

Proceedings of the Workshop on

# Global Market Integration and the Agri-Food Sector

March 25<sup>th</sup>-27<sup>th</sup>, 1998, Jamaica

**June 1998**

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Inter-American Institute for Co-operation on Agriculture (IICA)  
Ministry of Agriculture, Jamaica  
National Centre for Food and Agriculture Policy (NCFAP)

in association with

Agri-Business Council of Jamaica  
Jamaica Broilers Group Ltd.  
Jamaica Agricultural Society

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We are pleased to present this Proceedings of the Global Market Integration and the Agri-Food Sector Workshop held in Jamaica, March 25<sup>th</sup>-27<sup>th</sup>, 1998. It is believed that the workshop achieved its objectives of :

- deepening the understanding among the public and private sectors of the Agriculture Agreement and the Anti-Dumping procedures under the WTO and on-going hemispheric integration processes;
- developing the capacity of the private and public sectors of participating countries to respond to dumping and unfair trade practices for agri-food products;
- enhancing the countries' capacity to develop Trade Monitoring Units for the agri-food sector;
- strengthening the knowledge base of participants regarding the on-going process of integration at the sub-regional, regional and hemispheric levels.

Participants were drawn from the public sector, particularly the Ministries of Agriculture and Trade, the private sector and other commercial interests. Countries represented were Belize, the Bahamas, the Dominican Republic, Trinidad and Tobago and host country, Jamaica.

This report includes, as far as is possible, the full text of the presentations and documents the main issues arising out of discussions. It is our hope that the information contained in this document will sustain the above-defined workshop objectives, particularly regarding the need for developing the necessary information base to enable the effective participation of our countries in the global and hemispheric integration processes.



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## Opening Ceremony

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*Welcome and Opening Remarks*  
Minister of Agriculture, Honourable Roger Clarke

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Mr. Chairman - Dr. Arlington Chesney, Director of the Inter-American Institute for Cooperation on Agriculture, Honourable Seymour Mullings - Minister of Foreign Affairs and Foreign Trade, Members of the Diplomatic Corps, Distinguished Persons seated at the Head Table, Ladies and Gentlemen.

I take great pleasure in welcoming you to this Seminar on Global Market Integration and the Agri-Food Sector which has been organised by IICA and the Ministry of Agriculture of Jamaica, in collaboration with the private sector, the Jamaica Agricultural Society (JAS), the Agri-Business Council of Jamaica and the US National Centre for Food and Agriculture Policy (NCFAP).

To our visitors, I would like to extend a special welcome to Jamaica, the premier tourist destination in the Caribbean and a country in which productive discussions and seminars such as this can be conducted in a beautiful and friendly environment. I also wish to extend a special welcome to our participants from the private sector.

This seminar is being held at a time when the international trading environment continues to forge ahead with the twin processes of trade liberalisation and economic integration. The global market is one in which barriers between countries with respect to the movement of goods, services, investment and particularly information are being constantly reduced. Even those barriers to movement of persons are likely to be affected by the new international trade rules which permit service operators to provide and deliver their services outside of their national borders.

It is almost cliché today, to say that the global market is on our doorstep. On these occasions,

we are really referring to the constant fusion or integration that is taking place between the market within our national borders and external markets. We in Jamaica, like our Caribbean colleagues, have been a part of this global liberalisation process by virtue of our membership in the World Trade Organisation (WTO) and participation in the current process to establish the Free Trade Area of the Americas (FTAA).

Jamaica's experience with liberalisation in the agricultural sector is unique. Even prior to the advent of the WTO, Jamaica was subjected to World Bank led structural adjustment programmes during the 1980s and 1990s and the effects of such programmes are being felt today even as we speak. Under these programmes, tariffs in the sector were reduced, quantitative restrictions removed and the private sector was actively incorporated into the production and marketing of agricultural products, as the Government divested itself of some of its responsibilities, particularly in the sugar and coffee industries.

As a member of the WTO, we are committed further to ceiling bindings on tariffs for agricultural products and the reduction of these levels over a period of time.

With respect to the global integration process we in the Caribbean started at the regional level with the establishment of the Caribbean Community in 1973, and that process is deepening as we now take steps towards the creation of the CARICOM Single Market. In addition, we are participating along with other countries of the Western Hemisphere in the FTAA process. We also need to take account of the developments in trading blocs such as MERCOSUR and NAFTA in so far as they

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impact on our trade and investment interests in the agri-food sector.

All of these international processes add up to an increasingly open, competitive and complex trading environment for our agricultural and agro-industrial products and one which we must strive to understand and exploit for the benefit of the sector and for the prosperity of our populations. As the paradigms in international trade shift, so too must our own focus, strategies and attitudes so that we place ourselves in a position to benefit from new opportunities and to cushion or minimise the challenges that will also arise.

In practical terms, Jamaica has seen a dramatic surge in imports of certain food items during the last few years. This development has been a double-edged sword as our consumers in the short-term may benefit from lower prices for these products while on the other hand, our domestic farming capabilities are threatened and this exposes us to a number of difficulties in revitalising the sector. Perhaps a more beneficial use of cheaper food imports would be as inputs for agro-processing operations, thereby providing an opportunity to add local value and produce finished products which could be sold on both the domestic and export markets.

On the export side, we are faced with the threat to long-standing preferential markets for our agricultural products which we expect to be phased-out over a relatively short period of time. We must therefore use this period to devise policies to address these dramatic changes in the trading environment, particularly policies which are designed to take advantage of new trading and investment opportunities for the region in existing as well as new markets or sources. At the level of the farm, the firm and the nation, we need to strengthen our focus on building competitiveness and perhaps to concentrate more intensively on a limited range of products for which we have some competitive advantages but specifically those

for which profitable and accessible markets exist.

We in Jamaica have already started this process. In collaboration with the FAO, we conducted competitive analyses of a number of products in the sector and intend to conduct similar analyses from time to time. We are now at the stage where a select group of products is being targeted for development with the intention of supplying both the domestic and export markets.

In order to guide and encourage improved competitiveness in the sector, Government has concentrated at the macro level on maintaining exchange rate stability and lowering the level of inflation. Interest rates, however, still require significant attention. At the micro-level, the Government is concentrating on certain critical factors in the mix required to achieve competitiveness. These elements are research and development, the extension services provided for our farmers and efficient marketing systems geared both for the domestic and export markets. We are also very conscious of the need to upgrade and modernise technology in the sector.

The programme for this seminar will focus on discussing, analysing and developing policy recommendations on three priority areas:

1. We need to deepen our understanding of the significant issues in the upcoming trade negotiations of the Lomé Convention and the FTAA process, and to develop strategies and positions for effective participation in these negotiations;
2. The issue of how we address unfair trade practices is critical. Trade liberalisation cannot be interpreted as a "free for all" as we say in Jamaica and this is why the international process is guided by rules as those of the WTO. At this seminar, it is expected that the participants will benefit from sharing with our Latin American colleagues their experiences in establishing the necessary laws and administrative

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machinery to deal with problems of dumping and subsidised imports;

3. The third priority area is that of regular access to real time data and information concerning international trade in agri-food products. The new international trading environment is dictating that access to this kind of database will be an important element in improving competitiveness in the sector and informing the trade negotiations in which we are engaged. Here too, I hope we will benefit from an exchange among participants regarding how Trade Monitoring Units have been designed and

operated in their countries and importantly, the role of the private sector in these institutions.

We in Jamaica have a special interest in establishing a Trade Monitoring Unit in the Ministry of Agriculture in order to provide the sector with a range of data and information on trade in agri-food products. We therefore welcome the discussions on this subject.

In closing, let me wish that this Seminar will be both productive and inspiring.

#### *Greetings*

Mr. Andrew Wildish

Chairman of the Jamaica Broilers Group Ltd.

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Good morning Ladies and Gentlemen, Mr. Chairperson - Dr. Arlington Chesney, Honourable Seymour Mullings - Deputy Prime Minister, Honourable Roger Clarke - Minister of Agriculture, distinguished visitors and participants to this very important conference.

All Jamaica welcomes you and even though we are convinced that El Nifio was to blame for our prolonged drought, we have had welcome rains in the last few days to make our island beautiful and green and to put a spring in every farmer's step and hopefully, put water back in our streams, our rivers, our reservoirs, and yes, in many cases, into our taps at home.

The next three days are important for our whole region of CARICOM and other countries in our hemisphere. I hope the result will not only be a better understanding of the process of the global market integration precipitated by the bilateral agreements such as the world trade agreements, NAFTA, the FTAA process and critical issues in the re-negotiating of the Lomé Convention and how cooperation and organisation between our countries can better help us defend our agro and livestock industries from unfair competition, but also the recognition that we live in a rapidly changing

world which has seen two decades of plentiful cheap food, but is entering a period of food shortages and inevitably increasing prices in the next two decades.

It is also important to recognise that these current macro-economic philosophies and programmes are designed by first world macro-economists, with the best interests of the first world as a primary concern and the third world having no option but to go along for the ride - with no clear definition of the benefits they will actually derive both in the short but even more so, in the long run.

What if the basic assumptions are wrong? What if the macro world economics of population growth, the protection of the environment and the capacity of the world to feed itself have been grossly over-estimated and due to the current programmes of global market integration, result in viable agricultural business and industries being made non-viable and die after decades of development and investment and meaningful employment of a country's citizens?

I will speak to this later as my belief is that in ten years time, we will find that it didn't work

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for the small economies of the world and our region and the very foundation of our ability to feed ourselves with an expanding population has been destroyed by the lack of the ability to see the world and our countries as they will be in twenty years time.

On any programme, when you happen to get sandwiched between two politicians, you first wonder what "filling and flavour" you are, what your role in the sandwich is!!, and finally, depending on which way up the sandwich is, by which politician you are likely to get squashed.

I hope I can be confident that I am sandwiched by two statesmen because it is said that the difference between a politician and a statesman is that the former is concerned with the next election, while the latter is concerned with the next generation.

We in Jamaica at present, feel that with men such as Minister Clarke in Agriculture, Minister Mullings with vast experience and now Deputy Prime Minister, Minister Phillip Paulwell, we have men who will maintain the close consultation between the government and the private sector and such organisations as Trade Monitoring Units and agro-industry organisations, that are essential for success.

In the final analysis, it is only with this close cooperation between government and the private sector that there can be the delicate handling and implementation of trade agreements while strictly defending local agro and livestock industries that have demonstrated performance and the creation of real long term jobs and given time and support will compete for the future in feeding the nation's people.

As the professor of economics at Stanford University recommended in a recent article entitled Jamaica should re-examine economic focus in a local newspaper, he said "*to persuade the national consumer to buy locally produced products and reject imports even if more expensive*".

Believe me, all our markets are under attack. Just about every detail of the consumer markets in your country is in this publication by the United States Department of Agriculture, possibly more information about you than you know about yourself and the US support systems to penetrate your market.

Over the next three days, I am sure there will be much discussion on exactly what is dumping, what are unfair trading practices and why, where we can produce feedlot beef of similar quality to the US at a similar cost, we cannot compete with cheap imported cuts of beef being sold in the Jamaican market without having to sell all the other products and cuts that a side of beef produces.

Those of us with a tremendous investment in fixed asset investments for protein production, such as hatcheries, poultry houses, processing plants and feed mills or sugar mills or citrus processing factories or abattoirs or meat processing plants which are virtually valueless unless they are doing what they are designed for, are very concerned that these invested capital often, over many years, can be threatened by unfair trading practice and under-priced or subsidised imported products. However, it is not only the investment in bricks, steel and machinery, but in our human resource - from professionals to trained workers. The loss of an industry or even the downsizing results in the loss of jobs in economies with no 'social support system' to maintain a family until new work can be found. And we all know that without jobs and honest work, there is theft, praedial larceny and lawlessness which could and will lead to anarchy.

With high interest rates and non-availability of long-term loan funds, the availability of capital for the creation of real jobs is not a viable proposition.

Today, in most of our countries, there is no migration safety valve to relieve the pressure of an increasing population on the declining resource of a country to feed itself. The

investment in land resource development, even with production at higher costs than imported substitutes is essential in an integrated economy where expanding population and the human demand for food is colliding with the earth's natural limits, because population growth anywhere limits the ability of people everywhere to consume more food.

These ideas are expressed in a book you all should read entitled Who will feed China? Wake up call for a small planet by Lester Brown, the President of the World Watch Institute, with a string of University Degrees and Honoraria from Universities around the world and an Administrator of the US Department of Agriculture's International Agricultural Development Service and Advisor to the Secretary.

He describes that China, by year 2017, will have a population of about 1.5 billion which would have equaled the world's entire population in 1900. He describes the great famine in China of 1959 - 61, in part caused by the programme called "The Great Leap Forward", when millions of small farmers were diverted to large construction projects. This diversion led to massive food shortages, which official records now show that 30 million Chinese starved to death in such short time and the fear it gives rise to concerning a dependence on outsiders for food.

He describes the rapid industrialisation that is taking place in China and the resulting loss of crop land which quickly overrides the rise in land productivity leading to a decline in grain and food production and with it, the consumption of livestock products and the demand for grain.

With a population increasing by over 12 million Chinese people annually, China may soon have to import so much grain that this could trigger unprecedented rises in world food prices. In an integrated world economy, China's rising food prices will become the world's rising food prices. China's land scarcity will become

everyone's land scarcity and water scarcity in China will affect the entire world. China's dependence on massive food imports, like the collapse of the world's fisheries, will be a wake up call that we are colliding with the earth's capacity to feed us.

Lester Brown concludes his foreword by saying *"The purpose of this book is not to blame China for the problems that are likely to arise from its projected emergence as a massive grain importer, but simply to recognise that this will force political leaders everywhere to recognise that the world is now on a demographic and economic path that is environmentally unsustainable."*

In conclusion, let us commit ourselves:

- to sharing our experiences and ideas on how to take the best advantage of the trade agreements of which we are part;
- to share ways and means of defending our agro and livestock industries which are viable to maintain jobs and employment;
- to share ideas and experiences in modernising our plant and structures to compete internationally;
- to develop value-added products that will have a unique place in the domestic and export markets while adding value to our commodity production;
- to understand the subtleties employed by our international competitors and customers in defending their markets while supporting their exports and employ similar tactics in the defence of ours.

Ladies and gentlemen, believe me - whether you like it or not, the lessons in this book teach us that the new era calls for food capacity assessments to be done on a country-by-country basis - cropland, future availability of water for irrigation. The potential benefits of existing agricultural technologies can provide the information Governments need to project their own food production potential and measure it against their long-term needs.

The world decline in seafood supply per person and in grain output per person is already underway - This is not something that might happen - It is happening. Effectively addressing these threats to our future will take a massive mobilisation of resources both financial and political. If we care about the future, we have no choice but to launch a regional and world-wide effort to stabilise our life support systems - soils, fisheries, aquifers and forest and climate systems.

Without the will and financial resources to deal with these threats to our security, we will leave our children and their children a world without hope. However you dress it up, this is a "cold war", the resources and intellect and

determination with which "we" as a region conduct our war, will to a great extent determine the very future of several of our agro industries, the jobs they create and the future of our economies based on production, food security and the diligent protection of our environments.

And by "we" I mean our governments and public sectors, our private sectors, our diplomats and trade negotiators and our populations on which, in the final analysis, we all depend for our livelihoods and which represent our future in this increasingly competitive world in which we exist and have to compete.

*Address*

Dr. Arlington Chesney  
Director, IICA Caribbean Regional Centre

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Mr. Chairman, we in IICA are convinced that Trade will be the determinant factor in the development of the regional agricultural sector for at least the next two decades. The terms and conditions of trade, particularly as they relate to the agricultural commodities will be different to what we have been accustomed to in the last three decades or so. This is already clear from the well advanced trend of globalisation and trade liberalisation as evidenced by the 1997 WTO ruling on bananas and the current discussions relative to the establishment of the FTAA.

Consequently, the nature of the agricultural sector has to change. It has to be competitive in all markets, including its own. To be competitive, it must produce a product that is of the specification required at an appropriate price and in a timely and reliable fashion the quantities required for the particular market.

However, because of the agricultural sector's socio-economic importance, particularly as a major employer of labour and an enhancer of the quality of life in the rural areas, the change

to the agricultural sector must also encompass equity and poverty alleviation. If the change in the agricultural sector does not find the correct balance between competitiveness and equity/poverty alleviation, our hallowed tradition of democracy and good governance can be threatened.

The challenge facing us in the agricultural sector is the management of this change. This requires the retooling of our human and physical capital with financial resources that are less abundant today. These financial resources are also in a form and have terms and conditions that are no longer more favourable than those available for the other productive sectors.

It is within this context that IICA initiated the idea of conducting these sub-regional workshops on Global Market Integration. In this effort, we are joined by NCFAP (as part of a CARICOM/USAID Agreement), the private sector and the Ministry of Agriculture. This workshop in Jamaica is the first of three

planned for 1998. The other two will be in Suriname and the OECS.

We consider it critical that those of us involved - the private sector, the public sector (Ministries of Agriculture, Trade, Planning and Foreign Affairs) - in the agricultural sector know thoroughly the existing and proposed Trade Agreements. Similarly, we must understand how they could be/have been managed and/or manipulated and the possible implications for the sector.

I would like to take a few minutes to address our performance within the sector relative to existing Agreements, our current actions relative to proposed Agreements and to identify some issues that need to be addressed as we deal with the challenge.

Firstly, our performance. Despite the introduction of the CET the principle policy instrument of the common market, intra-regional trade has declined for most CARICOM partners. This goes against the trend for most other regional trading blocs, such as MERCOSUR, the Central American Common Market (CACM) and NAFTA, where intra-regional trade as a proportion of total trade has expanded. Also important is the slow down in extra-regional exports for several CARICOM countries. Consequently, the post-1992 period resulted in significantly slower growth for agricultural trade than the pre-1992 period.

Of the several agreements to which CARICOM countries are a beneficiary, only the preferences directly and indirectly related to Lomé and under the CBI have been extensively utilised. We find that CARIBCAN as well as CARICOM's agreement with Venezuela and Colombia, continue to be under-utilised. Nevertheless, three year averages of growth rates for the agri-food sector indicates that Belize, Guyana, Jamaica and Trinidad and Tobago have improved somewhat with growth by the non-traditional commodities at the forefront. These statistics are often forgotten,

particularly by the regional press and some policy makers in their lamentations of the non-performance of the sector. The evidence suggests that while numerous problems abound in the sector, moderate, but significant signs of progress are evident. With the virtual disappearance of the manufacturing sector in many countries, the performance by the agricultural sector in many countries is noteworthy. In this regard, we must educate our entire population that the agricultural sector can compete favourably if given appropriate forms of support.

In regard to the disappointing intra-regional trade performance, you will in the course of this workshop, hear some explanations for this. However, let me state that inadequate agricultural health information, knowledge and facilities that have led to the adoption of zero-risk policies by member states, would have contributed to this poor intra-regional trade performance.

