers, and the guarantee of the development of all economic sectors of our domestic economies. The development of a strong agribusiness sector is critical to all economies in the region. But the development of this sector cannot be achieved through the reduction of income and jobs in agriculture. An economy cannot be stronger that its most weak sector.

The most difficult task before us, leaders of agriculture, is to convince national negotiators that their counterparts around the table in negotiations with strong mandates from their capitals that they should take into account the advice of the private sectors of agriculture of our countries, the mandate granted by our Congresses and protect a sector which is exposed to unfair competition.

Our participation is deemed absolutely necessary on all grounds, given the complexity and broad coverage of subjects in the negotiations. The approaches are varied and complex, thus requiring experience is different sectors of the economy. Substantial and preparatory work is necessary for productive negotiations to establish FTAA. The farms organizations of Mercosur reiterate our commitment to actively continue seeking ways to provide information to our national governments to facilitate negotiations.

We are permanently in contact with our counterparts in all countries. We share the same concerns regading unfair trade practices with farm organizations in Mercosul. The farm organizations of Mercosul signed an agreement to defend our views in FTAA in a coordinated effort. We will search for support from our counterparts in the hemisphere, which are particularly worried with this issue.

We will take an important role in this process of providing information and advice to all negotiators involved. We will feed our national negotiators with all information necessary to guarantee a successful negotiation for all sectors. This support is also indispensable because with information, national negotiators will be able to oppose resistance to all pressures on the part of other negotiators from other countries. If the final target is to defend domestic producers against unfair competition, not to grant border protection, we must enphasize, our contribution to clarify the issues involved will be instrumental to achieve a successful round of negotiations towards the integration of all our economies under FTAA.

Response to Dr. Hathaway's Recommendations on the FTAA

Jorge Zorreguieta

It is important to take into consideration the future WTO negotiations for the agroindustrial sector. Nevertheless, it is not certain that a comprehensive agreement will be reached on the problems of subsidies and barriers to agricultural trade. The fact that WTO developments influence the FTAA will have the following consequences:

1. To delay free trade in agriculture in the FTAA, which is a priority for countries like Argentina.
2. To guarantee to countries outside the region that, during the WTO negotiations, they will not suffer from the pressure of a hemispheric agreement, with which they may be forced to compete to keep their clients in South America. In other words, we will facilitate the dilatory practices applied by the EU and Japan.
3. For many countries, like Argentina, the most important points in the FTAA are the agricultural agreements with the suppression of subsidies and barriers in its hemispheric trade.

It is possible that to reach this benefit, other industrial sectors, which are not competitive with the US, will be sacrificed, as progress in this area will be politically attractive for South American countries.

The four points mentioned as focus of the WTO negotiations are precisely what should be implemented in the Americas. In this sense, the hemispheric negotiations will not undercut global rules and liberalization efforts. On the contrary, it will facilitate their achievement.

Furthermore, the fact that the two negotiations, that of the FTAA and of the WTO, can be simultaneous, will not create difficulty for the countries, but rather will lead the agreements to feed off each other.

The timing of the negotiations is of utmost importance. Before proceeding to the traditional negotiation of products, we must clear the way to the harmonization of sanitary and phytosanitary standards, technical rules, and other important trade barrier issues.

NAFTA, MERCOSUR and the EU: *Lessons for the FTAA*
A European Perspective

Dr. Rolf Moehler

1. Introduction

When the European Economic Community was established 40 years ago it was seen by those involved in the creation of the post-war world trading system mainly as a regional trading arrangement. If you look into a recent study of the WTO Secretariat on Regionalism and the World Trading System, published in 1995, you will discover that, at least in Geneva, this assessment has not changed very much. But already in 1957 the European Economic Community (EEC) was more than a customs union in terms of art. XXIV GATT. Already then it was much more comprehensive by including technical regulations, services, competition and social policy. The Single Marketwhich has done away with internal border controls for goods has transformed the EEC into a perfect customs union as even the WTO Secretariat in its aforementioned study grudgingly acknowledges. It is a customs union which is a legal entity under international law and is as such member of the World Trade Organisation (WTO). And this Community is heading now for monetary union. More important is, however, that the objectives of the Community from its beginning went beyond economics. That has now become much more obvious since in 1992 the European Ecomomic Community changed into the European Community which, at the same time, became part of the European Union with its wider political ambitions in the field of foreign and security policy as well as internal policy. These objectives have found their expression in the Maastricht Treaty and they are now again the subject of an Intergovernmental Conference scheduled to complete its work in June in Amsterdam.

The evolution of the European Union, therefore, is hardly comparable to the objectives pursued by the FTAA. If one wants to find a point of comparison in Europe it would be rather the European Free Trade Association (EFTA) which was created in the fifties by those European countries not wanting to join the European Economic Community. Another example of a free trade area are the free trade agreements the European Community concluded in the seventies with the EFTA countries after the United Kingdom, Denmark and Ireland had become members of the Community. Or the European Economic Area (EEA) which replaced the free trade agreements with the EFTA countries on January 1st, 1994. The association agreements, called Europe Agreements, which the European Community concluded in the first half of the nineties with ten countries of central and eastern Europe are based on free trade areas, too. Four of these countries (Poland, Hungary, the Czech an Slovak Republics) concluded the Central European Free Trade Agreement in 1992. Last year Slovenia joined and Romania is negotiating its accession. The Lomé Convention which links the European Community to 70 countries of Africa, the Caribbean and the Pacific is less relevant here as this agreement does not establish a free trade area but provides preferential access to the Community market. The same is true for the agreements with ten southern and eastern Mediterranean countries which only now are going to be transformed into free trade agreements following the Barcelona Conference in November 1995. With Israel the European Community has concluded a free trade agreement, with Turkey a customs union is being established.

You see, we tried a lot in Europe and we may have the most extended experience with what is called regional economic integration. Probably EFTA, the EEA and CEFTA come closest to what the FTAA is meant to be as they are multilateral agreements. But EFTA disappeared in 1994 when the EEA came into force. Since Austria, Finland and Sweden joined the European Union the EEA has become marginal. It has shrunk to Norway, Iceland and Liechtenstein, apart from the European Community. Switzerland remains outside as the Swiss people rejected membership in the EEA.

Against this background, I would like to say first a few words on the European experience with agriculture in free trade agreements. Then, I shall turn to what the negotiators should keep in mind when embarking on a FTAA negotiations. Afterwards I shall deal with the impact on the world trading system and the response the WTO should provide.

2. Agriculture and Free Trade Agreements in Europe

As it is well known, the customs union which is the basis of the European Community in terms of GATT and the WTO includes agriculture by virtue of the Common Agricultural Policy (CAP). The CAP has always drawn a lot of criticism but there can be little doubt that the CAP was essential to bring the customs union of the European Community in conformity with GATT. Given the different support systems the original founding members had in place before they joined in the EC and the need of support of European agriculture, there was no way to bring about a common market without a common agricultural policy.

But this policy has been one of the main reasons why agriculture was only included very selectively into the free trade agreements the European Community has concluded in the last 40 years. The other, equally strong reason was that the trading partners, too, had no interest in including agriculture. This was certainly the case when free trade agreements with the EFTA countries were concluded because free trade among EFTA members did not include agriculture either. Trade in industrial products was liberalised but agricultural trade was largely confined to a limited number of tariff rate quotas. This did not change when these free trade agreements where transformed into the EEA. Anybody who has only a faint idea of Norwegian agricultural policy will not be surprised that, the EEA notwithstanding, there is no free trade in agricultural products between the European Community and Norway.

We find a similar situation in the free trade agreements which are the basis of the Europe Agreements with the associated countries of central and eastern Europe. Agriculture takes a more prominent place than in the former free trade agreements with the EFTA countries or in the EEA. This reflects the importance the agricultural sector is playing in these countries. But a large part of agricultural trade is again covered by tariff rate quotas. This time the Community's trading partners were less reluctant to envisage free trade in agricultural products, at least when the agreements were negotiated. But the CAP as it stands is incompatible with free trade in agricultural commodities, at least for those products which benefit from market price support, and this is the bulk of European production. Consequently, the free trade agreement with Israel does not provide free trade for most of the agricultural products either. The same is true for the trade preferences the Community is granting to the southern and eastern Mediterranean countries. This phenomenon, however, is not limited to the European Community. CEFTA, too, submits a significant part of agricultural trade to bilateral tariff quotas.

Although I proudly set out the wealth of European experience in free trade areas a few minutes age, I have now to confess that in agriculture it is a very limited and peculiar experience, indeed. Of course, this will not prevent me from trying to give advice to future negotiators of the FTAA.

3. What Negotiators of the FTAA Should Keep in Mind

Agriculture is not an easy subject to deal with in any negotiation on a free trade agreement. The best proof of this is the fact that, according to the aforementioned study of the WTO Secretariat, most free trade agreements which are in force to-day, not only those concluded by the European Community, exclude agriculture more or less.