Secondly, what negotiations are we involved in or are about to be involved in? Currently, Caribbean countries are for the first time engaging simultaneously in several high profile negotiations. CARICOM has recognised the importance of these negotiations and has put in place a dedicated (full time) regional team to prepare for and conduct these negotiations. These negotiations include a successor arrangement to Lomé IV, discussions with the Dominican Republic towards a bilateral trade agreement and development of the FTAA process which Caribbean Heads and President Clinton have pledged to achieving substantial progress towards 2005. In the FTAA process, agriculture is not emphasised, having been subsumed very early in the game with other groups.

Further preparations are beginning for negotiations towards the next round of the WTO in 1999. These negotiations place substantial responsibilities on the negotiation capacity of Caribbean countries both in terms of human and financial resources, a situation

that is exacerbated by the negotiations agenda of individual countries. Increasingly, countries get what they negotiate and hence the exercise of negotiations which is as much an art as science, assumes paramount importance.

The acquisition of this “art” of negotiations requires the adoption of certain imperatives. Firstly, private/public sector collaboration and the development of transparency for that collaboration with consequential mutual trust and respect. In this regard, the debate is no longer the need for such collaboration and the respective roles of the two sectors. Rather, it is the development of effective operational modes of cooperation between the two sectors.

Secondly, it implies a regional and sub-regional hemispheric approach. In this regard, if we are to maximise the benefits of this approach in the English speaking Caribbean, we must accept that we are an idiomatic minority in the region. As such, we must address the issue at all levels of our educational processes.

This regional approach is particularly important in the question of information and technology generation and use. Information and technology is cheaper to copy and adopt than to generate. This workshop is one attempt to foster this regional approach and share information and individual experiences on topics such as the development and operation of Trade Monitoring Units, Anti-dumping measures etc., through the bringing together of five countries - Bahamas, Belize, Dominican Republic, Trinidad and Tobago and our host Jamaica.

We at IICA believe that with a network covering 34 countries, we can facilitate this exchange of information between countries within the Caribbean Region and also between this and other regions.

Thirdly, there is need to ensure that there is adequate linkage and inter-play between macro-economic, micro and meso-economic issues and measures. This is obligatory since we now

know that developing countries need to go beyond the “Washington Consensus” of free trade, stable macro-economic policy and minimal government interference. For instance, trade liberalisation *per sé* will not necessarily lead to lower prices; privatisation will not necessarily improve welfare if government monopolies are simply replaced by private distributors. There must be the introduction of micro-policies that address issues, such as, incentive regimes, support for technological innovation and adoption, investment promotion measures and poverty alleviation, which support the macro-economic changes. Work done by IICA very clearly indicates the overriding importance of the macro-economic framework to the development of the agricultural sector. However, the linkage with the environment must be reiterated.

Within the above context, there are some critical issues that remain if we are to have a better understanding of the “new” trade regimes:-

- Inclusion of Sanitary and Phyto-Sanitary (SPS) concerns with the emerging policy agenda - hitherto these were treated separately. Hence SPS concerns were handled by veterinarians while policy matters were managed by the economist;
- Establishing mechanisms for safety nets, social insurance and regional assistance programmes which are WTO consistent;
- Developing modes of cooperation between public and private sectors;
- Providing information through avenues and in a form which can be easily utilised by the poor;
- Designing agricultural policies which are complementary to the design of trade policies;
- Strengthening the institutional capability to undertake trade monitoring;
- Establishing policy networks among countries to more accurately and effectively address dumping and unfair trade practices;



- Creating an appropriate macro-environment which will facilitate investment in agri-business;
- Increasing involvement of the agricultural sector in the FTAA process and the preparation for the next round of the WTO. The latter must proceed differently to the last Round (Uruguay). Countries must be more informed and be more qualified to actively participate in the round.
- Need for countries to clearly prioritize negotiations agenda according to importance.

I thank you.

*Feature Address*

Honourable Seymour Mullings  
Minister of Foreign Affairs and Trade

---

Mr. Chairman, It is a pleasure and an honour to be afforded the opportunity to address this workshop. I wish to commend IICA for organizing what is a very timely and important event. As agriculture is the mainstay of the economies of most of the countries of the region, it is imperative that we pay particular attention to the trend towards global market integration as it relates to the agricultural sector.

I would also like to join in extending a warm welcome to all participants especially those from overseas.

Mr. Chairman: The export of agricultural products continues to make a significant contribution to world trade. According to FAO agricultural statistics, the share of agricultural products in world trade is about 9%. Since the beginning of the decade, there has been a trend towards an increase in agricultural production world wide. In 1996, the most recent year for which figures are available, over seven hundred (700) million metric tonnes of agricultural products valued at approximately four hundred and ninety (US\$490) billion were traded worldwide. At the regional level, approximately ninety-seven (97) million metric tonnes of products valued at forty-nine (US\$49) billion were exported by Latin American and Caribbean countries. For Jamaica, agricultural products account for approximately 15% of

total foreign exchange earnings and about 46% of export earnings from merchandise trade.

The most far reaching development in the multilateral trading system i.e., global market integration, was the conclusion of the Uruguay Round of Multilateral Trade Negotiations in 1995. The results of the Round are embodied in the Agreements of the World Trade Organisation (WTO), the body which now regulates over 90% of world trade. A significant element of the Round was that it brought agriculture under the rules and disciplines of the multilateral trading system through the Agreement on Agriculture, the Agreement on Sanitary and Phyto-Sanitary Measures and relevant provisions of other WTO Agreements. This is particularly important for agricultural-based economies such as ours.

The underpinning of the WTO is trade liberalisation. It would be natural, therefore, to conclude that the incorporation of the agricultural sector in the multilateral rules and disciplines will eventually result in a fairer trading environment through the reduction/elimination of tariffs and other highly protectionist measures to which the sector has been subjected to globally. Some developing countries, like Jamaica, prior to 1995, had begun to liberalise trade in the agricultural sector through the structural adjustment process. However, it is recognised that

adjustment to the WTO regime will take time. Built into the various agreements are transitional provisions for developing countries. However, it is becoming increasingly clear that for many of us, the actual period of transition is going to be much shorter than anticipated and will be very challenging.

It is interesting to note that of the first 100 disputes brought to the WTO under the strengthened dispute settlement mechanism, nearly 30% involved agricultural products. This trend indicates that there are indeed many issues to be addressed in the application of WTO Agreements to the agricultural sector.

I am sure that the reference to "dispute settlement" in the WTO relating to the agricultural sector will bring to mind the recent banana dispute between European Communities (EC) and the United States (US) and four Latin American countries. The WTO ruling was in favour of the United States complainants and indicated that the European Banana Regime was in violation of WTO rules and regulations. The EC is now required to put in place by January 1999, a regime which is compatible with the WTO. At the same time, we expect that the new regime will take into account the interests of the ACP countries and we are working assiduously towards that end. However, this ruling could have significant adverse effects on the countries of the Caribbean, particularly those of the Eastern Caribbean, whose economies are almost completely dependent on the production and export of bananas.

This ruling by the WTO highlights the vulnerability of preferential agreements for agricultural products and indeed, for all products benefiting from preferential market access. This presents a particular challenge for countries such as ours which have exported the bulk of their traditional agricultural products under preferential arrangements.

Another challenge we face, as member-states move towards the implementation of the WTO

is the requirement that the level of domestic support (subsidies) in all member countries be reduced. Developed countries are required to reduce these subsidies within six years and developing countries over a ten year period. This reduction, particularly by our principal trading partners is likely to mean that prices which we receive for certain exports, such as sugar and bananas (the price of which under the Lomé Convention is linked to the price paid to European producers) will fall.

Another possible impact of the removal of subsidies is its effect on prices of vital agricultural imports, such as grains. There is some evidence, although it is still under discussion, that the reduction of subsidies has led to increases in the export prices of grain over the last few years. This is particularly disturbing to countries like ours, which have been recognised in the WTO as net-food importers. At the same time, we are faced with increased prices for key commodities which we must import in order to help feed our populations, prices for our major agricultural exports are declining.

In addition, the reduction of tariffs has exposed many of our producers of non-traditional goods to competition from cheaper imports.

To deal with this increasingly complex and contradictory environment, characterised *inter alia* by increases in the price of basic food imports, competition from cheaper imports of other food items, such as fruit and vegetables and declining earnings from traditional agricultural exports, domestic trade policies will have to be designed to take account of the new multilateral structure of rules and regulations and their impact.

As small open economies which have always been dependent on trade, we do not have the option of withdrawing from an increasingly integrated global market. We have to work together to put in place the necessary domestic policies (some of which were referred to by Minister Clarke) in order to make our

production more competitive and to grasp the new trading opportunities.

It is increasingly evident that the most critical requirement for survival in a globalised market is the capacity to be competitive. The ability to be competitive is recognised as one of the key elements in economic growth and development. To achieve the levels of competitiveness that we are seeking, we also have to continue assessing the impact of the WTO Agreements on the agricultural sector and feed this analysis into the policies and measures which will enable our agricultural producers to thrive.

We also have to have clearly defined national and regional policies as over the next two years we are going to be involved in crucial trade negotiations, the results of which could produce further challenges to agricultural production and trade. These are:

1. the negotiations on the Free Trade Area of the Americas (FTAA), formally launched during the Summit of the American to be held in Chile on April 18-19;
2. for the Caribbean and the rest of the countries of the ACP, the negotiations with

the European Communities for a replacement arrangement for the Lomé Convention; and

3. further liberalisation of trade in the agricultural sector under the WTO Agreement on Agriculture scheduled to begin at the end of 1999, for which preparatory work has already begun.

Mr. Chairman, this seminar which will be examining issues such as specific WTO Agreements, the future of the Lomé Convention, the scope for domestic policies, particularly in agriculture, under various trade agreements, is therefore very timely and is indeed, a part of the process of developing policies which will assist our countries to position themselves successfully in the new global environment.

I am sure that you will have very stimulating and fruitful discussions.

May I offer my best wishes for a successful seminar.

Thank you.

### *Closing Remarks*

Mr. Robert Reid

Agri-Business Council of Jamaica

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Honourable Seymour Mullings, Minister Roger Clark, Dr. Arlington Chesney, other members of the head table, members of the Diplomatic Corps, media and invited guests.

It is my task to bring the curtain down on the opening ceremony today by moving the vote of thanks to those who have contributed directly and indirectly to the convening of this conference. I would like to introduce and acknowledge the presence of the Chairman of the Agri-Business Council, Sir. Patrick Sibbles. Mr. Sibbles has been a firm advocate of the concept of value-added and has actually demonstrated it throughout the past twenty

years. He is also a serious advocate for the need of certain institutions, such as TMUs.

Mr. Chairman I also want to acknowledge the Honourable Minister of Trade and Foreign Affairs. If you recall Minister Mullings, it was sometime in February 1996 that you responded to correspondence from our Chairman about the TMU initiative, and that correspondence was very inspiring to us at the Agri-Business Council. I would like, on behalf of the organizers of this conference and those present today, to take the opportunity to thank you for your continued encouragement, for your contributions to the process of international trade in which Jamaica has been engaged and

for your delivery of the feature address. Please rest assured, Minister Mullings that this initiative will be fully consummated and your Ministry would greatly benefit from the proceedings of this conference.

Special mention must be made of the critical input of the Honourable Minister of State in the Ministry of Foreign Affairs, Minister Anthony Hilton. It was Minister Hilton who in his capacity as Chairman of the Trade Policy Coordinating Committee of which we are members, took the time out to convene a special meeting of agencies to discuss this whole matter of the TMU. Emanating from this meeting was urgent talks with the Ministry of Agriculture, to render support to the establishment of the TMU based on collaboration and working relationships between the agencies. Minister, we thank you for the support you have rendered.

The Ministry of Agriculture has also responded to the need for us to address the matter of international trade as it affects agricultural commodities. The recognition of the importance of commodities in the international trade agreements that Jamaica has entered into has been reflected by the appointment of an International Trade Specialist, Mrs. Mavis Campbell. Mavis came on board at a critical time and has worked closely with us to convene this conference. Hon. Minister Clark has become a kindred spirit in this whole exercise. Your presence here, Minister Clark and the deep words that you have expressed today, are a clear message again that your Ministry is on the ball.

Regarding the issue of competitiveness building, I know of a meeting convening this week to look at the various commodities that are going to be actually addressed and I wish to thank you Minister and staff at the Ministry, in particular the Permanent Secretary who isn't here, Mr. Aaron Parks, for your inputs in the convening of the operations of that particular meeting.

Let me turn my attention to the private sector. As the persons immediately at risk and that's the new term we have been using, the consequences of trade agreements are vital. More and more, private sector persons are becoming aware of what opportunities and threats there are in the process of the global integration. I would want to first say thank you to the Chairman of Jamaica Broiler Group, Mr. Andrew Wildish for the contribution of your company towards the conduct of this seminar. Your comments, Sir, were very thought provoking. And in the same vein, I wish to acknowledge the inputs of Dr. Keith Roach and Dr. Trevor Dewdney, both of the Jamaica Broilers. Their contributions as members of the working group to convene this workshop were greatly appreciated.

I will also make mention of the fact that another chicken company, Caribbean Broilers has also made a contribution to this conference and this is another clear example of how competitors can join forces for a common cause. I would like to say thank you also to the management of Hardware and Lumber, specifically through the offices of Mr. Caldwell Samuel, for their timely contribution towards this conference.

There is also an institution in the private sector of which I would like to make mention. Unfortunately they could not be with us today. However, I think that they have sent a representative, the Jamaica Chamber of Commerce and I would specifically want to make mention of the Vice President of the Chamber and Chairman of their International Trade Affairs Committee, Mr. Anthony Gomes. It was really the Jamaica Chamber of Commerce, the first organization in the private sector that spoke of our way to France. They have given us tremendous support in terms of the need to push and foster this particular institution and I would like to say thanks to them for their indirect contributions.

Mr. Chairman, I would like to acknowledge the input of the Inter-American Institute for Co-operation on Agriculture and its local staff here

in Jamaica. I would like to thank you Dr. Chesney, Dr. Patrick Antoine, Dr. Reiger, Acting Representative in Jamaica, Ms. Sandra Kitson and the rest of the IICA staff. I would like to ask Dr. Chesney to convey to the Director General, Dr. Carlos Aquino our best wishes and to thank him for his support in this process. Every time I meet Dr. Aquino he is always very concerned about what is happening at the Agri-Business Council (our activities and how quickly we are actually moving in terms of having established a TMU), because he was the father of a similar institution in the DR.

I would also like to make mention of the National Centre for Food and Agriculture Policy (NCFAP) via the leadership of Professor Hathaway. As you know, this organization has been mandated by the US government to promote the understanding of the globalisation process. In this regard, the NCFAP has been an important supporter of this conference.

Before I conclude, I would like to thank the small staff at the Agri-Business Council, the management of Crowne Plaza Hotel and also the media which is actually publicizing this event. I know that the media would disseminate the information and I hope you will stay for the duration of the day, if you can. I would like to thank you all for the support.

Finally for those ladies and gentlemen who have actually come for various parts of the hemisphere to participate with us, we acknowledge your presence here today. It is very important that we all have discussions such as these.

Without any further ado, I would like to thank the Chairman, Mr. Sibbles, for coming so unannounced and unprepared. I thank you for your Chairmanship Sir, and on behalf of all of us here this morning, I would like to thank you for being here this morning.



Presentations

Anti-Dumping, Safeguards and Countervailing Measures

*Evolution of National Trading Laws in the Trading System*

Mr. Murray G. Smith

International Economic and Trade Consultant, Geneva

I have been interested in these issues in the Caribbean and Central American region, both of multilateral trading systems and regional agreements, whether the NAFTA, MERCOSUR etc. For a number of years, I ran a centre called the Centre for Trade Policy in Ottawa which conducted two or three week programmes for trade officials throughout Latin American and the Caribbean.

Regarding the WTO and the Caribbean reminds me a bit of a speaker this morning who implied that perhaps everything should be blamed on the WTO in trade just as everything surprising and unpleasant in the weather should be blamed on El Niño. The point I want to stress is that in assessing the impact of WTO Agreements, of each of the individual agreement and all of the agreements together and looking at the linkages of the various regional individual agreements, it is important to recognise that the very different perspectives of countries are reflected in these agreements. Perspectives differ across countries, between possibly big countries and smaller countries, between high income countries and low income countries, between those who are agricultural exporters and those who are importers.

Last week, on behalf of a group from the resource industries, I was involved in the WTO symposium on trade and the environment held in Geneva. There were over 150 non-governmental organisations represented at the symposium. In one of the sessions, NGOs from high income countries in the North, were primarily concerned about environmental issues. Consequently, their perspectives on the WTO were quite different from that of perhaps many of us here right now. In their view,

important issues included trade conditionalities, issues, such as, compassion in farming techniques, animal-friendly environment, etc. There was a very interesting range of views, and therefore, in examining the WTO agreements, we must recognise that many different perspectives come to bear from the countries in both the design and shaping of these agreements, in their implementation and in their evolution in future negotiations.

Today, I want to focus on the policy issues for smaller economies with respect to anti-dumping, countervailing duties and safeguards. In this regard, I will focus on two issues:

- What are the implications of these trading rules regarding market access for Caribbean product exports to the major OECD countries?
- What are the implications for the policy choices of smaller economies as they relate to the choice between developing and implementing trade revenue laws or converting import relief laws into anti-dumping duties or safeguard mechanisms?

At the end I'd like to comment on the linkages between the current negotiations in the WTO and the Free Trade Area of the Americas (FTAA).

First I want to stress the issue of the **evolution of trade laws** because to understand what the current regime is, the WTO, how it affects the regimes of the US, the EU and Canada, we need to understand its evolutionary process. Understanding this evolution is important in terms of decision making regarding what the policy choices are for smaller countries or economies.

In the early days of the GATT, anti-dumping and countervailing duties were not very important, they were seldom used. Countries used many other instruments for various purposes: eg., a special trade regime was developed for agriculture and textiles in the 1970s; special and differential treatment was used for developing countries, used more as a safeguard than as an anti-dumping or countervailing duty. The world was quite different twenty years ago and the emphasis on anti-dumping or countervailing duties was not so important. But why did these issues become important? The answer is that in the decade of the 1970s and the 1980s, concern about non-tariff competition heightened, especially in the US, but also in European Community. The period of 1970-1980 really was characterised by the development and elaboration of very complex national regimes for anti-dumping and countervailing duties and exploring the possibility of applying some of these laws to agriculture.

Why are we talking about anti-dumping and countervailing safeguards when the focus here is on agricultural and agri-business issues? This is because in the 1980s, in addition to the special trade regime for agriculture: (special GATT trade rules, extensive use of export subsidies), because of the pressure of import competition from large economies, there was an increasing trend towards the use of anti-dumping, countervailing duties and safeguards against import of agricultural products. This leads to the questions:

- Why did anti-dumping and countervailing duties (and voluntary export restraints) become a chosen instrument for protection of trade and relief from import competition in the EC, US and Canada?

Or alternatively,

- Why were safeguards used less in trade and anti-dumping and countervailing duties used more frequently?