Although the European Community and its trading partners have limited the inclusion of agriculture into their free trade agreements, I would not suggest the FTAA should do the same. Given the volume of agricultural production in the area and their share in trade such an approach would be unrealistic. It would not serve the purpose of such an ambitious undertaking.

The second conclusion I am drawing from European experience is that in manufacturing industry as well as in agriculture the elimination of tariffs and quantitative restrictions is by no means sufficient to create free trade. Tackling non-tariff barriers to trade, like veterinary and phytosanitary regulations and quality standards is at least as important. I read that NAFTA lives on the basis of mutual recognition. If it is true I would like to congratulate them on this achievement. From the experience of the European Community free trade agreements, in particular from those with the EFTA countries and the central and eastern European countries one can conclude that mutual recognition is fine but it requires almost identical legislation and guarantees on enforcement. Therefore, mutual recognition is not applied in the free trade agreements concluded by the Community, with the exception of the EEA, and even there we find exceptions. In order to illustrate the problems we are facing in Europe it may be sufficient to mention that until to-day there is no mutual recognition of veterinary or phytosanitary standards between Switzerland, which is not a member of the EEA, and the European Community.

The third conclusion I am drawing is that those who want to establish free trade in agriculture will have to give a close look to the support policies of the partners of the free trade agreement. There is a strong case for at least harmonising support policies if support is provided by only one member of a free trade agreement. A mere reference to the commitments under the WTO is hardly sufficient. Market price support will create the main problem but direct payments, they may be decoupled or not, can also lead to trade distortions. The limitations Canada applies on trade in poultry, eggs and dairy products with its partners in NAFTA has shown that market price support can lead to the virtual exclusion of the products concerned from free trade. The past dispute between the U.S. and Canada on cereals has highlighted the risk inherent in differences in support policies. But agricultural support is not always related to actual or past production. There is support for structural adjustment, for the protection of the environment, for the development of rural areas etc. which may or may not fall into the "green box" of the Agreement on Agriculture of the Uruguay Round.

There is an easy way out of these difficulties by excluding a sector from free trade as Canada has done for poultry and dairy within NAFTA. This may be acceptable as long as the number of exceptions is limited. It may be tempting to negotiate these exceptions with each participant in an individual way, as the Community and its EFTA partners have done in the EEA, or the CEFTA countries are doing. Nevertheless, this temptation is worth being resisted. When tariff rate quotas are used, they should be open to all without country allocation.

Export subsidies, within the limits of the commitments of the Uruguay Round, are not incompatible with the free trade agreements the Community has concluded. But they are not always welcome and sometimes lead to trade friction. As far as I know, NAFTA, too, at least in theory, has not banned export subsidies either. But it is obvious that a FTAA would be well advised to ban export subsidies among its members.

This leads me to the defence-mechanisms in case of dumping and subsidised production or exports. In principle, anti-dumping and countervailing duties are not banned in the free trade agreements the Community has concluded. One exception is the EEA where anti-dumping duties are not allowed; countervailing duties, however, are still possible. Whether it is possible to ban anti-dumping depends on the degree of homogeneity of economic and social conditions. A ban on countervailing duties is only justified when support is largely uniform across the region. It may be hard to meet this condition within a FTAA in a foreseeable future.

Finally let me raise a matter which the Community has only tentatively dealt with in its bilateral free trade agreements. But it is covered by the EEA. It could also become an issue in the next WTO round of trade negotiations on agriculture. This is the question of so-called environmental and social dumping. The EEA includes provisions on protecting the environment and on working conditions. The other, bilateral, free trade agreements the Community has concluded provide only for co-operation in these fields. I do not know in which way NAFTA deals with these matters. But it may be useful to deal with them in the negotiations in order to avoid trouble afterwards.

What about state trade? The EEA agreement and the Association Agreements with the central and eastern European countries refer to the principles of the relevant provisions of the Treaty on the European Community. Broadly speaking, these provisions allow state trade, even state monopolies, as long they do not distort trade. Do not ask whether the Canadian Wheat Board would come under fire under these provisions.

Is there a good case for financial assistance? The Free Trade Agreements with the EFTA countries did of course not provide any financial assistance by the Community nor does the EEA Agreement. The ten associated countries of central and eastern Europe receive mainly technical assistance for which almost one billion ECUs per year is being spent by the Community right now, of which 25 % can be used for infrastructure projects. The countries of the southern and eastern coast of the Mediterranean Sea have been receiving considerable amounts of aid long before there was talk about free trade. For the period from 1992 until 1996 they received about 2 billion ECU. For the next five-year period this amount has been doubled. Israel which is the only country of the area having already a free trade agreement with the Community receives financial assistance in this framework, too. Although the countries of central and eastern Europe are in a peculiar situation of transition from a command to a market economy, the U.S. and Canada, as the more developed countries of the region, should seriously consider providing financial assistance within the FTAA to the weaker countries of the region. Such an assistance may also benefit agriculture.

In summing up, I would like to pinpoint three areas which seem to me crucial for the success of the FTAA. These are the way technical regulations are being dealt with, in particular in the veterinary and phytosanitary field, the way domestic support is being included in the provisions of the agreement and the way exceptions, not the least in agriculture are being handled.

4. The Impact on the World Trading System

In its aforementioned study on Regionalism and the World Trading System the WTO Secretariat comes to the conclusion that despite the great number of more or less successful agreements of this kind, they are rather complementary to than competing with the WTO trading system. The main reason being, that these agreements do not undermine the multilateral system because free trade on a regional basis is better than nothing and sooner or later the WTO system will catch up.

Is this way of reasoning also valid for an unprecedented undertaking as the FTAA? I doubt it, unless the multilateral system gains strength in the process.

The FTAA would be the world's biggest free trade area in terms of population and GDP covered. It will cover a population of more than 750 million people and a GDP of more than 10 000 billion $ on a purchasing power parity basis. By comparison, the European Union, together with its free trade partners reaches 550 million people now, including Israel and Turkey. Once free trade with the southern and eastern Mediterranean countries is in place this figure will go up to around 700 million. GDP for the whole area hardly exceeds 7.500 billion $. But these figures are not the decisive elements. More important is that the FTAA will include the leading economy of the world, the U.S. It will also include those developing countries which are considered to be the second most dynamic economies of the world.

This will inevitably change the competitive position on the American continent overall. The U.S. will likely to become even more dominant in South America possibly to the detriment of European and Japanese companies who will have to compete with the U.S. companies at a disadvantage. In agriculture, Latin America will certainly benefit from better access to the U.S. market but the competition of U.S. products will also be felt more strongly than at this moment.

This is important for the international trading system, too. The more a free trade area creates growth the better for its trading partners and the world at large. From European post-war experience one should certainly not underestimate the benefit growth will bring to those outside the FTAA. But I doubt whether this will outweigh the disadvantage resulting for the rest of the world. The main disadvantage is to have to compete with U.S. companies not on a level playing field. It is correct to say that the Uruguay Round negotiations have reduced the overall tariff protection, also in Central and South America. But tariff protection is still much higher than in the industrialised countries. Tariff protection which exists in agriculture is not insignificant either and in many cases rather high ceilings were bound, as developing countries were allowed to do during the Uruguay Round. Thus, there is a risk that the Americas under a FTAA become de facto a chasse gardée of the U.S. This risk seems to be strongest in manufacturing industry and services but it exists in agriculture, too.

This will be not only a European problem, it will be a problem for the world at large. European trade with Central and South America is likely to suffer, including agriculture. In this context it should not be overlooked that the E.U. imports more agricultural products and food from South America than from NAFTA. But in agriculture, the negative effect will go beyond the loss of trading opportunities. Such a development will discourage European agriculture to become more outward looking, trying to rely on exports without export subsidies. There is the risk of slowing down the move toward further reform of the CAP. More important, however, is the likely negative effect on trade of the rest of the world with Latin America. It will not only hit the rich Europeans but developing countries all over the world, the economies in transition in Eastern Europe and in the former Soviet Union.

5. How should the WTO respond?

Faced with a challenge of this dimension, can the WTO limit itself to check the conformity of the FTAA with art. XXIV GATT? I do not think so.

This does not mean to underestimate the importance of a thorough review of the FTAA under GATT. The impact of such an exercise, however, is limited in the case of free trade agreements. When establishing customs unions the provision that the import regime should not be more restrictive than before is likely to reduce import protection once the customs union is in place. In case of a free trade agreement external protection of the different members will not change. Art. XXIV GATT is, however, not wholly meaningless either. It means that the applied tariffs have to be maintained. A return to the higher bindings is not possible any more.