To answer these question, I will spend some time on the details of the trade rules under the

GATT because it is important to understand the difference now under the WTO.

Regarding to safeguards under the Article 19 of the GATT, their use applied in cases where a:

*“product is being imported in such increased quantities...as to cause or threaten serious injury to domestic producers in that territory of the “like” or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary, to prevent or remedy such injury, to suspend the obligation...”*

The safeguard measures embody the concept of temporary protection, and these were the kind of rules that are built into the GATT provision. To resort to safeguard measures, a country had to show increased imports; the remedy, ie., the quota or tariff, had to be MFN and applied to the import of that product from all countries; trading partners had the right to compensation or retaliation against the imposition of a tariff surcharge. For example, if a tariff surcharge was imposed on grains from the US, or on all source countries, then you have to re-negotiate your offer, be subject to retaliation or offer compensation such as reductions on other trade barriers on other products.

The Safeguard provision is important in the US and EC and Canada in terms of their domestic regime where Government retains a great deal of involvement about whether to impose the measure or not. This is due, in part, to the condition of this requirement to negotiate retaliation or compensation. How does this compare with anti-dumping and countervailing duties? The rules stipulated that...

*“.....No contracting party shall levy any antidumping or countervailing duty on the importation of any product...unless it determines that the effect of the dumping or subsidisation, ...cause (s) or threaten (s) material injury to an established industry in the territory of a contracting*

*party or to retard materially the establishment of a domestic industry."*

Similarly, anti-dumping measures stipulated that:

- duties are to be country or even company specific;
- duties are to be imposed unilaterally after national determination of injury;
- there are no provisions for compensation or retaliation;
- limited or no discretion for policy makers.

Integral to an anti-dumping case are the requirements that there be dumping or a subsidy found and that a determination that importation cause(s) or threaten(s) to cause serious injury. I am sure we all have some perception or perspective on what dumping is. But how is "dumping" defined under the WTO Agreement? Simply, the word dumping is defined as the sale at less than normal value. How does one determine "normal value"? The first step in reaching normal value under the agreement is

*"if the export price.... is less than the comparable price, or in the ordinary course of trade, for the like product when destined for consumption in the exporting country"*

Or alternatively,

*if the export price is less than the price of "like" products in domestic country, ie., if it could be sold more cheaply abroad than selling it domestically.*

That's the conventional definition of normal value.

There are different alternatives for determining normal value in the WTO Anti-dumping Agreement; such as, comparisons of exports to the third country market; using constructed value. Regarding the latter alternative, the idea is that, if a domestic producer is losing money in the domestic market, then the anti-dumping administrator would construct a price which would allow the producer to realise high returns on all capital investment, such as a profit of 9%-10% after tax". If you're administering the anti-dumping system and

want to find margins of duty, then these are some of the alternative measures available. In many cases, these are the options used in respect of the heavy user countries, such as the US, EC and Canada.

What the WTO Agreement does do on Anti-dumping is contain some of the abuses that administrators have used for these laws and procedures. As a result, there are a varied amount of rules in the Anti-dumping Agreement determining in which cases constructed value applies, or when other measures, which are usually not beneficial to the exporting country, may apply. These rules are contained in the particular articles in the agreement:

- Article 2, Annex II;
- Detailed criteria for injury, Article 3;
- Detailed procedural requirements Articles 5, 6, 12, 13 and Annex I, to comparing normal value.

An important change in the rules under the WTO Anti-Dumping Agreement which you should be aware of and very important for agricultural and processed food products is the change in price comparisons used in the administration of the anti-dumping laws. Prior to the WTO, the normal practice of the anti-dumping authorities was to compare the selling prices to the average prices. The problem with this method was that the selling price in the commodity market fluctuated daily, while the average price worked out to be relatively stable over the particular time period. This is an arithmetic measurement issue. You can very easily get dumping margins of 20-30% even though you compared every transaction every hour of the day, every trading day. Then there would be no evidence of dumping. In fact, the export price and the domestic price would be exactly the same, fluctuating with the commodity market. These were the types of comparisons that were used to get dumping margins.

Now, under the WTO Agreement, this is no longer permitted. The rules stipulate the use of



same prices for comparisons, and there are elaborate rules for that. This is one area where the US has at least implemented the anti-dumping laws in a way that is compatible with the WTO agreement. And this has made a difference in the recent anti-dumping trade in tomatoes, the margins were lower, especially in tomatoes because the US properly implemented the agreement under the WTO.

In terms of the WTO Agreement on Subsidies and Countervailing Measures, this is a very detailed agreement. There is a complicated relationship between the Subsidies and Countervailing Agreement and the Agreement on Agriculture. In terms of these issues for subsidies the Agriculture Agreement applies for the following:

- Definitions of Subsidy (Article 1, financial benefit and Article 2, specificity),
- The Multilateral Subsidies (Prohibited Subsidies - import or export linked subsidies;
- Serious Prejudice - quantitative thresholds or covering operating losses); and the
- Non-Actionable Subsidy agreement (Article 8.2 - R&D, disadvantaged regions and environmental standards),

Therefore, all the rules for subsidies are covered in the Agriculture Agreement in terms of Subsidy Disciplines.

#### Countervailing Measures

- Determination of Injury, Article 15;
- Unilateral remedies (procedural rules similar to WTO Anti-Dumping Agreement Article 11, 12, & 22).

The provision in the Agriculture Agreement, called Article 13, the so-called "Peace Clause", is complicated. In terms of this discussion, I want to stress that because of this Article 13 of the Agriculture Agreement, some of the difficulties with the application of countervailing measures to agricultural products were not eliminated but simply

reduced. There was an attempt to make them consistent with the effort to limit these subsidies inspite of the agriculture agreement. Now there are separate attachments about whether the limits on the subsidies in the agriculture agreement are appropriate and sufficient, etc. We won't go into that here. But obviously, those rules on the Agriculture Agreement will be subject to negotiations starting in 1999.

The only other point I wanted to flag is the Article 13 - the Peace Clause in the Agreement on Agriculture which runs until 2004. There is a very interesting question about what exactly happens when we get to 2004 when there will be another negotiation. I expect that the Peace Clause will be on the negotiations agenda and the US may even have fast-track authority by then. But I think that this provides an important deadline for unresolved issues under the Agriculture Agreement.

The WTO Agreement on Safeguards is similar to the earlier provision of the Article 19 under the GATT. There is a special safeguard measure under the Agriculture Agreement that only applies to specific commodities which have been scheduled, such as dairy products in the US and a very limited range of commodities receiving special favour. Most agricultural products will be subject to the general WTO Agreements on safeguards.

#### A WTO member

*"may apply a safeguard measure to a product only if ... such product is being imported in such increased quantities, absolute or relative to domestic production.... (so) as to cause or threaten serious injury to the domestic industry that produces like or directly competitive products".*

The concept of "increased quantities products which cause, or threaten to cause serious injury" is the key element of a safeguard requirement. The key changes under the WTO Agreement are:

- there is no requirement for compensation or retaliation if the measures are temporary. There are time limits on renewals. But strictly speaking, if the measure is for three years, there is no requirement to negotiate retaliation or compensation. That makes it much more attractive for countries to use safeguards instead of anti-dumping measures, but not as an alternative to anti-dumping and countervailing duties agreement under the WTO.
- There is also a very strong prohibition on voluntary exports restrictions.

To summarise some of the technical material, What are the consequences of the WTO Agreement - the whole agreement and in particular the Agreement on Anti-Dumping Duties and Safeguards.

First of all, many of the loopholes which existed in the GATT have been closed under the WTO or are closing under the transition arrangements that the Deputy Prime Minister referred to. Developing countries are taking on many more obligations under the WTO Agreement. Many countries have bound under the tariff schedule. I need to point out also that if you're concerned about all the obligations of developing countries, I also work with countries that are now acceding to the WTO and what is being expected of them is much more ambitious and much tougher than for the existing members who came in under the Special and Differential arrangement under the WTO.

Of interest, is that more countries are implementing trade tariffs, anti-dumping and countervailing laws. The number of countries with effective legislation has more than doubled. 10-15 years ago, essentially the US, the EC, Canada, Australia and one or two other countries had anti-dumping and countervailing and safeguard trade legislation. Now you have about 50 member countries of the WTO with anti-dumping and countervailing legislation and some are using them. For example, in 1997, there were 209 anti-dumping actions notified to

the WTO. Only 62 of those were by the traditional big users, the US, EC, Canada, Australia. So 70% of the new anti-dumping action in 1997 were taken by a large variety of countries. At the same time, more countries are implementing the legislation. I want to stress to you that it is very challenging for countries other than the EC, US, Canada and Australia to run WTO compatible trade law systems, especially for anti-dumping and countervailing measures because of the elaborate system of rules that are built into them.

A few summary observations and conclusions are needed. In terms of a bottom line assessment of the WTO Agreements on Anti-Dumping, Countervailing Duties and Safeguards - First of all, the Anti-Dumping Agreement is not substantially changed by the WTO Agreement although the procedural requirements are much more complex now than they were previously. There are some very specific changes in the rules. The most important from the point of view of agricultural exporters is the change on the fair tariffs and prices, either average-to-average, or price-to-price comparison, instead of mixing the average-to-price comparison. So I think that while it is a small and technical point, it is important for agricultural exporters who are subject to anti-dumping, especially in the US and Canadian markets.

On countervailing, I just want to stress the importance of this "Peace Clause" and the link between the "Disciplines on Subsidies" under the Agriculture Agreement and some limits under the use of countervailing duties.

On safeguards, I would just say that the WTO Agreement has opened the door on safeguards a little bit, but is suspending the requirement to negotiate for compensation or be subject to retaliation for a three-year period. So there is an opportunity for using safeguards as temporary protection from import surges under the WTO Agreement. And if small countries are considering, or feel the need strongly to implement trade relief or import relief

measures, I suggest that they should consider safeguard measures first, simply because they are easier procedurally, administrative cost is much less. You only have to investigate if there is serious injury to the domestic market. You do not have to bear the administrative cost of the investigation and verification of dumping and subsidies in the exporters production base. We don't see that many safeguard cases yet under the WTO although there has been an increase. But in some sense this has been overdone as a possible alternative to the use of anti-dumping and countervailing measures.

Finally, I would like to say that it is very important for the people here, the government officials and for people in the private sector and trade associations to understand the details of these existing Agreements as they exist today because they create the rules for international commerce. It is also important for you to begin very soon to think about your perspective on these issues and to develop an agenda for both these forthcoming negotiations on agriculture under the WTO and in relation to the Lomé Convention, the issue of remaining preferences

in the European Community market and the negotiation agenda under the FTAA. I think that the important point here is the potential merging of the time-line that the FTAA process is projected to be in 2005, the agriculture negotiations under the WTO will start much sooner, but the real dead-liner is, in my view within the Agriculture Agreement, that is if we don't have successful negotiation, what happens after 2004, after the expiration of the Peace Clause?

I recognise that the material I've presented is very complex, but I think it is important for everyone to understand the framework as it stands today. But also to recognise that the framework that we see today, in terms of trade laws and trade rules is one which is continually evolving and you need to understand that evolution if you're going to learn to survive and trade successfully in this evolution. But you also need to understand this evolution if you're going to be able to shape the agenda and to shape its evolution in the future.

Thank you.

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***Stumbling Blocks in Implementing Commitments: Private Sector Issues and Concerns***

Ambassador Peter King,

Permanent Representative of the Jamaica Agricultural Society

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Mr. Chairman, Ladies and Gentlemen

Barriers to trade and the platform for growth must follow sound macro-economic policies of good management and motivation of the workforce, competitive interest rate and strong public and private institutions. Domestic issues must first be dealt with.

Globally, trade in agricultural commodities stands at over US\$400 billion a year and represents some 12% of total merchandise trade. But while most of us in Latin America and the Caribbean as a group, have participated extensively in the acceleration of global integration, we realized that joining the global

economy carries with it risks, as well as opportunities. Of some 21 Latin American and Caribbean countries, 9 were classified as weak integrators according to their speed of integration. According to the World Bank, many developing countries have become less integrated with the world economy. Over the past ten years, the ratio of trade to GDP fell in 44 of 93 developing countries. Roughly half of the developing world has been left out of the rise in the volume of international trade and capital inflows since the early 1990s.

In addition, countries in our region, while seeking to further integrate our economies in the global economy, are seriously hampered by

some of the new international rules. In terms of macro-economic policies, the heavy debt burden has made business activities in particular, and the export trade in general, more vulnerable to changes in the international environment. Between 1984-1993, while there were changes in industrial country demand for our exports and a decline in primary commodity prices, the average growth rate of developing countries was reduced, primarily due to fluctuations in world interest rates and outstanding debts.

So the route to hard income lies in the pursuit of sound domestic policies which must play an important part in determining both growth and the speed of integration. Globalization begins at home and only when there is a favourable macro-economic environment would the private sector be able to function effectively. This means low inflation, low interest rates, managed balance of payments and budget deficits. As interest rates soar, it becomes time for strategic and tactical planning systems to be constructed. We must certainly look at the pattern in Jamaica that indicates 1/3 of goods produced here are becoming less competitive, our exports decreased and imports subsequently rose. How, therefore can we meet WTO and other commitments of reducing domestic support, cutting export subsidies and reducing trade tariffs under these circumstances?

For the most part, it has been cited that countries that have experienced strong export growth have lower levels of import protection than those which experience stagnant or declining exports. Policies therefore, must be directed at promoting effective competition. Because of the weaknesses of many developing countries' macro-economic policies, it can be expected that their per capita GDP will fall far behind that of the OECD countries.

In terms of access to foreign markets restricted trade policies in industrialized countries can seriously hinder export growth of developing countries. And while it is argued that the average wealth of industrial countries is

relatively low, they have asked seriously, for barriers to entry for certain sectors, agriculture, fish, apparel, as far as we are aware of these. In the developing countries we are concerned with the erosions of preference margins for instance, the Lomé convention. And while the impact of preference erosion depends on the rate of utilization of preferences and some suggest perhaps there is not much use of these preferences, one has to ask the question: what will happen if the benefits of Lomé are extended towards the countries in the Latin American area? Will it have any effect? I suspect it may well do so. Even this week as President Clinton makes his grand tour of Africa and in his back pocket he has a new Africa pact that gives them preferences very similar to what we enjoy and everybody exalts that our black African brothers are going to benefit, let us look at the bottom line in terms of what is going to happen to our preferences.

The more preferences are extended, the more preferences are eroded. If under the WTO tariffs are dropped by one-third, tell me what happens if you are paying zero duty for your honey into Europe and Herman Hamilton in Costa Rica was paying 100% duty. If tariffs go down by a third, what will happen to your competitive position?

Another area is the bias towards increasing tariffs for processed goods as opposed to unprocessed goods. This attempts to encourage all the attention of developing countries to turn towards unprocessed goods. Certainly it is a bit of a problem that has affected our processed coffee going to Japan.

Anti-competitive practices which restrict market access for developing countries to industrialized countries is another concern. The UNCTAD report has drawn attention to the need to ensure that trade obligations and concerns are not frustrated by anti-competitive practices, such as subsidies.

Developing countries also do not have national competition policies that address restrictive

business practices in cartels and collusion. We in Jamaica fortunately are well advanced and we welcome the decision of CARICOM to approach this on a regional basis and I think it should be extended. While anti-dumping rules could be used by developing countries against anti-dumping action from the North, the tightening of the rules of such measures might make it more difficult for developing countries to protect their own farmers. One is that the balance of payment provision could be used by developing countries to restrict imports. Quantitatively, this has been a big argument - beware the poor developing countries are going to destroy us developed countries.

But you have to make a case that the import bill is so strong that it has affected the balance of payments. How long does it take to make that case? And frankly, the prohibitive cost of making anti-dumping cases by the producers of modest needs makes a nonsense of the route. While the US can take anti-dumping action against cars from Korea or from Japan, the same does not apply to small, poor farmers in this region. I submit at the CARICOM, Latin American level and Caribbean level, we should think seriously of putting some new inroads together that can develop these cases for small farmers and small producers.

Now liberalization of trade between countries will increase exports. The main beneficiaries would be the countries which have flexible infrastructures. When we all rushed to the Punta del Esté to sign the Uruguay Round, we were assured that told trade will expand. But what in effect has happened? Sure there is more trade, but more trade for fewer countries and we unfortunately are not counted amongst the few.

The whole weight is against smaller developing countries. The large developing countries, - sure they will get their access, but the smaller ones are at the back of the bus and they are often compounded by domestic issues of inadequate irrigation, inefficient road and air transport and telecommunications. So the

farmers' access is more critical. Over half of our investment in agriculture and related activities in the developing world, takes place at the farm level. So our main investment is in development for arable crops, irrigation, building of livestock herds, farm increments and on-farm working capital. So there must be a reduction of risk involved in agricultural activity. There should be a policy of gradually reducing interest rates through the application of special fiscal adjustments. If we don't deal with that I think we are going to wither on the vine.

I would also like Mr. Chairman to touch on institutional strengthening. Government institutions need to be restructured to play their role in being facilitators. Social private sector institutions, there are too many of them, and they need to come together. But then we again signed on at Marakesh to the WTO. Marakesh was some years ago and we as yet do not have intellectual property rights legislation in place, the anti-dumping legislation, coming up to the line, keeping embargo in line. I am pleased to hear it is going to Parliament in Jamaica. But it is not just the legislation. There needs to be the institutional support to make it happen. And we also have to look at the whole issue of political will. When you are looking at anti-dumping and you are looking at anti-subsidies, you are also looking at measures which if implemented, *viz a viz*, whether imported goods will cost more. If imported goods cost more, then your efforts to control inflation would also have certain spin-offs. So if your prime policy is reduction of inflation at all costs, again you have to determine what is going to happen. I think there are signals where your productive entities would perish. But you have a situation where under the rules, you can make a case. Cases, however, have to be based on sound information.

With respect to support services, a competitive private sector requires information, whether its price information at the local market or whatever it takes. And for this you need vastly improved technology and I certainly suggest

that we should all look at the necessity for establishing a technology front. One of the objectives of this particular gathering is providing countries with the capacity to develop TMUs for the agri-food sector. I want to look at that for a moment. To make the various cases to support the detailed resolutions; to make a case that can get effective action by the WTO you have to have the data. And that data has to effectively and accurately point out what are the level of imports. It also has to effectively describe what are the prices and levels of production that have taken place in Jamaica for instance, for what country you are making a case. Not just for the last six months but over a sufficient period to show that there has been damage. We have to have an efficient scientific methodology to find out what is happening in the world. You can't run a business without that sort of information. Goods are rolling into Jamaica without benefit of search and where the issues arises, I am sure you can make a case. So I am advocating very strongly that we set up a TMU and I also think that agro-business functions in separate areas is a very effective potential vehicle for attainment and I have no hesitation in making that proposal.

When somebody down in St. Elizabeth looks at the carrot imports for all of the first 9 months of 1997, all imports of carrots, cabbages, Irish potatoes were 30% more than in 1996. Were they being dumped? Were they being subsidized? Were they sprayed? I don't know, you don't know, we just see them wall to wall in the markets, right?

There was a very interesting report at a seminar at St. Andrews school, one morning 3 weeks ago. We were talking to the girls about choice and the importance of choice. St. Andrews is one of our girls school with kids ranging from 12-18. The lecturer said, suppose you had a choice between a nice American apple and banana and the girls said American apple. So what about carrots? American carrots. Why? They are attractively presented, marketed, same size, they are cheaper. They then are going to talk about dumping. But you also have to talk about your own development of stumbling blocks, moving out of agriculture sector into areas where you can compete and the products that can stand up to the advertising programme on CNN.

Thank you.

**Regional Agreements As Building Blocks**  
**Negotiation Process, Trade and Economic Performance**

***Brazilian Perspectives in Agricultural Negotiations and the Impact of the Uruguay Round on Agriculture in MERCOSUR***

Mr. Eduardo Paz Saboia

First Secretary of the Brazilian Embassy in Uruguay

**Introduction.**

MERCOSUR, which celebrates its seventh anniversary tomorrow, is one of the most dynamic regional integration processes of our times. It is the fourth largest integrated market, after NAFTA, the EU and Japan, with a total population of more than 200 million people and a combined GDP of over US\$1 trillion. Since the signature of the Asunción Treaty, which launched the process of the elimination of tariff and non-tariff barriers among the four member countries - Brazil, Argentina, Paraguay and Uruguay - intra-regional trade flows have soared from US\$4.1 billion in 1990 to US\$ 20 billion in 1997, an increase of 488%. During the same period, extra-regional trade flows (exports plus imports) also expanded from US\$67.3 billion in 1990 to US\$ 144.6 billion in 1997, a growth of 214% higher than the rate of increase in world trade during the same period and a clear demonstration of MERCOSUR's openness.

**Basic Facts about MERCOSUR**

**Origins**

The origins of MERCOSUR can be traced back to the earlier integration schemes of the 1960s, such as the Latin American Free Trade Association (LAFTA), which was succeeded in 1980 by the Latin American Integration Association (LAIA). LAFTA's goal - to establish a free trade zone in Latin America - was too ambitious, (especially in light of the import substitution strategies that prevailed at that time), but it still broke new ground by establishing the first legal framework for trade liberalisation in the region.

Unlike its predecessor, LAIA created more gradual and flexible mechanisms for achieving

the long-term goal of a common market in Latin America. According to its Charter - more often known as the 1980 Montevideo Treaty - two or more members can enjoy preferential or free-trade agreements which do not have to be automatically extended to the other members. At the same time, the Treaty specifies that these partial agreements must be progressively multilateral in a process of convergence to the LAIA's long-term goal. LAIA played a central role in imparting dynamism to sub-regional processes, especially by providing a legal umbrella for MERCOSUR, the Andean Community and other integration schemes.

**Brazil and Argentina**

The integration process would not have progressed in South America without the democratisation that took place during the 1980s. Democracy encouraged neighbour countries to engage in important confidence building initiatives, such as mutual assurances between Brazil and Argentina in the field of nuclear energy and safeguards. As a result, traditional tensions were eased, paving the way for enhanced economic and commercial ties. The integration agreements that preceded MERCOSUR, namely the several protocols signed between Brazil and Argentina under the aegis of the 1986 Treaty for Economic Cooperation, adopted a gradual and flexible approach, which was compatible with the economic policies of that time. Accordingly, liberalisation applies to specific sectors, the most important ones being wheat, automobiles and capital goods. Although limited in scope, these agreements played a key role in increasing and diversifying trade flows in the sub-region. In 1988, more than 20 bilateral protocols were

consolidated and amplified in the Programme for Economic Integration and Cooperation.

### Objectives

The Asunción Treaty, signed on March 26, 1991, represented a radical departure from the previous gradual and sectoral approach by speeding up the pace towards the objective of establishment of a common market. This change coincided with the decision by then newly elected governments in Brazil and Argentina to promote trade opening and economic reform. In Brazil, for instance, tariffs were lowered unilaterally and import quotas and bans eliminated.

The Asunción Treaty is essentially a framework agreement with short, medium and long-term objectives. In the short-term, or transition period, its objective was to achieve free trade among members. For that purpose, it set up provisions for the progressive and automatic elimination of tariff barriers which specified that each semester, tariffs among MERCOSUR countries be reduced reaching 0% by the end of 1994. The treaty granted Paraguay and Uruguay an additional year to achieve that goal. Provisions were also established for the elimination of non-tariff barriers in the sub-region. The Treaty also calls for the adoption of a common external tariff by the end of the transition period. The more complex stages of economic integration are mentioned in the Treaty in a generic manner. The MERCOSUR 2000 Programme adopted in December 1995, specifies objectives to be reached in the next years with a view to consolidating the customs union and advancing towards the goal of a common market.

### Instruments

In the transition phase (1991-1994), the efforts of MERCOSUR focused on the liberalisation of intra-zonal trade flows (eliminating tariff and non-tariff barriers) and on the establishment of a customs union. These efforts culminated at the Ouro Preto Council Meeting of December 1994, with the adoption of the basic

instruments for the consolidation of a customs union.

### Free Trade Zone

Since December 31, 1995, products traded among MERCOSUR countries are tariff-free. However, there are some exceptions. According to the "adequation regime" groups of products considered sensitive by member states have been temporarily excluded from the free-trade zone. The adequation regime comprises 950 items from Uruguay, 437 from Paraguay, 221 from Argentina and 29 from Brazil. Most of these products, notwithstanding, enjoy already high margins of preference. The regime will be dismantled by the end of 1998 (for Brazil and Argentina) and by the end of 1999 (for Paraguay and Uruguay).

In addition, two other categories of products were excluded from the free-trade zone: products from the sugar sector and goods manufactured in export processing zones. In the case of sugar, a working group is presently attempting to establish a convergence scheme. Argentina and Brazil have different positions on this issue. Argentina argues that Brazil intervenes in the sugar-cane production by setting the percentage of sugar that has to be used in the production of alcohol fuel and that consequently, these alleged distortions must be corrected before it can eliminate tariffs for sugar. Brazil argues that the sugar/alcohol programme does not alter the sugar price in London and New York markets and that its exclusion from the free-trade zone is not justifiable.

Goods manufactured in export processing zones which benefit from special fiscal regimes in each member country, are subject to the common external tariff internalised in MERCOSUR countries. By the end of the transition phase (1995) there were few remaining non-tariff restrictions among MERCOSUR countries, such as import bans and quotas. In fact, most countries have eliminated such measures as part of economic reforms undertaken in the first half of the



1990s. In order to ensure the elimination of the remaining non-tariff barriers, a specific MERCOSUR Committee constantly reviews national legislation and recommends whether measures adopted by a country must be eliminated, harmonised or can remain in place.

As regards non-tariff measures, which, unlike non-tariff restrictions, do not aim at restricting imports but instead at safeguarding public health, protecting the environment, preventing the spread of agricultural plagues, etc.,) the goal is to harmonise their use in order to avoid their misuse as protectionist instruments. The harmonisation of non-tariff measures in MERCOSUR always aims at achieving the best international standards and must be in compliance with WTO provisions, particularly the Agreement on Technical Barriers to Trade and the Sanitary and Phyto-Sanitary Agreement. In a recent meeting of Ministers of Agriculture of MERCOSUR, new prospects were put forward with a view of enabling some degree of mutual recognition in sanitary and phyto-sanitary standards among member countries.

#### Common External Tariff

The common external tariff is what differentiates a customs union from a free trade zone. In free trade zones, such as NAFTA, each country can adjust the level of protection with respect to imports from third countries to its own interests. In MERCOSUR on the contrary, countries must have a unified policy with regard to how they treat extra-regional imports. The common external tariff ensures that imported goods pay the same tariff in any other member countries, averting thus the possibility of one member country being able to import components from a third country at a lower tariff than the one applied by another member country, thus enjoying an artificial comparative advantage.

The negotiation of the common external tariff was extremely complex, because of disparities in the profile of production. During the negotiations, Brazil wanted to ensure an

adequate level of production for its investments in the industrial sector. Argentina, instead, could afford lower tariffs for many industrial goods, particularly for capital goods and computers. Eventually, the four countries were able to overcome their differences, realizing they could not lose the historic opportunity of consolidating MERCOSUR as a customs union. The agreement on the common external tariff was reached at the end of 1994. The common external tariff, implemented since January 1991, sets 11 different levels from zero to 20%. The average tariff of 14% is lower than the weighted average of tariffs practiced individually by member countries in 1994, which confirms the notion that MERCOSUR has contributed to greater liberalisation towards third countries.

During the negotiations, it became clear that special arrangements were needed to grant additional time for some sectors to adapt to the common external tariff. Accordingly, some sectors were temporarily excluded from the common external tariff, namely capital goods, computers and telecommunications, as well as the automobile industry. In the case of capital goods, given the strategic importance of these products for the economy and the fact that Brazil is a producer and exporter of such goods, whereas the other member states are essentially importers, it was decided that each country would apply its own tariffs at 14% (below the 20% applied by Brazil and above the tariffs of Argentina, Paraguay and Uruguay).

A similar arrangement was devised in the case of computers and telecoms, a sector where Brazil has made strong investments. Brazil applies a tariff of 35% for this sector in 1994, while its partners applied zero tariff. The agreement reached specified convergence to a tariff of 16% by the end of 2006. The car industry also benefited from a special arrangement according to which national policies could continue to be applied in this sector, namely special regimes which establish quotas for finished vehicles and provide

exemption of parts and components. Negotiations towards the establishment of a common automotive regime are in an advanced stage.

In addition to the sectoral exceptions, there are national exception lists through which each country can exempt a maximum of 300 items (399 for Paraguay) from the common external tariff. The arrangement stipulates that tariff will converge (through annual increases or decreases) at the common external tariff by January 2001 (2006 for Paraguay). Beyond the fact that there are exceptions in MERCOSUR's external tariff, what is important is to realise that in a very short period (much shorter than what it took the European Union to achieve the same goal), MERCOSUR was able to reach an agreement on a common external tariff, the exceptions of which are of a temporary nature and subject to pre-established mechanisms for convergence.

#### Institutions

Unlike the EU, which has a Secretariat, the Commission - with important prerogatives, including the facility of submitting proposals, MERCOSUR countries, since the beginning of the process, opted for a simpler institutional scheme. The Secretariat - based in Montevideo, Uruguay - is small and its basic function is to provide logistic support to meetings and keep records of the agreements concluded. In other words, the driving force remains in the hands of intergovernmental fora. At the political level, decisions are taken by the Common Market Council which meets twice a year and is composed of Ministers of External Relations, Ministers of Finance and depending on the country, other Ministers of the economic sector, such as Trade and Industry. Although they are not formally part of the Council, the Presidents of the four countries have always attended the meetings, a demonstration of the high priority of MERCOSUR in all member countries.

At the executive level, resolutions are adopted by the Common Market Group, which meets twice each semester (it also holds extraordinary

meetings) and gathers high-ranking authorities of several ministries under the coordination of the Ministries of External Relations. The Common Market Group is the main organ for the implementation of MERCOSUR objectives and has under its aegis 11 Subgroups that deal with matters related to the advancement of the integration process. It also has under its authority the Trade Commission, which focuses its work on the consolidation of the customs union.

The Common Parliamentary Commission has 16 members which are Congress persons from the four countries. One of their basic responsibilities is to ensure that MERCOSUR's agreements are approved swiftly in each national Parliament. Differently from the EU, they are not elected directly by citizens but appointed by their respective Parliaments.

The MERCOSUR organ is responsible for the interface with the private sector, trade unions and other entities such as meetings of Ministers (Finance, Agriculture, Health, Justice, Home Affairs) Ad Hoc Groups etc., which can submit proposals to the Common Market Council or Group.

#### **MERCOSUR as a Building Block**

MERCOSUR has important commercial ties with different regions. Unlike other Latin American countries which rely more heavily on trade with the United States, MERCOSUR's trade partners are the EU (which absorbs more than 25% of its exports) followed by the US (20%), Asia (around 15%) the other Latin American countries (10%). From the perspective of imports, the same diversity can be observed. As a global trader, MERCOSUR aspires to strengthen these commercial ties through several initiatives, which I will refer to later.

#### MERCOSUR and Latin America

One of the priorities has been the promotion of free trade agreements and development of partnerships in energy and infrastructure projects in South America. With the adoption

of a common external tariff, MERCOSUR countries committed themselves to have a unified trade policy. This implies, *inter alia*, renegotiating the bi-lateral preferential agreements enjoyed between MERCOSUR countries under the aegis of LAIA and replacing them with 4 + 1 agreements. During the re-negotiation of the agreements, MERCOSUR has sought both to harmonise the preferences granted by each MERCOSUR country to third countries and to transform these preferential agreements into free trade agreements in order to establish a free trade zone in South America.

#### Free Trade Agreements - Chile and Bolivia

The first countries with which MERCOSUR concluded agreements were Chile and Bolivia. These two countries enjoy the status of associate MERCOSUR members which allows them to take part in deliberations in certain MERCOSUR meetings while not requiring them to adopt the Common External Tariff. The MERCOSUR-Chile agreement signed in 1996 stipulates the creation of a free trade zone in the region by 2004 (for 90% of the items; 10% in 2006). It also contains provisions on investment promotion, infrastructure, energy, economic and technological cooperation. A similar agreement was concluded with Bolivia which specifies that 90% of items will benefit from 0% tariff in 2006. However, Bolivia will be able to protect some of its items for an additional period.

#### Ongoing Negotiations (Andean Community)

Negotiations with the Andean Community are still underway. Recently, it was decided that negotiations will take place in two phases. Firstly, an agreement will be negotiated this year to consolidate the existing preferences between MERCOSUR and the Andean Community. Secondly, a free trade agreement will be negotiated in 1999.

#### MERCOSUR and the FTAA

MERCOSUR is fully engaged as a bloc in the FTAA process. The region is playing an active role in the preparations for the Santiago

Summit which will launch the negotiation phase and has submitted proposals on the objectives and structure of negotiations.

One of the main concerns of MERCOSUR in the overall process has been to ensure that its outcome benefits effectively all countries of the hemisphere, including access to markets. For MERCOSUR, it is important that FTAA reinforces domestic efforts to ensure macro-economic stability while promoting economic growth.

The region's positions in the deliberations have been guided by the following basic principles:

- decisions should be taken by consensus;
- the outcome of negotiations should constitute a single undertaking;
- the FTAA should be fully compatible with the WTO and should contribute to the strengthening of the multilateral trading system;
- the FTAA should coexist with sub-regional and bilateral agreements;
- no sector can be *a priori*, excluded from the negotiations on market access and elimination of tariff barriers;
- negotiations should be concluded by 2005 which should mark the beginning of the implementation phase.

During the Fourth Ministerial Meeting held last week in Costa Rica, several agreements were achieved concerning the structure of negotiations. These decisions will only be formalised at the April 18-19 Summit in Santiago. Among the important results achieved is the agreement to establish a Negotiation Group on Agriculture which was initially opposed by the United States. It was also agreed that Brazil will chair the Negotiating Group dealing with Subsidies, Anti-Dumping and Countervailing Duties and Argentina will preside over the Negotiating Group on Agriculture. Brazil and the US will co-chair the presidency of the trade negotiations committee from 2002 to 2005.

MERCOSUR has a firm position in favour of including in the negotiations all aspects that affect access to markets, including tariff and non-tariff barriers, sanitary and phyto-sanitary measures as well as agricultural subsidies.

#### MERCOSUR and the EU

The EU is MERCOSUR's main trade partner, absorbing more than one quarter of the region's total exports. Agricultural products represent a substantial share of MERCOSUR's exports to the EU. Since 1992, with the consolidation of the Single Market, several changes have taken place in the European Union's trade policy, namely due to: harmonisation of disciplines related to quantitative restrictions, export subsidies, technical health and health norms, as well as in the General System of Preferences. In addition, there were changes related to admission of new members (such as Austria, Finland and Sweden) and the re-negotiation of preferential schemes with ACP countries, Central and Eastern European countries.

Many of these developments have resulted in discrimination or protectionist practices against MERCOSUR's agricultural exports. One example is the case of coffee and tobacco, where Brazil was the only country graduated in the context of the GSP. In the case of grain and meat exports, MERCOSUR has an immense potential that has not been fully realised due to production and export subsidies of the Common Agricultural Policy. There are also differences in the area of sanitary and phyto-sanitary measures, where the EU does not apply the concept of regionalisation (regions within countries being considered free of a certain plague). From the perspective of MERCOSUR, these are the main issues to be addressed in approaching the negotiation of a free trade agreement.

Despite these differences, both regions have demonstrated their interest in pursuing negotiations towards a free trade agreement. In 1995, a framework agreement was signed which includes a provision on the negotiation of such an agreement. In the present phase of

negotiations a Joint Committee has been mandated with the task of examining all aspects related to trade in goods, services as well as to compare trade regulations of both regions. Until now, this work has progressed swiftly and hopefully, its completion will allow MERCOSUR and the EU to embark on trade negotiations.

#### **Agriculture in MERCOSUR**

##### Main Exports and Imports

Agricultural production accounts for an important share of exports of MERCOSUR countries. In the case of Brazil, agricultural and agro-industrial exports represented approximately 30% of total exports in 1997, that is US\$17 out of \$53 billion. In Argentina, agricultural and agro-industrial products amount to US\$ 18 billion, representing a share of 76% of total exports. In Paraguay and Uruguay, agricultural and agro-industrial products represent a substantial share in exports.

There is some degree of complementarity among MERCOSUR countries, especially between Brazil and its partners in terms of products exported. Brazil is a big exporter of oil seed (particularly soy bean, which Paraguay also exports), which represented US\$5.7 billion last year; coffee (US\$3.1 billion); sugar (US\$1.8 billion); tobacco (US\$1.7 billion); meat (US\$1.5 billion, particularly poultry and pork); orange juice (US\$1 billion). Argentina exports mainly grain (wheat, malt, corn, rice), meat (particularly beef) and dairy products which are also exported by Uruguay.

In terms of its share in world agricultural markets, MERCOSUR enjoys a privileged position in some products, namely soy bean (28.8% of world exports); orange juice (31.4%); sugar (5.5%); meat (4.4%). In 1995, MERCOSUR and Chile exported US\$23 billion in agro-business products of US\$226 billion exported worldwide.

These figures are modest if we take into account the potential of MERCOSUR countries

which are endowed with vast extensions of fertile land and that a considerable share of agricultural exports are directed within the region.

**Regional Trade: from Adjustment to Integration**

The implementation of the Asuncion Treaty presented many challenges for the agricultural sector, especially because it coincided with changes in government policies related to the sector. Such changes comprised measures of:

- trade liberalisation (such as unilateral tariff reductions or adherence of Paraguay to GATT in 1994);
- deregulation (Brazil abolished regulatory bodies related to sugar, coffee and wheat; Argentina abolished similar bodies related to meat and grain production);
- dismantling or downsizing price support programmes (in Brazil, the scope of the Minimum Price Guarantee Mechanisms was reduced, partly due to lack of fiscal resources to finance it; nowadays, such programmes focus on small producers); and
- promotion of market-oriented financing mechanisms for agriculture.