But that is not enough to mitigate the adverse effects on world trade. Here European experience, which coincides with experience in the GATT, may be useful once again. European integration went in parallel with successive GATT Rounds of Trade Negotiations. It may be more appropriate to refer this time rather to the European Community and not to its free trade agreements as the impact on world trade of the FTAA is likely to be more comparable to the development of the Community. The creation of the European Economic Community saw the Dillon-Round and the Kennedy Round. The first enlargement of the European Community when Britain, Ireland and Denmark joined, saw the Tokyo-Round. The Uruguay-Round was not the least due to a lack of adaptation of agricultural policies in the world, including the CAP. But it also accompanied the inclusion of the Iberian peninsula into the European Community, and it preceded accession by Austria, Finland and Sweden. With history in mind, the next Round should not only be triggered by the next enlargement of the European Union but by the FTAA as well. Members of the WTO are already committed to continue negotiations on agriculture in 1999. But it is not sufficient to focus on agriculture alone. The negotiations on agriculture should be imbedded in a larger trade negotiation in order to enable the multilateral system to face the challenges of the future, not the least the challenges coming from regional integration agreements.

In relation to developing countries, the impact of the European Community and its subsequent enlargements were mitigated by the Community's Generalised System of Preferences. The countries participating in the FTAA should follow this example, too. Those who already apply their Generalised System of Preferences will have to improve it. Others who are more advances in their economic development should set up their own Generalised System of Preferences in order to help other developing countries to cope better with the FTAA. The welfare gains linked to the FTAA should make this possible.

6. Conclusion

The FTAA is a major undertaking and I understand that it will create a lot of problems in the Americas, not the least in agriculture. I hope my few remarks have not only given you some ideas on how to shape the new free trade area but also sharpened your awareness that there is an external dimension to this endeavour, too. It is not only in the interest of the world trading system to prevent the American continent to become inward looking. It would be not in the interest of the countries of Central and South American countries either. Their trade with the rest of the world, in particular with Europe, is as important as their trade with North America. That is particularly obvious in agricultural trade. Closer economic integration on the American continent is welcome. But it should not be forgotten that the rest of the world should and will remain relevant for South and Central America under the FTAA, too.

Integration in the Americas: The Role of Agribusiness

Larry Boone

Our Director General at the Inter-American Institute for Cooperation on Agriculture (IICA), Carlos E. Aquino, is a leader in the field of agribusiness. He has acquired many years of business experience in the sector; at the Institute, he has introduced policies and ideas that clearly demonstrate this emphasis. He has created a number of forums in IICA where agribusiness is the focus, including the Center for Integration and Agribusiness Development, and the emerging agribusiness network for the Americas. He would gladly have been here today, but was kept away by circumstances entirely beyond his control.

On my own behalf, I wish you the greatest of success. Allow me to thank the IPC for having taken the initiative of holding this seminar, which we are honored to co-sponsor, and for the opportunity you are giving IICA today to discuss a few ideas about the role of agribusiness in the future Free Trade Area of the Americas (FTAA).

We at IICA are interested in the field of agribusiness because we understand the need for primary production to be integrated into a broader realm of agriculture, adding value to its products and improving standards of living in rural areas.

In order to achieve this well-being, the process needs to be understood in all its dimensions.

We at IICA understand agribusiness as a long chain stretching from production through consumption. Producers need to be part of this chain on a competitive footing, with social justice, and using processes that are sustainable over time.

The purpose of this talk is to examine agribusiness in the future FTAA. I have divided the topic into three broad sections:

ONE: Patterns of trade in the Americas.

TWO: An overview of trade issues.

THREE: Areas of technical cooperation that IICA may be able to offer in the context of FTAA activities.

I want to begin by asking a few questions, and then offering answers. This will be useful to orient the presentation and the subject at hand, and to clear up several of our concerns.

1. What has been the role of agricultural commodity import and export markets in recent decades?

The past thirty years, from 1970 to 1997, have witnessed three major trends in the agricultural trade balance for the countries of this hemisphere.

A first stage, lasting through the 1970s, was characterized by a rising volume of agricultural exports. During those years, the export-to-import ratio was around 3.2 to 1, in terms of trade value.

The second stage, beginning in the 1980s, saw declining international prices for agricultural products, and low growth in the world economy. The combination of these two factors drove the region's export values downward, although export volume was not necessarily affected.

The third stage came with the advent of the 1990s, and was characterized by a resurgence of exports. The different countries reacted to this world framework in highly diverse ways. For example, Argentina and Costa Rica stand out for the positive export/import ratios they posted in 1995 (8.5 to 1 and 5.5 to 1). By their very magnitude, these ratios contrast with values reported by Peru and Venezuela--only 0.3 to 1.

2. What is the status of agricultural trade for the different countries of LAC?

A detailed analysis of agricultural trade reveals substantial differences among countries or groups of nations.

The overall agricultural trade balance for all of South America is positive and even shows a surplus. The same can also be said for Central America, although to a lesser degree. The countries of the Caribbean all report agricultural trade deficits. The United States is the major exporter and importer of agricultural commodities. In 1995, it posted an export figure of US$62 billion and imports of US$34 billion, for a positive trade balance of around US$30 billion. Brazil, Canada and Argentina are also major exporters.

Other members of the club of large importers of agricultural goods, in addition to the USA, are Canada, Brazil and Mexico. Each one reported imports of over US$10 billion dollars in 1995.

Countries displaying exemplary positive trade balances include Argentina, Belize, Costa Rica, Ecuador and Uruguay, all of which have experienced steady growth over the past 30 years. Other countries stand in alarming contrast. Haiti, Jamaica, Mexico, Venezuela, Suriname and Peru have all registered negative trade balance figures throughout these same years.

Detailed analysis would be necessary to demonstrate and expound on individual cases. On this occasion, however, we are merely taking an overview of trade in the countries.

3. What is the structure of agricultural trade in the Americas, by product?

The LAC trade balance is positive for beef and beef products, fruits and vegetables, edible oils from oilseed, sugar, coffee and tobacco.

Standing in stark contrast are dairy products and grains. In 1995 alone, the different countries of LAC imported US$1.5 billion in dairy products and six billion dollars in grains. Thus, the overall positive agricultural trade balance for the region was achieved with fruits and vegetables and edible oilseeds. In both cases, Brazil and Argentina are critically important.

4. How do the various agricultural markets in the region act and react?

The various countries compete with one another and complement one another for market access, depending on the complex structure of the overall market, climatic variations, seasonality, resources and economic development. Thus, products from the far north and the far south may be competing for a single market. Argentina and Canada compete for the grain market in Brasilia. Tropical fruits compete in markets where temperate-zone fruits are grown.

Instead of trying to kindle "irrational" forms of competition, it would therefore appear more rational to develop relative advantages for exploiting market niches and mutually complementary conditions. The trade flow should be fueled by development of complementary agricultural and trade policies reflecting definitions forged by the parties to multilateral or bilateral agreements. We have taken a quick look at the export/import balance and competition by similar products to enter a single market.

I will now to go into more detail and share ideas about the general outlook for various trade issues.

5. How are subsidies and dumping affecting the continent's agricultural exports?

Notwithstanding standards written into agreements signed at the WTO, conflicts continue to arise among the countries concerning the trade of their products. Clear signs point to continued wheat subsidies in the European Community and the USA. Argentina has reacted strongly regarding the wheat markets in South America.

The United States has filed a long list of complaints about countervailing duties, anti-dumping measures, and safeguards. Various markets are involved, including the trade of beef and tomatoes with Mexico, wheat with Canada, and flowers with Colombia and Ecuador.

It is a broad spectrum, and many issues remain to be resolved. The most likely solution will be to achieve a continuum of disciplines covering the interests of all parties involved. This should prevent gray areas from appearing, as they can lead to abuses and distortions. Looking toward the future, upcoming hemisphere-wide negotiations for the opening of a free-trade area can be expected to focus on a number of specific issues. Landmark decisions need to be made on subjects such as permissible subsidies within the structure of the WTO, publicly-operated marketing companies, solutions to the problem of subsidized exports, dumping, credit, and food aid.

6. What is situation of market access?

Trade patterns and market access will be influenced by many processes: implementation of Uruguay Round agreements, the possible Free Trade Area of the Americas, NAFTA, MERCOSUR, the Central American Common Market, CARICOM, and the Andean Pact. Also important are extra-regional agreements such as negotiations between MERCOSUR and the European Union.

Uruguay Round negotiations created measures for market access, offset tariffs, tariff reduction, minimum access, real access and safeguards. The ultimate outcome has been the creation of additional trade. Agricultural tariffs range from 10 to 20 percent, but major differences can be found among the various countries of Latin America. Tariff restrictions, such as those in the United States, have an impact on many products of concern to the countries of LAC. Examples include import quotas on beef, sugar, fruits and vegetables, dairy products and cotton.

Another telling example is the case of tobacco, involving producer countries such as Brazil, Argentina, Mexico, Guatemala and Colombia. In this case, negotiations concluded with the adoption of access quotas.

Canada and the United States have had highly visible disagreements over the interpretation of GATT measures and bilateral agreements for dairy products, chickens and eggs. The United States has also expressed criticism of the price band system, claiming that it will eventually discriminate against exports of wheat, flour, oil, vegetables, white rice, powdered milk, chicken parts, corn and corn byproducts to Chile, Colombia, Honduras, Peru and Venezuela.