Adjustment to this new reality was not easy for agricultural producers. The challenge was even greater in Brazil because of the high efficiency of Argentina and Uruguay in some products. With MERCOSUR, Brazil became a net importer of agricultural and agro-industrial goods from its sub-regional partners.

In Brazil, the greatest impact was in the Southern Region and affected mainly:

- wheat: Brazil's annual production reached the peak 6 million tons in the 1980s. After MERCOSUR, it shrunk to 2.5 million. Brazil imports 5.5 million tons mainly from Argentina;
- rice: production fell from 11 to 9 million tons during the transition phase; and
- dairy products: imports from MERCOSUR increased from US\$30 to \$200 million in recent years. Today, this is perhaps the

sector that experiences the greatest difficulties in Brazil.

In Argentina, the products affected by competition from Brazil were sugar (until now excluded from the free trade zone), tobacco as well as some agro-industrial products (poultry, pork meat). Both sugar and tobacco are produced in Northern provinces of Argentina.

Although resistance from farm producers to MERCOSUR (especially in Brazil) was considerable in the first years, soon producers realised that the extended market generated new opportunities. In Brazil, the greater inter-linkage between farmers and the agro-industry was crucial in terms of giving Brazilian producers leverage to become competitive both in the domestic market and in markets abroad. Projections indicate however, that Brazil's slight technological advantage in some agro-industrial sectors could erode, particularly in light of investments made in Argentina's and Uruguay's agro-industries.

Another factor that contributed to adjustment of Brazilian agricultural producers was the introduction of better fiscal and tariff policies. Examples of these are the elimination of taxes on exports as well as the reduction of tariffs to imported machinery and fertilisers which have contributed to an increase in competitiveness.

Although one cannot say that the process of adjustment of the agricultural sector is completed, it is undeniable that there has been an overall improvement of the economic situation in the countries of the region. In Brazil, the end of high inflation rates as a result of the Real Plan, the market-oriented economic reforms, as well as the prospect of greater investment on infrastructure have improved prospects for the agricultural sector.

**Multilateral Negotiations: Perspectives for MERCOSUR**

When MERCOSUR was launched, the Uruguay Round negotiations had reached a critical point. The impasse between the US and

the EU on the terms of the Agreement on Agriculture delayed the conclusion of the agreement for some years. The conclusion of the Uruguay Round Agreements had a positive impact on world trade and consequently also on trade in agriculture. The reductions in tariffs, tariffication of trade barriers, limits to export subsidies and domestic support as well as the greater discipline in sanitary and phyto-sanitary measures were welcome developments for MERCOSUR.

At the Singapore Ministerial Meeting of 1996, a decision was taken to engage in negotiations on agriculture in 1999. MERCOSUR countries have expressed their interest in defining as soon as possible the structure and objectives of these negotiations. From the perspective of MERCOSUR countries, the goal is to ensure that agriculture and agro-industry are fully incorporated into the general rules of the multilateral trading system. Their perception is that there is an imbalance between the high speed of liberalisation in trade in industrial goods and in trade-related matters such as industrial subsidies, property rights and the low speed liberalisation in trade in agricultural goods. The Agreement on Agriculture, for instance, specifies a long period for phasing out subsidies in agriculture in developed countries.

Some weeks ago, in Rio de Janeiro, a meeting of the Cairns Group (which all MERCOSUR countries are part of) adopted some guidelines on how to advance toward the goal of freer, more transparent and less distorted trade in agriculture. Less than two weeks ago, the Ministers of Agriculture of MERCOSUR decided to strengthen their coordination in those negotiations with a view to incorporating agriculture fully into the multilateral trading system. In the meeting, the Ministers adopted the Buenos Aires Declaration which also refers to greater coordination in FTAA negotiations.

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### *CARICOM's Agricultural Trade Regime: Observations and Opportunities for Reform*

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#### Introduction

This paper is presented in three parts. The first part provides a theoretical background into the Common External Tariff (CET) and traces the implementation of the CET in CARICOM prior to 1992. Part II examines the existing CARICOM CET arrangements as they pertain to agriculture. In Part III, the performance of the CET prior to and since implementation in 1992 is examined (this preliminary analysis of trade performance has just been completed on behalf of the CARICOM Secretariat). The

paper concludes with some observations and remarks in relation to the re-orientation or restructuring of the CET.

#### **I: CARICOM Experiences with Implementing a CET**

The CET is an essential feature of a common market. The Rules of Origin which operate in tandem with the CET are an essential adjunct to the common market. There is thus a close relationship between the CET and the Rules of Origin of the Common Market. In relation to

the Rules of Origin, free circulation in the regional market is accorded to goods wholly produced within the Common Market or goods which have undergone substantial transformation within the Common Market from foreign inputs or intermediate inputs. For some products, Common Market producers are required to use regional materials entirely in some instances and some specific regional materials identified at their HS codes, if the good is to receive Common Market treatment. In instances where the designated regional materials are unexpectedly interrupted, a derogation may be sought from the requirement to substitute the Non-Common Market originating materials without loss of CARICOM origin treatment. It is this derogation facility, which is often referred to as the "Safeguard Provision".

- Provision for the establishment of a CET by CARICOM is provided for in Article 31 of the Annex to the Treaty of Chaguaramas. The CET constitutes the primary instrument of the common market in terms of protection and was conceptually viewed as the key policy instrument towards the further integration of the economies of member states. Provisions for the operation of the CET are outlined in Chapter IV of the Annex to the treaty. Chapter IV also recognises the use of non-tariff measures in controlling imports from third countries. Quite importantly, the Chapter also establishes the shared objective of member countries to strive towards the *"progressive coordination of their trade relations with third countries..."*.

Attempts at implementing the CET prior to 1991 floundered as several member states remained hesitant to implement the measures on account of concerns with cost of living increases, loss of customs revenue, among others. The position of the smaller economies of the OECS was particularly difficult, since these countries had already achieved some level of tariff harmonization amongst themselves and the adoption of the CET higher tariffs for several commodities. Subsequent examinations

indicated that revenue loss for these countries was not significant due to the offsetting shifts among the various product groups. For several countries, the cost of living increases provided some cause for concern.

The partial implementation of the 1991 version of the CET led to a Revised CET which incorporated the emphasis on trade liberalization, emerging concerns over the erosion of preferences and the need for CARICOM member states to enhance their competitiveness in export markets. The Revised CET (hereafter referred to as the CET) was structured according to two broad categories. The first category, that of inputs included primary inputs, intermediate inputs in the production process and capital goods. A second category existed for final goods.

## **II: The Existing CET**

A further distinction was made between goods that were viewed as competing with regional production and goods which were non-competing with regional production. Competing inputs were categorized based on the immediate production potential from existing regional capacity to meet in excess of 75% of regional demand. It is important to note that this further categorization was not based on price, cost or other factors (such as product quality, technical characteristics etc.). In fact even the interpretation of "like" products as set out in Chapter IV of the treaty is not without some difficulties. Non-competing inputs were classified as those which did not satisfy the 75% regional demand criteria. Besides the six sub-categories for inputs and the two categories for final products. Special categories existed for exports, agriculture, agricultural inputs, cost-of-living sensitive commodities, socioeconomic/cultural items and items important to revenue generation.

It was agreed that from January 1 1993, the tariff rates applied by member states would be progressively reduced over a period of five years, with a maximum rate of 20% being achieved by the end of the phase-out period.

Member states were to be allowed a maximum of six months to effect the phase-outs while Belize was allowed an additional two years after the commencement of each implementation period to implement the relevant phase-in of the new rates. In addition to the categories identified, special treatment was accorded to selected exports - those deemed to have achieved a certain level of export competitiveness (20%);

Agriculture and agricultural inputs - received the highest level of protection (40%), due to the importance of the sector to the economies of member states and the extent to which subsidies are employed by third countries to boost their production and exports. The rates for agriculture are to be adjusted based on an "Agricultural Sector Study" which will take into consideration the results of the Uruguay Round and in particular the decision reached in respect of export subsidies and other support measures for the agricultural sector. This study will commence on April 1, 1998. All agricultural inputs are to be "zero-rated".

Special rates were also established for sugar and sugar-based products (40 and 25%, respectively), 25% for rice and 40% for citrus fruit and juices. Special rates were also assigned to packing materials of 25% (plastic and paper bags, glass bottles and corks) and 5% for all other packing materials.

In addition to the tariff schedule, the CARICOM CET incorporates four lists (A-D) three of which provide for temporary suspension of the applicable CET rates, and one which provides for the application of minimum rates and a list of conditional duty exemptions which identifies of items ineligible for duty exemption.

Under the Treaty special facilities were allowed for the optional implementation of certain rates based on special circumstances. These are contained in Lists A and B. List A sets out the criteria for the suspension of rates for goods (products and inputs) not satisfying the 75%

regional demand criteria, but for which the member states maintain an interest in developing, including many agricultural items such as fish, milk, bovine meat, swine, sheep, goats and poultry among others.

List B sets out the special arrangements for Belize and the OECS, in relation to cost-of-living concerns, supply reliability for particular products and the absence of regional production for certain products. Items in this category include fish products, vegetables, fruits and nuts among others. The rates are prescribed for items in this category requiring suspension of the CET.

Minimum rates are applied to commodities deemed as being revenue-sensitive (List C). The goods in this category include cigarettes, alcoholic beverages among others. Member states are free to enforce rates which are higher than those identified in the CET schedule based either on an *ad valorem* or specific basis.

A list of conditional duty exemptions, sets out the specific circumstances under which exemptions from the duties ordinarily payable and imported from outside the common market can be granted for organizations or individuals. Exemptions may be granted for industry, agriculture, fisheries, forestry among other industries (tourism, health etc.). There are also a list of ineligibles for conditional duty exemption. The list is divided into two parts I and II. The two parts of the List have as their basis in the desire to provide an appropriate regime in favor of inputs and final goods which are produced in the common market at levels of output which can satisfy a minimum of 75% of regional demand. It is important to note that the inclusion of goods on this list is based entirely on the criteria of the capability of the country to supply.

In addition to the above-mentioned, Article 29A and 56 safeguards are of particular importance to the agricultural sector. Article 29A allows member states to restrain by quantitative means imports from within the common market which



pose a threat to the agricultural sector of that country. Article 56 allows the LDC's to temporarily suspend imports from MDC's whenever they threaten the development of these lower income countries.

The following section assesses the trade performance of CARICOM in the pre- and post-CET period. A discussion of the operation of the CET and ancillary arrangements (safeguard mechanisms) will be the focus of the penultimate section. The final section offers some possible direction for reform of the arrangements as they pertain to primary agriculture.

### III: CARICOM's Post-CET Agricultural Trade - Implications for Policy.

The total trade for CARICOM and its constituent member countries is summarized in Table 1. According to the data intra-regional exports have declined as a share of total exports from 12.9 to 12.5%. While CARICOM's exports to NAFTA and Asia increased slightly, CARICOM's exports to the European Union, the major export market, declined by 1.1 percentage point over the pre and post-CET period.

**Table 1: Agricultural Products Export Shares by Major Destination**

	CARIBBEAN		LATIN AMERICA		NAFTA		EU		ASIA	
	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET
	12.9	12.5	1.4	1.3	14.1	14.8	68.3	67.2	2.2	2.9
JAM	8.5	4.3	0.7	0.8	21.1	21.6	62.8	65.3	5.4	7.9
STV	24.4	10.8	0.0	0.2	0.6	1.0	74.4	86.9	0.1	0.0
STL	8.3	2.1	0.1	0.3	0.5	0.6	91.2	97.2	0.0	0.0
DOM	2.6	0.7	0.2	0.2	1.0	1.0	93.9	91.4	0.6	3.0
STK	9.4	1.2	0.1	0.0	34.4	5.5	54.4	93.0	0.3	0.3
GRE	10.5	0.9	5.0	4.2	9.0	20.3	69.3	61.6	2.7	0.3
BAR	19.7	33.4	0.6	3.4	14.5	1.7	61.4	59.2	1.9	1.6
GUY	4.6	2.5	0.1	0.1	5.3	11.0	87.4	85.4	0.4	0.0
T&T	41.2	50.6	4.3	3.5	14.9	12.9	35.6	26.6	0.7	0.9
BLZ	6.8	3.9	4.6	1.1	40.7	29.1	47.2	65.8	4.2	0.8

Source : IICA

In terms of importance the data indicates that intra-regional trade in agricultural products is of little importance for most of the CARICOM countries. Intra-CARICOM trade is dominated by Jamaica, Barbados, Trinidad and Tobago

(hereafter T&T) and the OECS as a sub-group. Individually, the CARICOM market is of little importance to the members of the OECS with the exception of St. Lucia.

For Jamaica the fastest growing market was Asia. While the share of trade with these countries continues to be small, until 1996 market growth was quite promising. This follows the trend for other regional trade groups in the Hemisphere, for instance MECOSUR and the CACM, where exports have also increased to Asia over the same period. The EU is Jamaica's largest export market and moderate growth associated with the increased exports of non-traditional products was recorded for the period under review. CARICOM was the only market registering absolute decline in trade values, its share fell from 8.5% to 4.3%.

There was a shift in the pattern of exports for Belize over the pre and post-CET period. The largest change was in relation to the trade shares to NAFTA and the EU. NAFTA was the largest market for exports in the pre-CET (1992) period averaging 40.7% compared to an export share of 47.2% to the EU. In the post-CET period Belize's export share to the EU increased to 65.8% while its share to NAFTA declined to 29.1% of total exports. Belize's

export share to Latin America, Asia and CARICOM markets contracted in the post-1992 period. This indicates the relative unimportance of the Central American and CARICOM markets to Belize.

T&T and Barbados were the only two countries to experience growth in their export shares to CARICOM over the 1985-95 period. In Barbados, growth was phenomenal, increasing by just under 45% in the post-CET period compared to the 1990-1992 period. In the post CET period just over one third of

Barbados' exports were absorbed by CARICOM. Intra-regional exports from T&T accounted for approximately half of that country's total export sales. T&T's exports declined by approximately 11 percentage points to the EU, and by significantly smaller amounts to NAFTA, Latin America and Asia, respectively. For Barbados there were almost offsetting declines in the share of agricultural exports to NAFTA countries and far smaller declines to the EU and Asia. There was a 2.8% increase in exports from Barbados to Latin America.

As important to the analysis of the CARICOM market is the performance of the countries in respect to imports. The following distinguishing features emerge from the examination of CARICOM's export performance (Refer to Table 2). Firstly, NAFTA countries dominate CARICOM imports. The only exceptions to this was for the OECS sub-regional grouping where import shares for Dominica, Grenada and St. Lucia were fairly close to those recorded for NAFTA. In addition, there was an interesting shift towards the EU for St. Kitts/Nevis, where import shares from NAFTA declined from 81.6% to 48.9% over the pre- and post-1992 period. Contemporaneously, the EU import shares increased from 9.8% to 30.6%.

It is noteworthy that intra-regional imports increased in virtually all countries with the exception of T&T and the OECS territories of St. Vincent, St. Lucia and Dominica. For the

OECS countries, the decline in imports was most probably associated with the fall off in aggregate demand, a direct response to the declining performance of bananas. In the case of T&T, the resurgence of agricultural production following the structural reform of the late 1980 and early 1990s coupled with exchange rate realignments significantly increased the competitiveness of domestic agriculture, displacing a significant amount of imports from the OECS as well as other CARICOM countries. There was strong growth in intra-regional imports from Guyana, Barbados (the third largest market for intra-CARICOM agricultural imports), Grenada and St. Kitts/Nevis. Intra-regional imports experienced moderate growth in Belize, however the absolute value of imports remained quite small. In terms of relative market share, intra-regional imports was of least importance to Belize.

In terms of individual products, most of the exports were in five product categories, fresh fruits, bananas and plantains, beverages exc. fruit juices. There were some exports in fresh and preserved vegetables, which was dominated by Jamaica with little exports by the other Common Market members.

In the fresh fruit category there was no growth in exports from Jamaica to CARICOM, Belize the second largest exporter exported virtually no product to the Common Market, while the intra-regional trade shares for most of the other members of the Common Market declined or

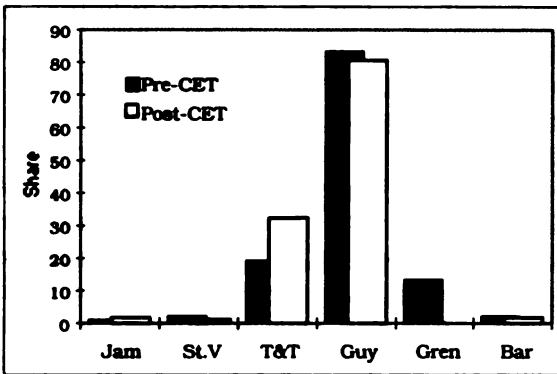
stagnated between the pre- and post 1992 sub-periods (see chart 1). Belize the third largest exporter of fresh fruit (after St. Vincent) exported virtually no product to CARICOM. Belize's exports were concentrated toward the EU market.

Table 2: Agricultural Products Import Shares by Major Source

	CARIBBEAN		LATIN AMERICA		NAFTA		EU		ASIA	
	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET
	12.9	14.1	8.2	7.3	49.4	52.2	20.6	18.9	1.8	1.7
JAM	8.4	11.7	10.2	7.7	62.3	61.5	11.8	11.9	1.6	1.3
STV	20.8	11.7	21.1	3.0	37.0	63.1	19.9	21.0	0.1	0.0
STL	25.6	20.4	5.3	3.1	27.6	36.5	34.0	34.0	1.0	0.0
DOM	32.1	16.5	6.1	21.8	25.5	28.7	28.7	27.3	1.7	1.9
STK	6.2	16.5	1.0	1.2	81.6	48.9	9.8	30.6	0.1	0.0
GRE	23.8	30.1	5.1	3.0	24.3	32.5	34.6	28.3	2.8	0.2
BAR	21.6	28.0	5.1	6.0	39.5	36.5	18.4	16.7	1.9	1.0
GUY	12.4	23.9	16.6	4.1	52.1	45.8	16.0	19.6	1.2	1.0
T&T	10.1	5.5	7.1	8.5	47.0	55.1	23.0	21.6	2.8	3.2
BLZ	3.7	7.9	14.2	13.9	46.5	55.3	39.3	26.0	0.8	3.2

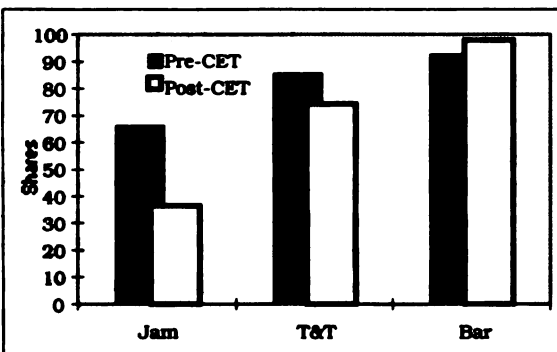
Source: IICA

Chart 1: Share of Intra-CARICOM Fresh Fruit Export Market Pre- & Post- CET



According to Chart 2, exports in dairy and dairy products were relatively infinitesimal (US\$8.3million), with T&T dominating the category (US\$5.6million). Two observations are pertinent here. First, except for the exports from Barbados to CARICOM (which averaged US\$245,000) over the sub-period, there was a tendency towards decline in intra-regional exports of products in this category. This was certainly the case from Jamaica and T&T, Jamaica's share having declined by approximately 50% and T&T by 9.6 percentage points. Belize, the third largest exporter in this category exported virtually no product to CARICOM. Belize's' export sales were in two markets, Latin America and NAFTA countries.