The most glaring market access problem arose through a dispute over banana sales to the European Union. The case placed the United States, Mexico, Ecuador, Guatemala and Honduras in opposition to Colombia, Costa Rica, Nicaragua and Venezuela, and to the countries of the English-speaking Caribbean.

7. Can technical and administrative regulations become trade barriers?

There is no question that these regulations can stand as trade barriers, even though their impact may be subtle or indirect.

Three possible problems could arise:

> ONE - Two different government agencies in the same country may adopt dissimilar standards for marketing a given product, creating a situation in which a single item is subject to conditions of greater or lesser severity. As an example, garlic in the United States is subject to one set of regulations by USDA and another by the FDA.
>
> TWO - Very clear rules may be have been developed for acceptable levels of residue in temperate-zone products, while the rules for tropical fruits remain inadequate or non-existent. In the absence of acceptable standards, trade flows come up against major barriers.
>
> THREE - Preliminary health and plant-health approvals may be jeopardized by delays in customs inspection or time-consuming procedures for import licenses.

8. What rules apply to domestic supports for agriculture?

In general terms, agricultural supports are subject to certain conditions. They should always be financed with public moneys, and by definition, cannot function as support prices.

Specific criteria have been established for public programs that serve the agricultural sector but do not make direct payments to producers or processors. Examples of such services include research activities, pest and disease control, extension services, inspection, marketing, and promotional activities. They may not cover unspecified expenses that could be used to lower sales prices or transfer income to beneficiaries. Exceptions can be made for "natural disasters" and for structural adjustment programs involving withdrawal of resources.

Finally, the disciplines on export subsidies and wider access to domestic markets will restrict any possibility of offering generous domestic support programs. The harmful budgetary consequences of such programs will become evident.

The introduction of disciplines that curtail export subsidies greatly restricts attempts to finance subsidy programs on world markets at the expense of non-subsidized exporters. At the same time, as market access widens, domestic consumers can no longer carry the weight of financing domestic supports.

9. What about health, plant health and environmental issues?

Much of the dispute over trade of food products has centered on health, plant health, and technical standards.

Examples are many. A well-known case involved cherries from the United States, which had difficulty entering the Mexican market, and Mexican avocadoes, with restricted access to the United States. Over 82 years elapsed before the two parties hammered out an agreement to settle this dispute. In another case, Chile and the United States disagreed at length about the trade of poultry products. One party claimed it was a victim of protectionism, while the other invoked public-health concerns and the threat of salmonella.

When problems such as these arise, the concept of minimum risk plays a major role, and the regionalization of pest- and disease-free areas is a powerful weapon. Specific disputes in the region can be expected to focus on health and plant-health concerns, as well as environmental issues and technical standards. These points will appear prominently in negotiations on free trade in the Americas. These are just a few examples involving agribusiness in the context of countries that, sooner or later, will make up the Free-Trade Area of the Americas.

10. How does IICA see its future role in this setting?

In the process of positioning itself in this setting, IICA has developed the concept of the expanded agricultural sector. It sees this as a system that involves not only production, but also the whole gamut of issues regarding trade and consumer access to final goods.

We feel that greater added value should be given to raw materials. We hold out technical cooperation to our clients, the governments, producers and residents of all our member countries, to help them find the clearest and most economically and socially viable route of access to the market.

The efforts of farmers must never drown in the flood of disinformation. Governments cannot undertake national development and production policies without knowing international standards. The countries cannot play with issues of food security, making capricious claims of trade barriers. In short, our governments, with their limited economic resources, cannot afford to squander credit.

Farmers are not in a position to undertake the new work of the twenty-first century on an individual basis. The society of the new millennium demands a collective effort, and this is where IICA, with its capacity and its resources, holds out cooperation.

I would like to describe our view of things and the new direction the Institute is taking on the path to the twenty-first century.

1. Aware of the backdrop of trade negotiations, we will contribute to studies that will raise awareness of the possible outcome of free trade in the Americas.

2. With our plans and programs, we will incorporate participation by governments and business leaders in identifying areas of high priority and encouraging dialogue among parties.

3. The processes of privatization, deregulation and economic opening have tapped a mother lode where the private sector can work effectively. IICA plans to serve as a facilitator to help governments and private enterprise combine efforts and find points where their particular domains might converge.

4. IICA, more than anyone else, is in a position to undertake and succeed at the task of facilitating contacts by co-sponsoring meetings, analytical forums, publications and information in general. Convened to analyze the status of particular products and sectors, these activities will guide the process of regional integration, encourage trade and thus strengthen trade relations and patterns of competition and complementarity.

5. If all sectors do their part and the governments and private companies provide economic backing, IICA can support key studies on plant protection and animal health, which would be much in keeping with its own mission and vision.

6. Finally, if the private and public sectors agree and contribute, IICA can use its agribusiness network as a basis for structuring basic programs of communication and information for the work of business and government as a whole.

In the twenty-first century, with the vast communication resources we now have available, we cannot permit any producer, business organization or consumer to remain ignorant of relevant information regarding production, business organization and the right to food access and food security.

IICA's abiding concern has always been, and will continue to be, the social welfare of the population of Latin America, through the market. In its new role, the Institute hopes to shape a triumvirate of producer, processor and consumer.

IPC Recommendations for the Free Trade Area of the Americas

Dr. Dale Hathaway

The FTAA is a major endeavor to promote free trade in the Americas. Given the scope of this endeavor in terms of GDP and trade covered, it is crucial that measures are taken to maximize benefits to the Americas as well as to the world economy at large.

The way agriculture is treated will be of decisive importance in this process. Therefore, the IPC considers it important that the agricultural sector be assured of an integral place in any FTAA negotiations and eventual agreement. Several agricultural issues will be important as the FTAA process moves forward. These include how to deal with tariff rate quotas established under the WTO. The question of the abolition of subsidies to remove the threat of countervailing duties, and the need for competition policies that reduce anti-dumping actions will also be important. Also, negotiators must deal with food safety concerns, genetically modified organisms, and other emerging controversial issues.

Trade integration on the regional level must not undercut the rules of the global trading system and global trade liberalization efforts. Meeting WTO obligations therefore should be the starting point for the FTAA. All efforts have to be made that the development of the FTAA is compatible with the rules framework of the WTO. But care must be taken, too, that the FTAA is a trade creating, and not a trade diverting arrangement. The FTAA will increase the economic well-being of the region and thus benefit the world economy. In addition, the trade distorting effects should be addressed by another global trade negotiation. Therefore, as other regional integration agreements in the past, particularly in Europe, the FTAA must be embedded into a multilateral round of trade negotiations in the WTO. There is already agreement that negotiations on agriculture should be resumed in the WTO in 1999. In this next round of agricultural talks, WTO negotiators will have to be focusing on further reductions, if not the total elimination, of trade distorting agricultural subsidies, particularly export subsidies. They will also need to review how tariff rate quotas are applied and administered, with the aims of eliminating or significantly reducing, wherever possible, the high tariffs applying to above quota imports. The prohibitively high tariffs - which have thwarted many of the potential benefits of tariffication - need to be significantly reduced in some orderly fashion.

Other issues the WTO negotiators will need to focus on include: rules for increasing access, rules for state trading organizations in the trading system, completing the decoupling and tariffication process, reforming the sectors which have escaped reform in the Uruguay Round such as sugar and dairy, further defining the rules for the establishment of acceptable science- based criteria in support of sanitary and phytosanitary standards, and defining trade distorting subsidies to remove present ambiguities.

Many of these are also issues the FTAA should focus on. The FTAA should strive to go further on major issues of market access, curtailing subsidies, and reforming policies than the WTO can be expected to go. Progress of liberalizing trade in the WTO can help the FTAA and vice versa.

As the FTAA and the WTO process go forward, several unique problems will require attention. These include the difficulty of conducting complex negotiations simultaneously in two fora as well as educating the public and private sectors about the benefits to be derived from the agreements and adjustments required. In considering appropriate trading arrangements for the whole region, special attention should be given to the agricultural need of the islands and small economies of the Caribbean and Central America.

Coming from twenty-two countries, individuals in the IPC are highly conscious of the complexities of trade negotiations between countries with different levels of development, different economic and cultural histories, and different views on the desirable direction and pace of trade reform. We believe, however, that a properly constructed FTAA can lead to expand trade and higher levels of economic well-being, if it is accompanied by a similar effort in the WTO.

Problems for Free Trade in the Americas

Robbin S. Johnson

Much of the discussion of the possible problems of a Free Trade Area of the Americas (FTAA) has focused on the trade measures that distort markets. The real problems, however, are not the measures, but the social and political pressures that give rise to them. For discussion, the following are ten problems that will be obstacles for a successful FTAA.

The first problems for the FTAA are the highly protected commodity sectors. High domestic price assurances, often accompanied by production controls, create border protection and capitalization of that protection in production rights. These border protections are extremely difficult to remove.

Secondly, unfair trade practices are prevalent throughout the FTAA sector. Governments can distort markets through subsidies, differential export taxes, or STE's. They operate in different ways to distort markets, so this is a complex subject. Unfair trade practices need to be ended both to assure fair outcomes and to build trust.

The differing levels of development and economy size translate into fears of unfairness in all countries, the third problem that FTAA will face. Most fears are unfounded, but need to be officially rebutted, while justified fears should be addressed as well. Technical and economic assistance is the preferable way to address these fears, rather than slower trade liberalization.

The fourth problem is the distortive effects of the differences in how direct taxes are applied to low-margin businesses like agriculture. Such differences can arise from:

1. different systems (e.g., direct vs. indirect);
2. different applications (e.g., sector coverage; domestic vs. export);
3. different rates and authorities (e.g., Brazil governors alter effective rates);
4. different export treatment (e.g., rebates inconsistent with WTO rules); and
5. different and often low levels of enforcement (e.g., noncompliance by some or on some kinds of business).

A fifth problem is competition for attention. Trade negotiations are both politically and technically difficult to mount. There are other games in town—like the WTO, APEC—so the FTAA needs to show promise of results or risk being ignored.

A lack of leadership or modalities is a sixth problem the FTAA may face. The United States does not yet have trade-negotiating authority and currently, there are differing opinions over the correct modalities for conducting the negotiations. Such process problems can stop negotiations as surely as other options.

A seventh problem deals with the questions of hemispheric vs. global agricultural liberalization. There are world class producers in the Western Hemisphere (e.g., Brazil on sugar, Argentina on meat, Canada on wheat, and the U.S. on corn). There are not as many under-served or highly protected consumer markets to absorb all of this competitive energy; these tend to be in Europe and Asia. This means that FTAA agricultural trade reform must be managed with an eye to the global arena—pushing out the parameters and aspirations of reform under future WTO negotiations.

The issue of sustainability creates the eighth problem. The "have-nots" favor sustainable economic growth; while the "haves" worry more about sustainable environments. The FTAA must find ways to reconcile this dichotomy, move both forward. This is one area where agriculture actually can lead.

The need for sound rural development strategies is the ninth problem. Joblessness, landlessness, and the absence of rural opportunity all create pressures for excessive urbanization, social unrest, protection of traditional life. To resist those pressures, we will need to invest in rural infrastructure, use agricultural productivity and trade liberalization to diversity rural economies. Biotechnology and specialization may help as they tend to lead to intensification in Latin America.

The final potential problem is food security. Like the job security issue, governments cannot afford to leave their food supplies vulnerable. This means that market access must be accompanied by assured access to supplies. Food must be free from sanctions.

The problems confronting the Free Trade Area of the Americas are in one sense—border measures and subsidies. In another sense—they are issues of process and politics. However, most basically, these are problems caused by the absence of trust and sense of community spirit. Perhaps the best way to begin building trust and cooperation is to reposition the issue away from the historical emphasis on building arsenals of trade weapons and move toward building an open, efficient, environmentally benign food system for the region as a whole.

Public Subsidies in Agriculture:
Problems for Developing the Free Trade Area of the Americas

Roberto Junguito and Enrique Ospina

Introduction

Since the early 1980s the world has seen an increasing effort towards opening all national economies to free trade. The successful completion of the GATT negotiations in Morocco in 1994 and the subsequent development of the World Trade Organization (WTO) as an organism related to the United Nations is an evidence of worldwide interest towards a free international trade environment.

At the same time, nations in geopolitical regions with common trade interests are forming alliances and free trade areas, signing treaties and cooperation agreements to ease restrictions and to increase trade flows among them. Thus, countries in the European Union and in the Pacific Basin are committing themselves, and are taking their first steps, to integrate.

In this hemisphere, the Andean Pact (recently changed to Andean Community) and CARICOM are regional agreements functioning since the late 1960s and early 1970s, while NAFTA and MERCOSUR are initiatives of the last ten years. Successes and failures of theses treaties and negotiations are fundamental to achieve any progress in hemispheric free trade goals within the proposed Free Trade of the Americas Agreement (FTAA).

In theory, domestic and international prices for any good or commodity expressed in a common currency should be the same in all markets if transportation and handling costs are accounted for (Rueda). However, government intervention in the form of supports and subsidies prevent that these price levels be the same and even that they move in the same direction, thus remaining as a barrier to economic integration among countries, whether it is bilateral, regional or hemispheric.

Despite all the progress made worldwide to this date in trade liberalization, subsidies remain among the most pervasive obstacles to free trade, particularly when dealing with trade of agricultural commodities. This analysis points out the main problems that such subsidies pose to developing the hemispheric free trade area in the Americas. The paper reviews some basic economic policy principles behind policy intervention in agriculture and illustrates with examples of some ongoing mechanisms in a few selected countries in the Americas.

Agricultural Policy Framework

It is important to review the analytical framework that provides rationale to subsidize economic activities, particularly agricultural production and trade. Many analysts point out that agriculture is and will likely remain protected in rich countries because of political as well as economic reasons (McCalla; Perry). On one side, politicians do not want to antagonize well organized and vocal agricultural groups who perceive costs from liberalizing the borders. On the other side, it is not clear who is better-off and who is worse-off as a result of the subsidies, and theory has little to say about which second best situation is better.

Agriculture has always been treated as a special case in trade negotiations. There are three main elements in general economic policy, which apply particularly to agricultural price formulation:

- explicit statements of objectives
- involvement of multiple ministries and constituencies in decision making
- the view that programs are more important than projects.

Thus, governments intervene to support prices in order to boost agricultural output and incomes, to ensure food security, to improve the trade balance, to redistribute income, to address environmental controls and to pursue sanitary and phytosanitary objectives. Besides, price controls are sometimes exercised to reduce consumer prices. Thus, the overall general objectives are to offset market imperfections, to exploit economies of scale and to meet social goals.

Based on such reasoning, government support programs can make two important contributions to the operation of agricultural markets (Bullock):

- generating and distributing information about current and future supply and demand
- developing and operating institutions that provide mechanisms for producers and processors to effectively manage risk associated with agricultural production

The underlying view in this case is that when market failure prevails in the commodity markets the case for intervention is clear.

Agricultural Subsidies

A subsidy is defined as any government assistance to private sector producers (or consumers) for which the government receives no equivalent compensation in return but conditions the assistance to a particular performance by the recipient (Clements, Hugounenq, and Schwartz). There are several ways in which countries and more specifically governments can subsidize agriculture. Some subsidies are explicit and some others are hidden. In agriculture, government subsidies have traditionally taken the form of product price supports, input price subsidies, export subsidies, and interest rate subsidies on sectoral credits.

The main objective of a price support policy is to assure the producer a price that would generate sufficient income to cover costs of producing it. Such policies have some additional effects on an open economy. Consider the case of a tradable good, more specifically an importable good. In the absence of a price support, the domestic price and the international price at the going nominal exchange rate are equal. At that price, producers offer a given quantity and consumers demand a higher amount, the difference between the two quantities being fulfilled from imports. Suppose now that a support price is set at a higher level that the international price, and that through trade policy (i.e. tariffs and quantitative restrictions) import prices are forced up to the new support level. In that case, a higher output is supplied. Besides, since the consumer is charged the same price the result is lower quantities imported. The support price in this case constitutes a transfer from the government (ultimately from the taxpayer) to the producer. Therefore, producer surplus is higher, being transferred from the government budget. A portion of the quantity previously imported is now produced domestically at a higher price and the difference between the resources used for this new additional domestic production and the resources used to import the good at a lower price are a production efficiency loss (Barbosa and Jaramillo). It is evident that support prices set at levels above or below international levels will cause resource allocation problems (Krueger).

Protection in the case of price supports tends to favor importable goods at the cost of exportable goods. Interesting enough, agriculture in most developing countries is mainly composed of exportable products. The case of rice in Colombia is noteworthy. To promote production and as a protection against imports when Colombia was a rice-importing country, domestic prices were set well above international levels. Measures were taken to encourage production and, over time, Colombia became self-sufficient and even exported some rice. At that point protection disappeared and producer price supports were suppressed changing fundamentally the way the crop was treated (Krueger).

Sugar is a commodity with a strong international market representing about 1/3 of total production and intense government intervention. It is produced worldwide and is derived from sugar beets (high-income countries) and sugar cane (low-income countries). Government intervention is so strong that it has been estimated that almost 2/3 of sugar producer revenues are a result of direct government subsidies and price supports (Devadoos and Kropf).

Input price subsidies are based on the rationale that, to promote domestic production and increase the productivity of agriculture it is important to intensify the use of inputs. As such, prices of agricultural inputs such as fertilizer are subsidized directly, or credit is provided at a subsidized interest rate. It should be noted, however, that in developing countries that based industrialization under the umbrella of protection, agricultural inputs produced locally ended up being taxed in net terms rather than subsidized (Valdes). Furthermore, the value of input subsidies tended to be less that the losses incurred by low output prices and rich farmers had greater access to these subsidized inputs than poor farmers.