Chart 2, Share of Intra-CARICOM Dairy and Dairy Products Export Market Pre- & Post- CET



Of striking importance in the specific product export data, is that virtually no intra-regional trade occurs in several of the product categories for which CARICOM members are argued to

possess production capability. This is particularly true for the livestock products (bovine meat, pork meat and poultry, tables 3, 4, & 5 in annex). In actuality there have been declines in the already small intra-regional export shares of all these products. This was also true for products such as rice, where the intra-regional shares of Guyana the only intra-regional supplier of significance experienced declines in the intra-regional trade shares (see table 6 in annex).

**Conclusion:**

The analysis of trade flows among Common Market Members suggests that intra-regional trade declined for agriculture as a whole and that the performance in several product categories was disappointing. It is therefore critical to begin the search for the possible causes of this disappointing performance and to suggest remedial measures for the structuring and operation of the CET and ancillary mechanisms.

It should be emphasized that the CET and the ancillary arrangements have been positive development for the Common Market. It is now well accepted that trade and economic liberalization can be easily pursued when neighboring countries possess similar economic policies (macro-economic, trade, labor etc) and act simultaneously. Export markets are opened to members at a time when the import competing industries are facing increased competition and the demands of interest groups are better resisted within a regional policy framework. Several regional agreements in Latin America have recently performed quite well under this guarantee of mutual assurance in trade liberalization. The CARICOM CET provided some level of reassurance to countries in this regard.

Intra-CARICOM trade has not grown by the levels expected for several reasons. These could be argued to be related to the fact that countries with similar production structures and at similar stages of development tend to produce goods which are competitive with each other.

However this still leaves unaddressed the fact that the levels of income and consumption patterns of many of the countries differ. In the analysis of the trade flow data highlights among other things the virtue of CARICOM members being interested in maintaining strong economies among members of the Common Market; recall the fall-off in intra-regional demand by OECS countries on account of the difficulties with the banana industry. The macroeconomics difficulties of the MDC's of CARICOM in the early part of the 1990s also dampened the growth in intra-regional trade.

Another major factor which ought to be considered is the virtual disappearance/non-emergence of the input supply industries within the Common Market. Where these industries exist, they are relatively unknown at the regional level. However, except for intra-regional trade in fertilizers and agricultural chemicals the sourcing of intermediate inputs among Members of the Common market has not emerged. This constitutes a major source of concern since the safeguard mechanism, to which we earlier referred is predicated on the "development" of this supply capability. In fact in work undertaken by IICA in the OECS and by the CARISEC, the overriding view from the private sector is that there is an absence of regional supplies for various products.

Private sector concerns have also highlighted that considerations of price, quality and standards are equally important and ought to be considered along with the existing criteria for the availability of regional supplies. Recall that the availability of regional supplies was the only decision criteria used regarding the derogations to the Rules of Origin and suspensions to the CET. Odle (1996) identifies vegetables, fruits, nuts, spices, rice, certain animal oils and fats, sugar, fruit pulp and fruit tidbits, citrus and other fruit concentrates and essential oils, as being among the commodities for which derogation and suspensions were sought.

Products in the Oils and Fats category present special challenges to the CARICOM trade regime. To protect the fledgling industries in CARICOM, the Oils and Fats Agreement maintained a rate of 40% on all imports from third countries with the exception of Palm stearin (0-5). In addition, except for palm stearin all oils were placed on the list of ineligibles (List D). The oils are either used for direct consumption or are inputs into the production of margarine, shortening, soap and candles. The first obvious difficulty is when some oils, for instance soya-bean is produced as the by-product of an input used in the production of some other final product, in this case animal feeds. Recall that the rules of origin states that for most oils, production must be from regional materials, except for the production of soybean oil or refined palm oil from the LDCs.

The fundamental issue here is should these products receive Common Market treatment. The evidence would appear to suggest that regional supplies are inadequate to satisfy regional demand for products in the oils and fats category with few exceptions. Facilitating and simplifying access to these intermediate inputs will need to be addressed within the context of the ongoing "Agricultural Sector Study to Inform Changes in the CET for Agricultural Products" and continue to be critical.

Some attention will also need to be accorded to the somewhat arbitrary determination of when a product satisfies or does not satisfy 75% of regional demand. A major shortcoming is that this determination is not quantitatively based. The fact that the temporary suspensions of the CET and derogation to the Rules of Origin requirements are also heavily reliant on this information makes it even more imperative to correct this shortcoming.

It is important to recognize that the CET and Rules of Origin are mutually reinforcing. This poses particular difficulties when regional supplies are high cost and the input is on the list

of ineligibles. Within the framework of the existing arrangement (CET, Rules of Origin), the only rational means of offsetting this high cost final product (in the context of imports from third countries) is through border protection for the final good. The lowering of the ceiling rates under the CET will therefore have obvious implications for the continued viability of high cost final good suppliers.

The granting of suspensions and derogation to the CET and Rules of Origin has subverted the intent of the credibility of the CARICOM arrangements and has served to stymie trade in several product groupings. This is compounded by the fact that the CET has never been applied in a uniform manner across member states. The upshot is that there is not often a "single market" for many agricultural products.

Two further safeguards have frustrated the development of intra-regional trade. The first, Article 29A of the Treaty, allows countries to restrain imports from CARICOM partners by quantitative means. This facility should at best, be eliminated, or at least, re-examined and some qualifications placed on the use of this safeguard mechanism. Previously mentioned was the facility available to the LDCs of CARICOM which allows them to restrict imports from the MDCs whenever these imports threaten the development of their domestic sectors (Article 56). Additionally, Barbados possesses the right to restrict imports from LDCs.

Finally, the proliferation of licensing and NTBs for agricultural trade among countries of the Common Market and the use of licenses by the national authorities to assist the domestic

industry continue to be deterrents to the development of regional agricultural trade. In addition to reforming the CET for agricultural products and limiting exemptions, the following four recommendations may also prove useful, both to future simplification of the regime and to increasing the consistency of the CET Regime to the marketing and trade realities of CARICOM member states.

1. Revisit the List of ineligibles and propose deletions therefrom.
2. Undertake a reassessment of the regional supply situation based on current information and unambiguous means of verification of "adequate regional supplies".
3. Extend the criteria or Common Market treatment from solely that of "adequate supplies" to other criteria more closely linked to competitiveness, such as cost, price, quality etc, - some system for the determination and use of reference prices, might prove as good a candidate criteria as any.
4. Revisit the wholly-produced requirement.

Several conceptual difficulties may also need to be addressed in regard to the CET and Rules of Origin. These include, inter-alia:

- a) the review of incentives to Import from third - countries (Lower foreign exchange costs and higher revenue).
- b) the possible anti-export bias in the structure of the regime
- c) possible conflict between the CET and incentives programmes at the national level (particularly where these programmes are themselves not linked to export-performance criteria).

**Table 3: Bovine Meat (Fresh & Frozen) Products Export Shares by Major Source**

	CARIBBEAN		LATIN AMERICA		NAFTA		EU		ASIA	
	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET
	59.9	21.3	7.4	0	36.6	58.7	1.8	0	0	0
JAM	74.1	-	-	-	25.9	-	-	-	-	-
STV	-	-	-	-	-	-	-	-	-	-
STL	-	-	-	-	-	-	-	-	-	-
DOM	26.9	-	-	-	-	-	73.1	-	-	-
STK	-	-	-	-	-	-	-	-	-	-
GRE	100.0	-	-	-	-	-	0	-	-	-
BAR	94.1	100.0	-	-	5.7	0	0	-	-	-
GUY	0	-	-	-	-	-	100.0	-	-	-
T&T	22.0	87.5	-	-	74.4	0	0.6	-	-	-
BLZ	58.0	0	10	-	41.9	100.0	-	-	-	-

**Table 4: Pork Meat (Fresh & Frozen) Products Export Shares by Major Source**

	CARIBBEAN		LATIN AMERICA		NAFTA		EU		ASIA	
	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET
	15.5	29.2	0	0	20.2	17.2	62.7	49.1	0	0
JAM	13.8	26.8	-	-	20.7	18.8	64.3	53.5	-	-
STV	96.0	98.9	-	-	-	-	1.7	0	-	-
STL	68.2	100.0	-	-	9.4	0	4.7	0	-	-
DOM	60.4	49.5	-	-	-	-	0.8	0	-	-
STK	0	-	-	-	100.0	-	-	-	-	-
GRE	37.5	-	-	-	-	-	75.0	-	-	-
BAR	63.6	0	-	-	37.5	100.0	8.9	-	-	-
GUY	75.0	95.8	-	-	-	-	10.6	0	-	-
T&T	97.3	95.6	-	-	1.5	1.1	0	3.0	-	-
BLZ	69.2	0	-	-	0	0	0	100.0	-	-

**Table 5: Poultry (Fresh & Frozen) Products Export Shares by Major Source**

	CARIBBEAN		LATIN AMERICA		NAFTA		EU		ASIA	
	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET
	56.1	48.5	0.9	35.0	0.9	0	12.2	2.8	3.9	0.9
JAM	0.3	-	-	-	-	-	-	-	-	-
STV	100.0	0	-	-	-	-	-	100.0	-	-
STL	-	-	-	-	-	-	-	-	-	-
DOM	0	0	-	-	-	-	-	-	-	-
STK	100.0	-	-	-	-	-	-	-	100.0	100.0
GRE	-	-	-	-	-	-	-	-	-	-
BAR	80.9	85.2	0	9.3	-	-	17.6	1.7	-	-
GUY	-	-	-	-	-	-	-	-	-	-
T&T	99.3	0	-	73.7	-	-	-	-	0.4	-
BLZ	0	-	100.0	-	100.0	-	-	-	-	-

Source: IICA

**Table 6: Rice Export Shares by Major Source**

	CARIBBEAN		LATIN AMERICA		NAFTA		EU		ASIA	
	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET	Pre-CET	Post-CET
	28.7	11.3	0	0	0	0	60.2	80.4	0	0
JAM	-	-	-	-			-	-		
STV	99.1	77.4	-	-			-	2.6		
STL	-	0	-	-			-	-		
DOM	25.0	-	-	-			75.0	-		
STK	100.0	-	-	-			-	-		
GRE	100.0	-	-	-			-	-		
BAR	99.7	100.3	-	-			-	-		
GUY	24.1	6.1	-	-			64.0	84.9		
T&T	46.3	98.7	-	-			53.3	0		
BLZ	0	100.0	100.0	100.0			0	0		

Source: IICA

***The Regional Transformation Programme (RTP) for Agriculture in CARICOM and Agricultural Policy Issues***

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### **Introduction**

The purpose of this Paper is twofold. First, it seeks to describe the Regional Transformation Programme (RTP) for Agriculture, which comprises the major plan of action for the development of agriculture in the Caribbean Community (CARICOM) economic grouping; this is done in Section I of the Paper. Second, in Section II, the Paper discusses some of the agricultural policy issues which are to be addressed within the framework of the RTP.

### **The Regional Transformation Programme for Agriculture**

Beginning in the early part of the decade, world economic relations have been increasingly characterised by the processes of globalisation and trade liberalisation. Globalisation here refers to the growing economic interdependence of countries world wide through the increasing volumes and variety of cross-border transactions in goods and services and of international capital flows and also through the more rapid widespread diffusion of technology (IMF, World Economy Report, May 1997).

While trade liberalisation and globalisation are regarded as fundamental sources of economic growth, the small trade dependent vulnerable economies of CARICOM have not made significant strides in their overall performance and the agriculture sector which traditionally relied on protective preferential trading arrangements for its major exports has had to face fierce competition on both the export and domestic market from both low and heavily subsidised high cost producing countries. It is against a background of greater openness and hence, increased competition, declining prices for exports, reduced direct foreign investments on the whole and investments in agriculture in particular, and growing demand for low-priced food imports, that the Conference of Heads of Government of CARICOM in July 1996 endorsed a proposal to improve the efficiency and overall competitiveness of agriculture in order to enable the sector to enhance its contribution to regional economic output, income, exchange earnings, food security and poverty reduction.

The proposal which became known as the Regional Transformation Programme for Agriculture has as its major goal: to transform the sector to international competitiveness, improve the incomes of all participants and contribute to more equitable income distribution, through the application of modern, scientific, research methodologies for improved agricultural productivity and the development of sustainable and ecologically balanced production systems, which protect the natural resource base.

To achieve this mission, and to deal with the threats and challenges which the sector faces, the RTP proposes several strategies as basic prerequisites for transformation. These include:

- (i) creation of the enabling environment, especially the macro-economic environment and legal framework, by the public sector, for the effective functioning of the private sector;
- (ii) recognition of the inter-related nature of agriculture, agri-business and food services, which justifies a new and broader definition of the agricultural sector, and emphasises the contribution of agriculture to the economy;
- (iii) recognition of agriculture as a business and the pivotal role of the private sector in the sector' transformation;
- (iv) recognition of the continuing role of the public sector in the provision of public goods to the agricultural sector and support to small farmers in particular;
- (v) strengthening and refocusing of the institutional infrastructure of commodity boards, agricultural and producer associations and public/private sector partnerships to achieve competitive production and marketing of farm, fishery and forest products;
- (vi) increasing foreign exchange earnings and savings for the regional economies; and
- (vii) increasing regional food production to meet domestic needs and the needs of the expanding tourism sector and to improve regional food security.

In pursuance of these strategies appropriate policy measures have been proposed as the operational agenda for change at both the national and regional level. Among the policy objectives are:

1. creation of a facilitating environment and attractive climate for increased private sector investment in regional agriculture;
2. improvement of incomes of stakeholders in regional agriculture;
3. fostering the availability, accessibility and use of financial resources for investments in agriculture;
4. improving the quality of human resources in agriculture and agri-business in Member States;
5. pursue research and development initiatives to determine more efficient and sustainable marketing and production systems and effective extension programmes for farmers and to facilitate the adoption of appropriate technologies;
6. improve agricultural policy formulation, analysis and execution.
7. The programme of activities designed to bring about the transformation of regional agriculture is comprised of nine elements as follows:
  8. Agricultural Policy Support;
  9. Human Resource Development;
  10. Technology Generation, Validation and Transfer;
  11. Agri-Business Development;
  12. Marketing Development;
  13. Fisheries;
  14. Forestry;
  15. Water Resource Management;
  16. Institutional Arrangements;
  17. Finance;
  18. Technical Assistance

#### Implementation

The Regional Transformation Programme is implemented through projects designed by the lead agencies with responsibility for each of the nine programme elements. A Finance Committee led by the Caribbean Development Bank has responsibility for developing financing profiles for the Regional



Transformation Programme and evaluating the project proposals designed for its implementation. It is not clear to this writer, however, that specific funding has been identified for implementation of the RTP for Agriculture. It is intended that grant funds and financial resources generated internally will be used for its implementation.

### **Issues in Agricultural Policy**

Like the Regional Transformation Programme (RTP) for Agriculture which aims at transforming the sector into an economically viable industry, agricultural policy in CARICOM is in a process of transformation. Unlike the European Union which has a detailed documented common Agricultural Policy, CARICOM does not have a clearly articulated regional policy on agriculture. However, several initiatives undertaken at the regional level at one time or another including the Agricultural Marketing Protocol, the Regional Food Plan, the Regional Food and Nutrition Strategy, the Caribbean Community Programme for Agricultural Development well known by its acronym CCPAD and now the Regional Transformation programme for Agriculture (RTP) all point to general policy directions for CARICOM Agriculture. Individual Member States have in most cases, their own development plans and policies and attempts at harmonisation of those policies is one focus of the RTP.

### **Protocol V**

The Community is presently considering a draft protocol on Agriculture as part of its review of the Treaty of Chaguaramas, the agreement which establishes the CARICOM grouping. Protocol V, as it is commonly referred to, specifies the goals of the agricultural policy in the Region as:

(a) the fundamental transformation of the agricultural sector towards market-oriented, internationally-competitive and environmentally-sound production of agricultural products;

- (b) improved income and employment opportunities, food and nutrition security, and poverty alleviation in the Community;
- (c) the efficient cultivation and production of traditional and non-traditional primary agricultural products;
- (d) increased production and diversification of processed agricultural products;
- (e) an enlarged share of world markets for primary and processed agricultural products; and
- (f) the efficient management and sustainable exploitation of the Region's natural resources including its forests and the living resources of the exclusive economic zone, bearing in mind the differences in resource endowment and economic development of Member States.

### **Agricultural Trade Policy**

Because of the prominence of trade issues, and trade liberalisation in particular, in the process of globalisation, agricultural policy in CARICOM has been dominated by attention to agricultural trade policy. Since the conclusion of the Uruguay Round of multilateral trade negotiations in early 1994 much attention has been paid to assessing both the impact and policy implications of the historic agreement on Agriculture on the agricultural sector of developing countries, including CARICOM. A study with that objective being undertaken jointly by FAO and IICA on behalf of CARICOM is to be concluded shortly.

At the hemispheric level the focus has been on preparations for negotiations on the formation of the Free Trade Area of the Americas, entry into NAFTA or the attainment of NAFTA parity. At the last Council on Trade and Investment Meeting between CARICOM and the United States of America held in Miami late last year, a two-year programme for Caribbean Economic diversification was agreed to. One of the projects identified and being implemented through the U.S. based National Centre for Food and Agricultural Policy (NCFAP) is the Caribbean Agricultural Trade Policy Support project which seeks among other things to assist

CARICOM States in general, and the agriculturally based economies of the OECS in particular, to respond effectively to trade liberalisation and to changes which would likely result from the FTAA and WTO arrangement.

Regional concerns include threats, both real and perceived to the preferential arrangements under which most of our major agricultural exports have been traded on the global market. The perception is that these preferential arrangements have perpetuated inefficient production practices but their removal could spell disaster for the large number of small farmers engaged in agriculture as their main source of income, food and employment. The concerns with the loss of market shares resulting from removal of preferential arrangement has sparked lively debate about the future of agriculture in CARICOM.

Other aspects of agricultural trade policy being attended to include a re-examination of the rate of the CET applied to trade in primary agricultural products, and a review of the derogations granted under the CET with respect to agricultural products with a view to making recommendations on appropriate CET rates for agriculture. This review which is being undertaken in collaboration with IICA follows a decision by the Special Heads of Government Conference in October 1992 that the CET rate on primary agriculture would remain fixed at 40% ad valorem until a study which took into account the impact and policy implications of trade liberalisation under the Uruguay Round had been completed.

The current work on the development of the Caribbean Single Market and Economy and its implications for movement of factors of production, including capital as well as its recommendations or rights of establishment is expected to benefit the agricultural community at all levels and should encourage joint undertakings in both production and marketing of agricultural products. The food processing and agro-industrial sector should benefit particularly.

CARICOM countries have also placed much emphasis on policies of agricultural diversification. Export diversification of agriculture is intended to diversify the agricultural export portfolio in order to stabilise foreign exchange earnings.

This pre-occupation with agricultural trade policies has heavily influenced the research agenda. Much emphasis has been placed on measuring the competitiveness of agricultural output, with competitiveness often restricted to trade or price competitiveness rather than competition for use of resources across sub-sectors or commodities although the two are no doubt linked.

Given the smallness of the economies of CARICOM countries and their heavy dependence on trade (both export and import) the emphasis on trade policy is understandable. Agricultural exports is a major earner of foreign exchange in several OECS countries, Jamaica, Guyana and Belize, and imports of food into CARICOM a 'whopping' billion United States dollars or more annually. In fact, the net food trade balance is in deficit as the value of agri food imports exceeds the returns on food exports.

Notwithstanding the importance of trade in agricultural products and by extension, the importance of agricultural trade policies, the performance of the agricultural sector is no less, and perhaps even more dependent on conducive macro-economic and sectoral policies which encourage investment and promote growth.

#### Macro-Economic Policy

The role of a supportive macro-economic and sectoral policy environment in sustaining growth in agriculture has been well documented in the literature and has been gaining increased attention in the recommendations made for improving the performance of the sector in CARICOM. Evidence indicates that macro-economic stability, the real exchange rate and

non-agricultural protection are major influences on agricultural growth.

Anne Krueger, Maurice Schiff and Alberto Valdes (1991) observed that agricultural policies in developing countries are often highly distorted. Antoine and Pemberton (1996) in their research on incentives to agriculture in the OECS arrived at a similar conclusion for those countries, noting that the form of incentives given, mainly input subsidies and import restrictions perpetuated production inefficiencies and distorted price/market signals. The conclusions of the studies by Krueger, Schiff and Valdes (1991) and by Antoine and Pemberton (1996) for the OECS are instructive to agricultural policy formulation in CARICOM.

Among the findings of Krueger, et al were -

- most of the countries imposed high taxes on their agricultural sectors;
- the indirect tax on agriculture from macro-economic policies, such as over valued exchange rates and measures such as import duties and industrial protection, was three times the direct tax, such as export taxes, on agriculture;
- most of the direct measures were contrary to the country' long-term comparative advantage; for example, competitive commodities were taxed while uncompetitive crops, (often food crops) were protected;
- resources provided to agriculture through measures such as subsidised credit, infrastructure, research and extension were not equal to resources extracted;
- the resources that did flow to agriculture almost exclusively benefitted large, modern enterprises, not the many small farmers who, together with landless workers were most affected by the net taxation of agriculture.

Among the eighteen (18) countries included in the study by Krueger et al, performance of the agricultural sector in terms of growth and

poverty reduction varied widely depending on the country's agrarian structure, macro-economic environment and provision of public sector support to agriculture. In a group of countries with a predominance of family farms, where macro-economic policies favoured agriculture and where there was adequate public sector investment in rural infrastructure and social services, provision of research and extension services and support for viable small holder credit systems, agricultural output grew rapidly and the number of rural households living in poverty fell dramatically.

A second group consisted of countries with a similar agrarian structure, that is dominance of family farms, but where macro-economic policies tended to discriminate against agriculture, exchange rates were overvalued, industrial protection significant and taxes on exports including agricultural exports were burdensome. In addition, little support was provided to agriculture and where support was provided, it went mainly to large and inefficient but politically influential producers. In this group, with few exceptions, agricultural output failed to keep pace with population growth and rural poverty increased sharply.

In the third group of countries, the agrarian structure consisted of large estates; however, macro-economic policies and the regulatory environment were unsupportive, and exchange rate restrictions and import barriers were enforced. At the same time, there were significant public sector investment in rural areas and in partial land reform programmes which corrected structural problems which had hitherto hindered investment in agriculture. This combination of policies resulted in modest increases in agricultural output and reduced rural poverty. Rent seeking behaviour by the large farmers and bureaucrats reduced the efficiency of public expenditure, thus reducing the basis for long-term growth, mainly through shifts from investments in public goods such as irrigation, to distortionary subsidies for privately used inputs such as water and electricity.

In a fourth group of countries characterised by a highly uneven distribution of land, and economic policies which taxed the agricultural sector directly and indirectly through industrial protection and overvalued exchange rate, the more influential farmers were favoured in the allocation of property rights, public investment, services, credit, and subsidies. While agricultural output experienced rapid positive growth initially, the credit subsidising policies encouraged large farmers to purchase farm machinery which displaced labour and contributed to a high rate of rural unemployment. When the policy was discontinued as a result of fiscal and debt crises, agricultural growth stagnated and resulted in widespread rural poverty and other social problems.

Those examples all point to the need for clear, definitive and targeted supportive policies to promote growth in agriculture. In spite of the increasing trends towards private sector involvement in areas traditionally considered the domain of the public sector, such as in the provision of research and extension services, the provision of production and marketing information and the purchase for distribution of agricultural output, the role of the State in ensuring that the macro-economic environment is favourable to its agricultural sector goals and that the supportive regulatory and infrastructural services are provided should never be undermined. In short, the State is as much responsible for the success of agriculture today as it ever was.

#### Sectoral Policy

As significant as general macro-economic policies and policies which affect other sectors are to the performance of agriculture, sector specific policies play a key role in the sector's performance. Agricultural production is characterised by heterogeneity, seasonality and spatial dispersion, and by large variations in weather and prices that affect similar producers within a Region in the same way (Hans P. Biswanger and Klaus Deininger, 1997). Agricultural producers, particularly peasants

are often separated by large physical distances, which makes communication difficult, their farming activities are largely seasonal and they produce a variety of heterogeneous goods for home consumption and the market.

These characteristics imply that the incomes of farmers within a Region are generally co-variant. At the same time, financial insurance and credit markets tend to be characterised by informational asymmetries.

The combination of co-variant incomes and informational asymmetries contribute to an absence of insurance for crops, and reluctance of conventional sources to provide finance and credit to agriculture, especially to small farmers with low income bases and limited access to wealth. Consequently, specific policies which take into account the special characteristics of the financial, credit and insurance market relative to agriculture and the nature of agriculture itself must be considered in any strategy to catalyse growth in agriculture in CARICOM.

Sector specific policies to accelerate growth in agriculture are most appropriate when they are tailored to address the specific needs and characteristics of a country. The agrarian structure of CARICOM countries is characterised by a dominance of small farms. Land tenure for these farmers is generally insecure and their access to information, new technology, credit, insurance and finance virtually non-existent. Under those circumstances, the opportunities for small farmers to make a profitable investment and the incentives for them to save in order to do so are limited. Sectoral policy should therefore seek to address those problems, while attending to the overall goal of economic transformation.

The difficulties related to farm size and economies of scale have often been identified as constraints to growth in agriculture in CARICOM. However, the evidence on the relationship between scale and efficiency in agriculture is not conclusive. T.W. Schultz

(1964) argues that small farmers are rational in their decision-making and that they are both technically and allocatively efficient in using the information which they have and in managing their enterprise(s).

Similarly, Biswanger and Deininger, state that the optimal scale of family farms varies widely among and within countries, depending on climate and soil fertility, population density, access to markets and infrastructure, the opportunity cost of family workers and operators in the urban economy and the technology available. They point out, moreover, that there are several studies of farming systems around the world which have shown that there are few economies of scale in agriculture that might provide advantages to farms larger than what a family could operate using its own labour. They conclude that with the exception of some plantation crops and in some instances where large farms are able to overcome imperfections in other markets such as those for outputs, inputs or credit, the family or owner-operated farm is the most efficient unit of production.

In the context of CARICOM with its preponderance of small and family-owned farms, with limited scope for extensive mechanisation, agricultural policy should be geared at providing farmers with access to new reliable information and the means (credit, finance, roads, markets, etc.), to exploit it (Langham et al , 1998).

In addition, appropriate land tenure and property rights policies which assign the rights to and rewards from the use of resources to individuals, thereby providing the incentives to invest in those resources and to use them efficiently, should form part of the regulatory framework to encourage investments in agriculture.

Credit policies should be similarly addressed as credit availability and accessibility are constraints to small farmers who lack the wealth for collateral and may therefore be

unable to purchase or lease individual agricultural assets. These farmers have difficulty in borrowing because of the high level of risks associated with agriculture and because the cost of supervising and monitoring the loans to them is prohibitive, not because they are less productive than the large farms with greater access to wealth which can be used as collateral.

#### Policy Responsiveness of Agriculture

Relative to other sectors, the supply response of aggregate agricultural output to policy changes, including adverse and discriminatory policies tend to be inelastic in the short-run. One explanation for that is the highly sector-specific and relatively immobile nature of agricultural factors of production, in the short-run. The inelastic short-run supply response allows for the implementation of agricultural and other policies with little consideration for the long-term and usually deleterious consequences of these policies on agricultural supply and growth.

The long-run supply response of aggregate agricultural output, on the other hand, tends to be highly elastic. Evidence suggests that the agricultural sector adjusts to changes in the inter-sectoral terms of trade through individual investment and migration decisions over a long time. Mundlak, Domingo, Cavallo and Roberto Dominech (1989) observed, for example, that policies which discriminate against agriculture may result in long-term declines in the rate of investment thereby reducing the rate of technical change, hence reducing productivity, economic growth, welfare and equity.

Policies which encourage investment in physical and human capital, the conservation and sustainable use of natural resources and which guides the pace and direction of technical change are essential to growth in the sector, particularly as they impact on agricultural productivity. Sustained growth of agricultural productivity is contingent on the generation of new technologies derived through research and investment in human and physical capital

(Biswanger and Deininger, 1997). The policy environment should therefore provide the private sector with appropriate incentives to engage in these activities. Simultaneously, complementary public goods and infrastructure must be provided, to optimise the returns from private investment.

A favourable policy environment is even more critical for agriculture that uses modern technology, because as Hayami and Rutan (1985) observe, the growth of total factor productivity can take place in different ways. They posit that by responding to factor scarcities, induced technical change is directed towards products or factors that are most efficient for a particular economy. Hence, if factor prices are distorted technical change may not occur or may be inappropriate for the economy given its factor ratio, both of which would have negative implications for efficiency and growth.

#### Role of Productivity Increases

Langham, et al (1998) underscored the importance of productivity increases to economic advancement in their paper "Understanding Productivity; its Importance, and Relationships to Diversification: Some Agricultural Policy Issues". They note that productivity increases help a country to conserve resources - human, capital and/or natural resources - by giving more output per unit of input use. Hence for a resource poor country, where conservation of natural resources is a priority, productivity increases is key to economic progress.

In economic jargon, in a competitive market situation lower unit and marginal costs of production generated by increases in productivity translate into increased supplies, lower prices for consumers and increased levels of real income. When real income increases, standards of living and general economic well-being improve. There is therefore an important link between productivity increases and improvements in the standard of living of a country.

#### Productivity and Competitiveness

Of even greater significance to the land scarce countries of CARICOM, with a disproportionately large food import bill, Langham et al observe that increased agricultural productivity permits a country to produce its food on a smaller land base and help keep food prices low. In fact, marginal farming lands become usable in more environmentally friendly ways.

Langham et al also establish a relationship between productivity and competitiveness of a sector or economy. They note that the competitiveness of a sector or economy may be defined in terms of the rate of growth of its multi-factor productivity relative to that of its competitors. Hence, variation in productivity growth rates across countries lead to differences in competitive positions of countries as well as to differences in real per capita incomes. As such an economy is deemed competitive if its multi-factor productivity is growing faster than that of its competitors.

#### Cost of Productivity Increases

Productivity increases are contingent on investments to improve the economic performance of all factors of production but particularly human resources. This requires investment in education and training, research and human health, safety and mobility, and that technical knowledge must be discovered, disseminated and ultimately embedded in the stock of knowledge of those putting it into practice (Langham et al, 1998).

Langham et al describes the adjustment cost of productivity gains. They argue that increases in agricultural productivity have made it difficult for those farmers who are made relatively less competitive by the process of change to adopt the more productive processes. Furthermore, they argue that productivity increases work counter to a policy objective of keeping resource poor farmers as primary actors in agricultural production simply because these farmers are at a competitive

disadvantage in capitalising on new information and technologies. In effect, resource poor farmers bear a disproportionate share of the cost of adjustments to increased productivity.

These findings point to the need to identify safety nets to cater for the drop outs from productivity increases. This should include training and retraining opportunities for employment within as well as outside the agricultural sector. Specific policies targeted at assisting resource poor farmers make the required changes should also be considered.

### Conclusion

The lessons for CARICOM are clear. In its attempts to modernise the agricultural sector and to increase its contribution to economic output, a conscious attempt must be made to ensure that the corresponding macro-economic and sectoral policies are in place and the requisite investment in both human and non-human capital are made. Otherwise, in an environment where the market signals are distorted, the technical change necessary to induce growth may never materialise and inefficient systems of production will be perpetuated.

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### *Lomé IV and the EU Perspective*

Mr. James Moran,

Head, EU Delegation in Jamaica

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I find the title of this session significant, insofar as it implies that nowadays it might be difficult to consider Lomé without paying attention to what some consider to be its antithesis, the WTO! But it is indeed a fact that we are now moving away from the 'age of preference' toward something new. I do not pretend to know exactly what it entails, but there is no

question that major changes in the EU-ACP relationship will be necessary in future. That said, a word of caution to those who hope, or perhaps fear that free trade is just around the corner.

Some of you may have been in Miami last December for the annual C/LAA conference,

and might have heard the Chilean Minister of Agriculture, commenting on the US approach to the FTAA process: he said, with some feeling, that "free trade is like getting to heaven: everyone wants it, but not too soon"!

Coming from someone with a strong interest in agricultural trade liberalisation, many in the audience found this an apochryphal remark. It points to the rocky road ahead, as widely different agricultural and consumer interests, many of them cross-cutting the developed/developing country divide, have to be squared with the dominant philosophy of the day.

Turning to the EU perspective, or at least that of the European Commission, I think it useful at the outset to consider where we are at in the "Post-Lomé" discussions, which have of course been going on for some time now, although formal negotiations between the EU and ACP are not slated to begin until later this year.

Following the conclusion of the debate on the Commission's Green Paper last September in Brussels, a Communication from the Commission to the EU Council and parliament was published in December. This gives guidelines for the negotiation of new cooperation agreements with the ACP. I hope you all have seen this document, which provides a road map, from the Commission's point of view, for what is to come.

This document was subsequently approved, and we have recently submitted a draft negotiating mandate to the Council, which is expected to be approved in its final form before the end of the current UK Presidency of the EU, i.e. by June 30th. While the draft mandate must remain an internal document, so long as it is under consideration, I can tell you that the Communication remains highly pertinent so far as our "post-Lomé" thinking is concerned, and I would like to try and put it in perspective.

First, a general remark: it is important to keep in mind that our proposals have not been

produced in some isolated ivory tower or smoke-filled room in Brussels. Far from it.

They are the result of one of the longest reflections and widest consultations carried out in the history of international cooperation. The Green Paper debate itself involved four major international exchanges in the ACP and Brussels, consultations were held in all fifteen EU Member States, and there were numerous national and regional debates held in the ACP countries by ACP governments and NGO'S, including two here in Jamaica. These various discussions have involved politicians at the highest level (for example Professor Pinheiro's exchange with CARICOM Heads last July in Montego Bay) as well as numerous Officials, Civil Society, the Private Sector, Academia and so on. We in the Commission, and I am sure the EU Member States listened very carefully to what everyone had to say, and we have done our best to incorporate the concerns and ideas that emerged. Anyone who participated in the debate will find, we believe, resonance of it throughout the Communication.

Apart from the rich source of ideas that the debate has provided, our proposals are also characterised by the wider context in which these exchanges are taking place. Let me once again recall that, today, Lomé does not exist in a vacuum. In the past, during the seventies and eighties there was indeed a sense that whatever storms drenched the World Stage, the Lomé Convention was a rock of stability and continuity, jutting up above the clouds, providing a relatively safe haven from the turbulence below.

But things have changed in the nineties. The clouds have risen to engulf us all. The EU-ACP relationship has had to adapt above all to the fall of the Berlin Wall, accelerating trade liberalisation, and significant economic and political changes in the very fabric of each side of the partnership. As regards the latter, the two most obvious changes are that the EU has grown from the nine who signed the original convention into the fifteen of today, while the



ACP group has grown from 45 to 71, including four new members from this region, which now has 15 ACP countries within it.

With that growth has come wider understanding on both sides, but it also involves more disparate interests and levels of development, making it increasingly difficult for the old Lomé model to function effectively. Indeed, both EU and ACP now accept the evidence for this. Trade is of course the best known example, where despite Lomé's unequalled preferences and protocols, the share of ACP exports in the EU market has fallen from over 7 to under 3%. Aid performance too has suffered from the lack of specificity in procedures and practices and widely differing capabilities in management.

In such a context, we in the Commission have to take account of these realities, without compromising our commitment to the continuity of the partnership. A tall order, yes. But we believe that is precisely what we have done with our proposals. The substance is wide ranging, and I would not presume to have the time to do justice to them all. The main messages in the draft mandate can be summarised as follows:

- the structure of the future Convention should be simple, readable and accessible, containing a limited number of articles;
- the new Convention should have a global framework agreement by WTO-compatible regional economic partnership agreements;
- the overall objectives would be the promotion of peace and stability, eradicating poverty, sustainable development and the integration of ACP countries into the world economy;
- the four basic principles for EU-ACP partnership should be ownership, participation, "contract" instead of "accumulation" of conditionalities, and differentiation;
- the political dimension should be enhanced in order to promote a stable and democratic political environment, the role of the civil society and cohesion and social

development. The rule of law, good governance and deeper and wider-ranging political dialogue would be very important;

- cooperation would cover two main themes: financial support for development strategies and economic and trade cooperation agreements;
- the instruments and management of financial cooperation would be based upon the principles of rationalisation, simplification and decentralisation. At the same time, new facilities for long-term development, private sector investment, and humanitarian crises would be created;
- support for development strategies would consider growth, competitiveness and employment as priority areas while the guiding principles would be institutional support and capacity building, a gender-sensitive approach and sustainable management of the environment.

But let me turn to the crux of this, so far as this seminar is concerned, namely what we call the new economic partnership. As I mentioned earlier, the results of almost a quarter century of preference, are generally found wanting. We believe that a new dynamic is needed, and one that is more sensitive to the different developmental needs within the ACP. That is why we propose that we enter into negotiation of regional or sub-regional partnership agreements linked to the renewal of the overall accord.