The export subsidy stimulates exports by supporting prices of exportable products through tax exemptions and other transfer mechanisms to make them more competitive in international markets. They are acceptable within the WTO framework only when they are designed as temporary measures to respond to situations of overvalued exchange rates and low international commodity prices. However, they tend to increase excess supplies of exportables which may result in depressed world prices (Valdes and McCalla).

Finally, in the agricultural sectors of developing countries it has been common to find agricultural credit subsidies based on below market interest rates. The literature on the subject has found that their overall incidence has not been positive to the extent that agricultural output has not increased and rural income distribution worsened due to the fact that it has been the larger farmers who end up to be the major beneficiaries (Adams and Von Pischke).

Discrimination Against Agriculture in Latin-America

Despite the fact that in the 1970's and 1980's countries in the American hemisphere adopted price supports policies as well as input, export and credit subsidies, the fact is that the over-all impact of macroeconomic and sectoral policies discriminated against the agricultural sector. The 1960-85 World Bank study (Kruger, Schiff and Valdes) analyzed in detail the direct and indirect price interventions for various countries, finding that for five major Latin-American nations (Argentina, Brazil, Chile, Colombia and Dominican Republic) the relative prices of the agricultural commodities would have been higher in the absence of government intervention. Their finding was that indirect taxation due to high levels of protection to non-agricultural importables and misalignment of exchange rates accounted for two-thirds of the total taxation of agriculture.

Such discrimination was significantly reduced as a result of the structural reforms adopted in the 1980's to face the debt crisis. With the support of the International Monetary Fund and the World Bank, the Latin-American countries undertook a realignment of exchange rates, reduction of their fiscal deficit and the opening of trade, by lowering tariffs and elimination of non-tariff barriers. The World Bank extended agricultural and trade loans conditioned on the elimination of subsidies and the opening of trade (Schu and Junguito).

Results from more recent research at the World Bank dealing with the surveillance of agricultural price and trade policy in Latin-America during major policy reforms in fact confirms that most Latin American countries embarked, at the beginning of this decade, in a process of lowering tariffs, eliminating quantitative restrictions and removing export taxes, though in a non-uniform manner (Valdes). In this way, countries sought to comply with WTO rules and prepared themselves for their participation in the different integration arrangements, resulting in remarkable growth in intraregional trade (Lee).

A few examples of the new-type of agricultural sector policies in selected countries in the Americas are presented below to illustrate the foregoing analysis.

Mexico's Procampo

At the time when NAFTA was ratified in 1993, the Government of Mexico instituted a comprehensive program entitled "Programa de Apoyos Directos al Ingreso del Productor", better known as Procampo (Jaramillo). This is innovative agricultural support program scheme, by which the state provides direct transfers to commodity producers based on the area planted for a period of 15 years. It is expected to cost US$4 billion per year during the first ten years and subsidies should begin to decrease until they reach the NAFTA goal in the year 15th. The program is designed to assist the modernization of agriculture and to provide a cushion to producers to face international competition or move to another production activity.

Procampo represents a new kind of public support in Latin America since it substitutes direct payments for the traditional agricultural support programs through prices, credit, insurance, and others alike. This program is expected to reach the producers directly and efficiently without the need of the bureaucracy of the traditional programs. It will have important redistributive effects within the Mexican agricultural economy. Since payments are not linked to production they will not generate surpluses. Moreover, producers will be able to switch to more profitable production alternatives or leave agriculture altogether.

Argentina: Protection of Importables

Agricultural policy in Argentina was characterized until the end of the 1980s by protecting domestic production of importable commodities and taxing exportable commodities. Domestically-produced importable goods were protected by means of tariffs and quantity restrictions.

Policy reform began in 1987 with a general reduction of the export tax, and by 1991 export taxes on almost all commodities were eliminated and all state-operated market boards were closed. By 1992 export tax rebates were introduced (Valdes).

It has been shown in the literature that the import substitution strategy followed up to the 1980s, together with the protection of agriculture implied a high cost in terms of resource allocation to the agricultural sector of the country (Cavallo; Mundlak).

Colombia: Price Bands

Agricultural policy from the 1970s until the end of the 1980s aimed at food self-sufficiency in food production through higher domestic prices (Jaramillo; Valdes). Thus, the Colombian government intervened agricultural product markets (mainly cereals, beans, and milk) by means of support prices and controls exercised by the national agricultural marketing agency (IDEMA), which also had the monopoly on imports and commodity storage.

As a result of trade liberalization which began in 1991, government intervention has diminished significantly. Support prices were replaced by minimum guarantee prices and price bands to stabilize production of main tradable products. Management of inventories and agricultural imports was transferred to private hands, with the government becoming the purchaser of last resort in areas where marketing is restricted and communications poor. Thus, public sector interventions are directed to provide incentives for further private investment in activities such as buying and marketing enterprise development (Jaramillo). Moreover, the system of price bands was extended to all the countries in the Andean Pact by 1994.

Chile: Protecting Importables

Chile has not intervened prices of agricultural export commodities. However, in the case of domestically-produced commodities such as wheat, sugar and vegetable oil a price band has system been implemented based on the notion of reducing price instability for producers.

The general trend has been towards declining this protection and eliminating subsidies to and taxes on exportables (Valdes). The level of protection has increased since 1990 mainly due to a decline of world prices and to adjustments in the agricultural price bands. Most of the income transfers result from price-based interventions the bulk of them directed to the importable goods.

Brazil: Minimum Price Program

In addition to the Minimum Price Program, the Brazilian government has traditionally maintained input subsidies for fertilizers and an elaborate credit support program for agriculture together with a complex trade system of quantitative restrictions and tariffs. Importables were taxed and exportables in general were supported but the pattern of government support appears different to other countries (Valdes).

Brazil's support and transfer program covered a large number of commodities. Macroeconomic instability resulting from high inflation rates and fiscal deficits contributed to scale down the minimum price mechanism (Valdes).

U.S.: the 1996 Farm Act

The Federal Agricultural Improvement and Reform Act of 1996, known as the 1996 Farm Act has been under implementation since April of 1996. It is the most fundamental change in U.S. Farm Policy because it redesigned the income support programs and terminated supply management programs for major field crop producers (USDA). This legislation will expire in 2002.

The price and deficiency payment programs that existed since the 1970s were substituted by a decoupled payment program for 7 years not related to either market prices or current plantings. A fundamental component addresses environmental and conservation concerns to retire land from production and to expand preserved lands. The legislation is focused and oriented towards market development with particular emphasis on emerging markets with high potential for export growth (USDA).

Concluding Remarks

Measuring subsidies is a rather complex task and comparing them across countries is risky at best. The WTO, as a result of the different rounds of negotiations before the 1994 Marrakesh agreement set the definitions of the type of support policies that could be classified as acceptable interventions. Overall, countries in the Americas should not have difficulties adjusting their policies to conform with these requirements (Valdes and McCalla).

Overall, subsidies impose burden on the economy in terms of fiscal costs and economic efficiency often distorting competitive conditions among producers (Clements, Hugounenq, and Schwartz). As indicated, analysis performed on the import substitution policies implemented up to the 1980s in countries such as Argentina and Chile, together with the protection of agriculture resulted in high cost in terms of resource allocation affecting negatively the agricultural sector of the countries, just the contrary of what such policies were designed to accomplish (e.g. Cavallo; Mundlak).

McCalla concluded in 1993, interestingly enough just a few months before the completion of the GATT negotiations and the signature of the Marrakesh agreement, that current trade policy is not moving from no trade to free trade. It is more moving from one set of interventions or restrictions to another. The policies in selected countries in the Americas shown above illustrate the point. It is then, as such, a second best alternative and there is really very little that economic theory can say about which second best situation is better.

Analysis of the effects of the Uruguay Round are being conducted for different countries, scenarios and situations. There will be a myriad of studies in a field that is just beginning. All three recent papers referenced in this article agree in indicating that prices of major agricultural commodities will increase in the next 5 to 10 years a result of the Uruguay Round and that shifts in supply and demand may result in production of some of these commodities moving towards areas where it will be more efficient (Devadoos and Kropf; Hassan; Valdes and McCalla).

There is little question that as the hemispheric free trade activities move ahead towards the goal of reaching the proposed Free Trade of the Americas Agreement (FTAA), government intervention such as subsidies, though being reduced, remain as a barrier to economic integration among countries. This is true for the developed nations of the hemisphere as well as for those that are in the process of developing to higher levels of economic well being. It took over seven years to conclude the Uruguay Round of GATT, with many breakdowns in the process and many difficulties along the way. The promoters of America's free trade should keep them in mind to make use of the lessons learned.

The governments of the nations of the Americas should take note that public intervention in agriculture has often produced results contrary to what such interventions were intended to do. Consequently they should approach integration with policies and incentives that foster real economic growth and increase agricultural productivity, by primarily improving human resources and infrastructure to become more competitive, thus leaving behind the era of subsidies and intervention. Governments thus would play the role of promoters and facilitators of a process that the private sector will have better chances to succeed.

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Assessing the New Trade Agenda in the WTO

W. M. Miner

Agriculture and the food processing industries represent important components of the economies of Brazil and Canada, as is the case in most countries of the Western Hemisphere. The farm and food sectors offer important opportunities for growth in economic activity, employment and trade, as we look forward to rapidly expanding world food demand in the 21st century. In the modern era of more open and integrated markets, the role of communications, trade and investment flows is expanding rapidly, as is the need to work continuously to improve the multilateral and regional trading framework.

Canada is actively pursuing both a further round of trade liberalization in the WTO, and an extension of free trade arrangements in the Americas. Indeed Canada and Chile reached a free trade agreement last year, and recently the Canadian Prime Minister and the President of Brazil agreed to explore a similar arrangement between Canada and the Mercosur countries. In promoting free trade of the America's, it is acknowledged that some Canadian sectors aren't competitive, and that policies are in need of further reform. But it is also recognized that the Canadian agri-food industry must adjust to world market conditions, and that even the stronger economies cannot avoid change.

Agriculture and the food industries represent key elements of new trading arrangements. Experience with the Canada-US Free Trade Area (FTA), NAFTA, and the Uruguay Round Agreements, amply demonstrates that the farm and food sectors often present the most challenging negotiating issues. Yet this key sector must be included for the Agreements to be effective and durable, and for the agri-food industries to operate successfully in a global environment. It is for these reasons that the IPC has devoted much attention to encouraging an agricultural work program to support the new trade agenda in the WTO.

At its Meeting in Calgary last October, the IPC examined agriculture and the WTO in relation to the Singapore Ministerial Meeting and preparing for negotiations to begin in 1999. I assisted with an overview paper for the meeting involving Professors Josling, MacLaren and Tangermann which is available from the IPC Secretariat. This review of the implementation of the Agreement on Agriculture, and of developments in the various regions of the world, demonstrated that the agenda for a new multilateral negotiation in agriculture is already crowded and compelling. There is a commitment to begin one year before the end of the implementation period to continue the process of agricultural trade reforms.

Some sectors such as sugar and dairy were left virtually untouched in the Uruguay Round, and for others, the reforms have only begun. Agricultural trade disputes are continuing, and new issues are emerging that require attention. It is also important to ensure that regional economic integration is shaped and advanced in the context of multilateral rules. Indeed, experience with NAFTA has shown that the more difficult and sensitive agricultural issues require multilateral solutions. This is certainly the case with measures affecting competition, particularly with respect to the use of subsidies, countervail, anti-dumping measures and state trading. My comments will focus on these aspects of the new trade agenda in the WTO. Our review concluded that further commitments to agricultural reforms and balanced international disciplines are needed to continue the process of building healthy and productive food systems while keeping trade difficulties in check.

Competition Policy and Agricultural Trade

Trade liberalization increases the pressures on domestic farm and industry policies toward greater convergence and less conflict across open borders. Despite the proven benefits of increased competition through improving efficiency, increasing adaptation to market trends, expanding opportunities to export and providing consumers with a wider choice of product at lower prices, producers and industries do not want to compete, and often pursue policies and mechanisms to avoid it, including restricting imports. Of course, these actions confront the potential benefits of more open markets and trade liberalization. So freer trade and the emergence of integrated regional and world markets also place pressure on governments to strengthen competition policies, to enforce them, and to modify them in the direction of greater convergence, or even harmonization. This is a major challenge facing governments in working toward freer trade in the Americas.

Domestic competition policies usually prohibit the sorts of pricing and market behavior that is responsible for many agricultural trade disputes. We are all familiar with allegations of price discrimination, predatory pricing, price maintenance or refusals to sell with respect to the agriculture and food trade. Under most domestic competition law these practices are illegal. However, through specific legislation countries, including Canada, limit the application of competition law for regulated industries. It must also be acknowledged that domestic competition policy is not usually effective in relation to anti-competitive behavior of multilateral companies as well as state trading enterprises, including export cartels and import monopolies. Trade liberalization, deregulation and freer markets expose these differences, and pressure governments to remove exceptions and enforce competition law.

The international dimensions of this complex area of policy and regulation have been under review in multilateral organizations from the origins of GATT. Indeed the 1948 Havana Charter to create an International Trade Organization included draft measures to prevent anti-competitive practices such as price-fixing, allocation of markets and boycotts. These provisions were not adopted under GATT which deals only with government policies. Private entities are indirectly affected through domestic legislation. A voluntary restrictive business practices code was established in the early 1980s under UNCTAD auspices to influence the behavior of international companies and the OECD adopted Guidelines for Multinational Enterprises at about that time. The WTO agreements include several provisions relating to competition, particularly under the General Agreement on Trade in Services, the Agreement on Trade-Related Investment Measures and the Agreement on Trade-Related Aspects of Intellectual Property Rights. At the Singapore WTO Meeting, Ministers agreed to establish a working group to study issues arising from the interaction between trade and competition policy. A working group was also agreed on trade and investment. These initiatives are likely to lead to further multilateral negotiations in the area of competition policies and eventually to progress in reducing these issues in relation to agricultural trade.

Subsidies, Dumping and Countervail

Issues of anti-competitive behavior and related concerns over subsidies, dumping and countervail also continue under discussion at the bilateral and regional levels. Competition policies were discussed in the Canada-US FTA negotiations particularly in relation to anti-dumping and anti-trust laws. The two governments agreed on the need to promote conditions of fair competition to achieve equal access in the free trade area. Canada and the United States did agree to ban the use of export subsidies in agricultural trade with each other. However, agreement was not reached in these negotiations on rules and disciplines concerning the use of subsidies and unfair pricing practices. This led to agreement on Chapter 19 which deals with binding dispute settlement procedures for antidumping and countervailing duty disputes. It was also agreed to establish a working group to develop a substitute system of rules for dealing with unfair pricing and government subsidization. No progress was made bilaterally and the undertaking is continued under NAFTA. Although Chapter 19 was made a permanent feature of NAFTA, the failure to develop agreed rules in relation to subsidies and unfair pricing practices is a serious obstacle to the full development of free trade in agriculture and other goods in the Americas. However, Canada, the United States and Mexico have made significant progress in working toward "green" or decoupled domestic programs which are considered to have little or no effect on trade.

It should be noted that the WTO Agreement on Agriculture advanced subsidy and trade remedy disciplines in several useful ways. There is now a substantial level of agreement on the criterion and types of (green box) programs that are considered to have little or no effect on trade. The internal support provisions of the Agreement will reinforce the types of policy reforms that are underway in Canada, the US and EU as well as in this region and elsewhere. In addition, programs that meet the green-box criteria are non-actionable through countervail and antidumping measures for the period of implementation. Although subsidies directed to agriculture are explicitly excluded under the provisions of the separate WTO Subsidies Agreement, they are subject to the special rules for agriculture which may be extended and improved in future negotiations. But clearly we have some way to go to deal effectively with trade problems associated with the use of subsidies, anti-competitive practices and anti-trade remedies.

State Trading

Governments agreed from the origins of GATT that state trading enterprises (STEs) require specific disciplines. They operate under special legislation, normally with government financial backing, and may not be subject to the same anti-competition legislation that applies to commercial organizations. The GATT provisions (now WTO) require that STEs make purchases and sales solely in accordance with commercial considerations and in a nondiscriminatory manner. The WTO Agreements did not revise these multilateral disciplines as was done for domestic and export subsidies. An Understanding on the Interpretation of GATT Article XVII was reached which aims at improving increased transparency of these practices. A working party has been set up to review the requirements and the adequacy of required notifications of STEs. Of course governments must ensure that these entities operate within the WTO rules and commitments including those relating to access and export subsidies.

Under NAFTA the parties are explicitly allowed to establish and maintain a state trading monopoly. Each government is required to ensure that the enterprise acts in accordance with other NAFTA provisions. They must also act in accordance with commercial considerations and not engage in anti-competitive practices, nor in a discriminatory manner. A working group with representatives of the three countries is continuing to meet and address issues relating to trade and competition. On a bilateral basis, Canada and the US have maintained a forward-looking relationship to cooperate in the enforcement of competition laws for many years. A new bilateral agreement was signed in 1995 to extend and deepen this arrangement.

There is a long standing issue between Canada and the United States relating to Canadian Wheat Board marketing practices which became more severe with the free trade agreements in place. In seeking to find solutions to several issues between the two countries concerning competition in the grain trade, the Canada-US Joint Commission on Grains, in its 1995 report, made specific recommendations relating to the operations of STEs, as well as a number of other competitive matters. Inevitably these issues become linked to allegations of unfair pricing and subsidies which are likely to require multilateral solutions. The Commission made a number of practical suggestions to manage and control cross-border trade issues in grain matters, and to encourage progress in reducing irritants before multilateral negotiations resume. However, the issues have remained highly politicized, and both the Canadian and US Governments appear to be too timid to confront the problems.

It should be noted that many STEs operate on the import side and are also subject to existing access and other trade rules. A lack of transparency in STE operations contributes to concerns that these entities may be manipulated to distort trade. Since state trading continues to play a large albeit diminishing role in agricultural trade, there are unlikely to be serious efforts to ban these operations. However, the new trade agenda is expected to include the negotiation of strengthened and clarified rules for STEs, including the need for greater transparency to ensure that these mechanisms are not being used to circumvent other trade rules.

Summary

In progressing toward free trade in the America's, it is vital for the future of the food sector that agriculture be integrated fully into the new trading rules. The countries of the Americas are all operating in the same regional and global markets, and while we face differing challenges, depending upon the level of development in the sector, the policy framework and speed of adjustmenting to change, we all stand to benefit from free trade in the region. Based on NAFTA experiences a number of observations can be made that will help to ensure that the benefits of freer trade are extended fully to the agriculture and food sectors:

- it is important to work within the WTO framework of rules, and to integrate regional agreements through broader multilateral negotiation;
- it is vital to include all of the agricultural sectors, and to involve producer groups and the industry from the outset to make solid progress;
- all trade issues should be addressed in some manner, to avoid leaving unfinished business that may undermine the regional accord, i.e. all tariffs should be reduced and eventually eliminated, TRQs expanded or removed, the immediate zero for zero option should be considered for some sectors such as oilseeds where government interventions are already limited, preferences should be phased out, export subsidies and restrictions should be banned, domestic supports should be consistent with WTO "green" criteria and it may be necessary to go further in regional agreements to achieve conditions of fair competition, and sanitary and phyosanitary regulations must be based on science and made consistent with international standards where they exist;

- for some elements, such as state-trading enterprises and competition policies, including dumping, countervail and unfair pricing, it will be necessary to go beyond the WTO in a direction consistent with its rules;
- ensure that consultation dispute resolution procedures are adequate and are used to address particular problem areas;
- provide transition and adjustment provisions where needed, and work toward the convergence or compatibility of policies, using practical, consultative mechanisms involving producers and industry representatives;
- encourage all participants to operate in a transparent and open manner, recognizing that trade must be two-way, there will be winners and losers, but over-time all countries will benefit because the economies will operate more successfully when artificial barriers and rigidities are removed.

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Assessing the New Trade Agenda in the WTO

Arturo Vierheller

In this panel we must specifically focus our attention on the importance of agriculture in the next round of the World Trade Organization, set to begin in 1999. In that respect, I would like to stress Argentina's commitment to leading, participating in, and following all efforts aimed at deepening the liberalization of world agricultural trade.

Globalization, a concept that has grown over time, shows us that we are in an era in which the problems of one nation are not its alone, but rather the international community's. Furthermore, issues in one region are cause for observation, study, and occasionally even negotiation with other regions. In economic policies there are far-reaching changes towards decentralization and the privatization of formerly powerful state structures, and there is a clear trend toward reducing regulations and opening markets.

As for production, this new scenario is essentially characterized by a heavy influx of technology thanks to an abundance of capital, thus facilitating the investment process. However, the unfair competition between producers in the agricultural community in countries that receive subsidies and those, such as my country, that do not, still leaves much to be desired.

In recent years, the Argentinean economy has shown interesting signs of growth and stability, driven by an economic policy that has placed special emphasis on developing productive agricultural and agroindustrial activities to the fullest. Consequently, our country has a strong comparative and competitive advantage.

The agricultural sector reacted very favorably to this change in economic conditions and the results can already be seen both on a basic level, with a 53 million ton grain harvest, and in the investments that have been made in the productive and agroindustrial chain of the dairy, fishing, and grain sectors.

Although we are slightly behind the most developed countries, the increase in the use of fertilizers and complementary irrigation equipment is significant, as is the use of the no till system.

The outlook for Argentinean agricultural production for the next few years indicates that we are clearly on the path of expansion in areas cultivated with cereals and oil seeds and of an increased average yield for these crops. In this respect, our country is one of the few on the earth that is in this situation.

Important infrastructure projects must be added to this production outlook, such as the Parana River aqueduct, which will contribute to the greater integration of a large productive region of almost 5 million square kilometers, most of which are suitable for agricultural use. It will further facilitate the exportation of this production towards world markets. This large basin is formed by rivers from Brazil, Paraguay, and Argentina. It currently produces almost 140 million metric tons, however this number could be doubled if the cost of shipping freight to markets were reduced.

One can add to this positive scenario the large investments that our country has made in the industrial oils sector, which continues recording growth in production, increasing the installed capacity of factories, modernizing ports, and increasing storage capacity, thus sending a clear signal to the productive sector.

The competitiveness of both the oils and grain sectors has been demonstrated this season, during which we have sold protein meal and wheat to almost 50 countries. This is a completely different picture from what our exports listed as destinations a few years ago.

Why then do we think that the issue of agriculture is an absolute priority on the trade agenda of the WTO?

We can not speak of world food security, which is a recurring issue that is periodically discussed, such as in the 1970's when the issue arose as a result of a few poor harvests and large purchases from Russia and precipitated the 1974 World Food Conference in Rome. There the following concept was duly clarified — agricultural trade is a key element in achieving world food security. Furthermore, it facilitates access to food because of its impact on economic growth, improvement in income, and the creation of jobs.

This picture is now quite different and we bear greater responsibility than ever. We must make a decision so that on the dawn of the next century we may prepare ourselves to take on the challenge of feeding just under nine billion people towards the middle if the 21st century. This implies that the world total food production will have to be tripled.

In recent years, we have seen great changes in the policies of some key countries for our exports, such as the United States and the European Community, a significant increase in the demand for grains, particularly in countries with rapid industrial development, as well as the conclusion of the Uruguay Round.

Following two years of normal harvests with a reduction in inventories, we have seen in the 95-96 harvest the highest wheat and corn prices in the last 20 years and this season we have the lowest inventory-consumption ratio in the recent history of oilseeds, with the soya bean posting its best price since the famous drought of 1988.

It seems quite clear that the efficiency achieved in recent years in the functioning of world grain markets, which is due to a great extent on the technological revolution in telecommunications, will enable us to have smaller world inventories than in the past. This is convenient since it is not likely that private companies in the future will want to hold inventories of the same size as in the past, especially when dealing with those that are held from one year to the next.

For now, there is only one conclusion — we have and will have smaller inventories than in the past. We have good prices for cereals and exceptional prices for oils. However, the markets seem to be indicating that with the slightest climatic problem large price hikes immediately ensue.

Small inventories, volatile markets, and growing demand make up the scenario that will predominate the next few years while there is no sign indicating a break in world population growth until the middle of the next century. This will give us 90 million more people per year.

As for market volatility, there is a set of tools that will help importers and exporters better manage their risks without the artificial assistance of policies that distort market behavior. These are the development of the futures and options exchanges that can be taken advantage of by both the producers of exporting countries and the importers and industries that consume these products. Therefore, working to develop these markets and spread the use of these tools will be a priority, so as to take the best advantage possible of the price-risk transfer process.

In this respect, the new U.S. agriculture law is a positive step forward in providing greater freedom in decision-making for producers and develops the use of these tools through its risk management programs. It would be beneficial for the European Union to follow suit, however not without taking into account that it is essential to have markets with great liquidity, so as not to add to the risk as opposed to reducing it.

Argentina has demonstrated that it is a secure and trustworthy producer and supplier of quality foods. For example, we have been developing policies aimed at facilitating the transfer of technology, lending credit support to the greatest extent possible, and cooperating so as to have the most transparent markets possible and so our producers and industries may obtain the benefits of globalization.

From our standpoint, we emphatically support the proposal for a hemisphere free from subsidies and other practices that distort agricultural trade.

We believe that regional agreements between different blocks are essential and must be compatible with the multilateral system of the WTO where we will essentially continue working to lower the level of general protections.

We would like to clearly state that although the Uruguay Round was a decisive turn away from the trend toward protectionism, it was only a first step and much is left to be done to continue easing access to markets and eliminating subsidies for exports.

In conclusion, we appeal to the international community to not waste this historic opportunity to encourage reforms that deepen the liberalization of world trade that it has been given by the current situation in the world food market, which is characterized by revenue-yielding prices for most products, reduced international inventories, and sustained demand.

This is the only viable strategy that will enable equitable distribution of the cost of adjusting to the impact of the changes in the balance of supply and demand and consequently to future price variations. The world needs a more rapid reduction in tariffs that will enable the domestic markets of each country to receive the authentic signals sent by international markets. This integration will help establish greater price stability in the world which in turn, combined with the aforementioned processes, will shape the solutions necessary to satisfy the growing demand for food.

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