The calendar that we propose would include starting with the negotiation of the global accord, where we would agree on the medium and long-term objectives, and following this with the negotiation, over the period 2000-2005, of regional partnership agreements. These would include support for measures in trade-related areas and the eventual establishment of free trade areas, based on reciprocity, but taking full account of the level of development and capacity to adjust. Actual implementation of these new agreements would begin after 2005.

We believe that this approach would have the triple attraction of:

- maintaining the ACP as a meaningful entity, an aim that emerged loud and clear from the Green Paper debate;
- allowing a smooth and reasonable transition period for the countries and regions concerned; and
- making the new partnership compatible with WTO commitments, something which will be crucial in future, bearing in mind that the derogation for the present Lomé will expire when the current Convention ends in February 2000 - let us remember that the EU and its Member States and a majority of ACP countries are members of that august institution.

In case the initials WTO are sticking in anyone's throats, and harking back to common interests, it is interesting to note that, together, the EU and ACP constitute a majority of the membership, and if the rest of the ACP fold can be persuaded to join, that majority will prevail for some time to come. It seems to us that there is a major opportunity here for us to define those areas where we can act together, in the cause of enhanced world growth and equity.

That said, what future for the trade protocols? We are, I trust, all aware of the latest developments in the banana debate. The Commission proposal to modify the regime in the wake of the WTO ruling last year remains under discussion in the EU Council, where it has received a great deal of attention over the past two months. We remain hopeful that a decision will emerge under the current Presidency, but there is a lot of hard work ahead. We also remain convinced that the modification that we have proposed will lead to a new regime that not only satisfies the requirements laid down by the ruling but also allows us to meet our Lomé commitments to the ACP banana producers.

Those 'disparate interests' within the EU that I referred to earlier are certainly evident in this

debate. It also seems that the ACP group itself has yet to reach a consensus on our ideas, the major contentious issue being over the proposal that in future the overall ACP quota should not be allocated on a country basis. Clearly, the fears of marginalisation among the Windward Island producers are playing a part in this, but we would emphasise that the substantial new aid package that comprises an essential part of the proposal should help to allay these fears. We hope that the ACP can exert solidarity and come to a common view here, as it is never easy to defend a position on multiple fronts. We would also hope that the original WTO complainants, especially the US, will not prejudice whether we have achieved compatibility before the final EU position emerges.

Turning to sugar, it is important to stress that the reforms in our Common Agricultural Policy that we agreed as an integral part of the Uruguay Round will certainly have a bearing on the benefits flowing to the ACP from the sugar protocol. However, I want to make it clear that the existence of that protocol, which is for an indefinite period and as such unrelated to the expiry of the Lomé Convention, is not in question. Moreover, no serious challenge to it, of the kind that we have seen in bananas, is expected in the foreseeable future.

Overall, the Uruguay Round accords imply that we must cut the value of our subsidised exports by 21% over six years, and as we are a major sugar exporter, this is bound to have negative effects on the internal EU price for sugar. This in turn means that the price paid for ACP imports is also likely to be affected, although it will in all probability remain well above the world market price. Historically, EU prices have been double world market reference, and have therefore provided substantial net benefits to the ACP. Jamaica alone is estimated to receive an annual net transfer of around US\$50 million from its EU sugar exports.

While they are inherently quite different, the banana and sugar protocols share a common

feature. That is, recent developments point clearly to the need for ACP producers to raise their competitiveness in the medium term. We in the Commission are sure that there will be time for this to be achieved where it can be achieved, and as I said are arguing strongly that a reasonable transition time be allowed. Where it is not possible, diversification efforts must be stepped up, and here we are heavily engaged in this region, with over US\$150 million of new aid already committed to the Eastern Caribbean banana producers.

We are providing substantial aid for banana competitiveness throughout the region. A US\$12 million programme is being implemented here in Jamaica, and some US\$3 million is being spent in Belize. However, if these important traditional industries are to survive, at least as exporters, that transition must now be addressed seriously. We see no alternative.

Apart from this, we have stepped up efforts to encourage the nascent and highly promising trade in non-traditional agricultural exports. The EU-funded Target Europe programme here in Jamaica, which has concentrated on assisting producers will soon be doubled in terms of financial resources, and expanded to include Jamaica's non-European markets, particularly North America. There are many success stories here, and we have high hopes for the future.

To conclude, Lomé and the WTO may at first sight be strange bedfellows, but at the end of the day, they both operate on a common principle. I speak of enlightened self-interest. There can be no sustainable growth in world trade and prosperity if there is not political and social stability in the international system, and that stability will be as dust in the wind if the legitimate development interests of the less privileged are ignored.

We in Europe are acutely aware of this, not least because enlightened self-interest helped us to rise from the ashes of the worst conflict in history a half century ago, and to play our full part in the unprecedented advancements that we have seen over the last fifty years.

The challenge before us, whether we be in Europe or the ACP is to revitalise our partnership and make it more relevant to the conditions of today. Yes, it will involve some hard choices and some hard talking in the months ahead as we go into negotiation mode, but we should not forget that we have much in common.

Now, more than ever, we need to build on that deep understanding. The stakes have seldom been higher, particularly in the agricultural sector.

Thank you.

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*Beyond Lomé IV*

Ms. Michelle Lowe

Independent Research Consultant

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I must thank the organisers of this conference for inviting me to participate and share my views on a subject which I have been following since 1995. At that time the Lomé IV mid-term review had just been completed and my attempts at crystal ball gazing were based on very fuzzy indicators of what future relations between the EU and its ACP partners would look like. Thankfully, those fuzzy indications

have given way to definite statements of intention and expectations by both the EU and its ACP counterparts.

As Mr. Moran mentioned earlier, the EU, has outlined guidelines for the negotiation of a new cooperation agreement with the ACP and is in the process of fine-tuning the negotiating

mandate. A similar process is underway now in the ACP.

Therefore, the first point I would like to make, is that whatever obtains beyond Lomé IV is going to be the outcome of a dynamic process of negotiations. And it is important that those of you here today who have a direct interest in that outcome, take the opportunity now to add value to the negotiations by providing the necessary data to enable our negotiators to reach a mutually beneficial arrangement. But time is of the essence. By April 30, the Caribbean has to complete its proposals for inclusion in the ACP negotiations mandate. The final approval of that mandate will take place when the ACP Council of Ministers meets in Barbados in May. Thereafter, negotiations for the new Lomé Convention, post-Lomé IV will begin in September.

The second thing that we need to understand, is that when we speak about "Beyond Lomé IV" it does not mean that when the present Convention expires at the end February 2000, we begin with a "*tabula rasa*", ie. a clean sheet. There is wide agreement that there is a great deal in the present Convention which is worth retaining. The challenge therefore is to refashion the Convention while maintaining those provisions and instruments of value to all parties. Therefore, while it is not certain whether there will be a Lomé V, what is certain is that there will be a new agreement between the EU and the ACP which retains the fundamental principles of Lomé.

Having said this, I must point out that some provisions of the present convention are under considerably more pressure than others. Namely the provisions related to trade preferences and the special commodity protocols, all of which hold great importance for the Caribbean.

Trade cooperation between the EU and the ACP over the last 20 years has been based on the principle of non-reciprocity. As Mr. Moran has pointed out, the EU's preferred approach

now, is towards opening up cooperation to economic partnership and the eventual conclusion of free trade agreements with each of the three ACP regions and especially those regional sub-groups, such as CARICOM, that are engaged in a process of integration.

The EU proposes that this would be a gradual process which should be completed no later than the year 2003. According to the EU, such regional agreements could take the form either of economic cooperation agreements (not totally reciprocal), or economic partnership agreements (reciprocal, including free trade areas), similar to the agreement now being negotiated with South Africa. According to the guidelines, special treatment would be given to the least developing countries, who would either be exempt from reciprocity, or would be allowed to move at a slower pace towards reciprocity. The EU also proposes that the current preferences would be maintained during that three year negotiation period from 2000-2003; which will mean that a waiver would have to be sought from the WTO.

Whether the ACP will accept these proposals is left to be seen. But for now, what does this mean for the Caribbean ACP?

It is quite probable, that the EU-Caribbean trade relationship would be maintained in its present form for the period 2000-2003, during which time a regional specific cooperation agreement would be negotiated, introducing reciprocity for the more developed Caribbean countries. In that framework, it is probable that the least developed countries in the region, such as the OECS countries, would be offered an extended phase-out of preferences for certain commodities, such as bananas.

I am in no way suggesting that the Caribbean should accept the end of the Lomé trade preferences as a matter of fact. But to the extent that the region is anticipating eventual reciprocity within the context of the FTAA by 2005 and to the extent that it has to begin dismantling tariff barriers to take account of the

new WTO rules on trade liberalisation, I would like to suggest that the Caribbean has a unique opportunity now, to negotiate an arrangement with Europe which could also inform the creation of a future time-table for the introduction of the Region into a Reciprocal hemispheric trade arrangement in the context of the FTAA. Such a timetable should take account of the different levels of preparedness within the region and within the different sectors to grant reciprocity as well as the identification of mechanisms and arrangements that support a transition from preferential to reciprocal trade.

The essential point is that whatever is agreed beyond Lomé IV could and should form an essential building block in the quest towards hemispheric integration.

In this sense therefore, beyond Lomé IV does not have to be the end of the history for the Caribbean. It is true that reciprocity has its costs and the region needs to carefully analyse the revenue and other implications of moving away from the current preferential regime. But reciprocity also offers the Caribbean the opportunity to bargain for free access to EU for a number of its agricultural exports which have long faced restrictions such as quotas, marketing calendars and export ceilings.

The challenge for the region, therefore is to speed up and complete the process of regionalisation within the context of the Single Market and Economy and use that as the basis on which it can then better its position to negotiate with other sub-regional groupings and expand its trade and investment relations throughout the hemisphere.

As far as the Commodity Protocols are concerned, there are pressures from a number of directions, both within the EU and from outside the EU which threaten to erode the current preferential access enjoyed by the Caribbean ACP beyond Lomé IV.

- Further multilateral liberalisation through the review of the Generalised System of Preferences (GSP) in 2000 could erode the value of the preferences in general. Caribbean rum producers in particular, could face increased competition if the GSP is extended to a wider range of nations, thus opening the EU rum market to producers in Mexico and Brazil, who, by virtue of economies of scale, could present a formidable challenge to Caribbean rum producers.
- The future enlargement of the EU to include some of the agricultural economies of Central and Eastern Europe, such as Poland, also poses threats to the Caribbean producers and especially rum producers who could face competition from producers of Ersatz rum from Central and Eastern Europe.

Against this background, the regional rum industry has put forward a number of proposals for a successor arrangement governing rum beyond Lomé IV. These include a commitment by the EU to abolish all remaining quotas on exports of ACP traditional rum to the EU by the year 2000 as well as an undertaking not to extend to the third countries, duty-free access of rum beyond the arrangements presently enshrined in the recently concluded EU-US Memorandum of Understanding, or the so-called "Zero-for-Zero" Agreement of December of 1996. Other proposals call for the provision of EC assistance to develop a Caribbean-ACP branded product and to assist the industry to develop market share and enhance competitiveness in preparation for full and open competition.

- The next Round of Uruguay Round discussions on Agriculture due to begin in 1999 will place pressure on the EU to further liberalise its internal agricultural policy. Linked to this and therefore as Mr. Moran already said, is the review of the EU's Common Agricultural Policy (CAP)

which should be in place by the year 2010. This is likely to impact directly on the Sugar Protocol. The price received by the ACP for their raw cane sugar is determined largely by the intervention price paid for beet sugar grown in the EU. The reform of the CAP could mean a decrease in the intervention price paid to domestic EU producers and as such, a corresponding decrease in the intervention price received by the Caribbean sugar exporters. Therefore, while the expiry of the Lomé Convention does not affect the integrity of the Sugar Protocol, these internal market and political dynamics could see a gradual erosion of the advantage the Caribbean currently maintains over world price levels. It is therefore important that the region's producers use the time available - and there is time available - to modernise production processes and become more cost-efficient as part of their quest for increased competitiveness.

- There is also the intentions of the Dominican Republic and Haiti concerning access to the Commodity Protocols in a post-Lomé IV arrangement. When the DR negotiated entry into the present Convention, it did so on the basis that it would not seek accession to the Sugar and Banana Protocols. It is not certain whether these conditions will remain in place beyond the Lomé IV Protocol; which could mean increased competition from within the Caribbean ACP group.
- Similar questions arise about the possible accession of Cuba to a post-Lomé IV agreement. Already, some sections of the Caribbean sugar, rice and rum industries are urging a cautious approach in respect to the extension of trade provisions to Cuba in a successor agreement.
- The EU is also under considerable pressure to make its banana regime more WTO-compatible. The recent WTO ruling against

the EU on the banana issue has highlighted the vulnerability of the Banana Protocol to further challenges. It is therefore unlikely that the present arrangements will be acceptable to those actors, both within and outside Europe, who are lobbying for a more liberalised regime. In the medium-to-long-term therefore, Caribbean-ACP banana producers may find themselves in a less advantageous position *vis-a-vis* their Latin American counterparts on the European market.

- Finally, as far as rice is concerned, the arrangements governing Caribbean rice exports to the EU have come under pressure since 1996 when the EU introduced safeguard measures limiting and licensing the volume of rice entering into the EU via the OCT (Overseas Countries and Territories) route. This was done in response to growing concern among EU rice producers about the increasing quantity of rice entering Europe via the OCTs. These restrictions are likely to remain in place at least up to the year 2000. In the interim, the regional rice industry is hoping to negotiate a post-Lomé IV arrangement for rice that it believes is consistent with encouraging the development of fully competitive industries in the ACP. The proposals include a request for a post-2000 quota for ACP rice shipped directly to Europe, fixed at an initial level of 250,000 tonnes with an annual increase of 20% up to the year 2005; at which point ACP rice from traditional suppliers (Suriname and Guyana), should be able to enter the EU market free of quota or quantitative restrictions. The industry is also proposing the end of the OCT route in respect of rice as well as a package of assistance aimed at increasing efficiency and productivity in the region so that ACP producers can prepare for eventual open competition within a liberalised market.

These then are some of the challenges posed for the Caribbean agricultural sector beyond Lomé IV. There are other challenges of course, related to the aid and political dimensions of cooperation.

In closing, I would like to repeat the point I made at the beginning of my presentation. What I have outlined are merely indications, albeit

very strong indications. The "Beyond Lomé IV" scenario is going to be the outcome of a dynamic process of negotiations and the opportunity exists for the regional private and public agricultural sector to begin working together to influence the outcome of those negotiations.

Thank you.

## Agri-Food Policy In An Open Economy

### Introduction

Dr. Trevor Dewdney

Ladies and Gentlemen, although the focus of this module is "Agri-Policy in an Open Economy", I think we need to recognise that in addition to it being an open economy, it is basically a market economy. Since independence, we have done very little to change inherited systems and structures. In terms of trade, we continue to confine our thinking to Europe and North America. We need to recognise that the world population today represents 5.8 billion people, with projected growth to 6 billion in a couple of years. That 6 billion people is the market we need to focus on. In the policy making process, we need to be devise strategies to position the Caribbean to take advantage of this vast and growing global market.

According to the literature, world trade in processed foods has expanded by 10% per annum over the last five years. And the indicators are that this percentage is going to increase. So our policy making process must take into consideration these global trends. We also need to recognise that in our small island states, we have the potential to create wealth in our agricultural sector, for that wealth to be distributed at the social level to the farming and

rural communities, and the importance of that in terms of the well being of our society. One farmer said to me recently, - the most ungrateful part of your body is your stomach, because regardless of how well fed it was yesterday, it demands to be well fed today-. This is how basic this area of food is.

The world trade environment changed the moment that the European countries decided to form a union. Most of what has occurred since and continues to occur today can be traced back to that decision - trade blocks. Having recognised that, we need to determine how we are going to position ourselves to take advantage of the opportunities within this expanded market that is now under pressure.

To me, the critical issues are: How can we access these markets? What do we need to do to access those markets? I am convinced that once these barriers are removed, whether they are conditionalities, or producer technology, once those rules are clearly defined, I am confident that we in the Caribbean have the potential to enter these markets and if the playing field is a level one, to compete and do well.

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### *Scope for Domestic Policies under the WTO*

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### The Changed Environment for Agricultural Policy

The Uruguay Round has changed the environment in which agricultural policies are enacted. For the first time, there are very little limits on what countries can do to influence markets, prices and farm incomes. The Agreement on Agriculture imposes restrictions on both the type of instruments that can be used

and the level of support which can be granted through those instruments. At the border, countries can only use import duties, at no more than bound levels, and these levels in many cases, are scheduled to be reduced over the next few years. Countries can only continue their use of export subsidies under closely monitored conditions and no new export subsidies can be introduced. Domestic policies have been



categorised under the Agreement into those that are production-neutral and those that are output-enhancing. The former ("green box" policies) are permitted without fear of challenge; the latter are monitored and the total amount of such support is reduced over time.

Only time will tell how closely these new regulations are observed and what happens if there is an irreconcilable difference between domestic political necessity and international probity. For now, we must take the new rules at face value.

In general, these new rules on agricultural policies as laid out in the Agreement are consistent with current thinking as to the way in which policies should change to make them more in tune with national economic policy. The problems which have characterised the world market for agricultural goods for so long were as a direct result of the heavy intervention by governments in agricultural markets, with the consequent import restrictions and export subsidies imposed to try to manage the resulting imbalances. It follows that rolling back levels of protection should benefit the world market in general and exporting countries in particular. Better access helps exporters and domestic consumers and limits on export subsidies improve the predictability and stability of world markets. The countries of the Caribbean have been among those that have suffered from lack of access and unstable world markets, and should benefit from the stricter rules on agricultural trade policy.

However, there has been a certain amount of concern over the limits on developing countries in their policy choice.<sup>1</sup> The restrictions on domestic policies (and on export subsidies) were negotiated and concluded almost exclusively with the developed countries in mind. Moreover, the developing countries did

not find it necessary to record their base levels for domestic subsidies in their GATT schedules, thus effectively giving them a zero base for coupled policies.

This has led some to conclude that developing countries emerged the losers from the agricultural part of the Uruguay Round agreement. This notion is reinforced by the likelihood that world prices for many of the products that developing countries buy in world markets could go up as a result of the agreement.

Many countries in the region had already converted non-tariff barriers to tariffs before the conclusion of the Uruguay Round, as a part of their domestic economic reforms. This implies that the direct impact of policy choice is minimal. It however, has the (perhaps unintentional) effect of limiting their use of the special safeguards (see below) which were an option for those situations where new tariffs were imposed during the Round.<sup>2</sup> The main implication of the "tariffs only" rule for the region is to prevent the reintroduction of non-tariff measures. The level of tariff protection is unlikely to change much as a result of the Agreement: there is little by way of tariff reduction reflected in the schedules of most countries of the region. Countries chose in most cases the option of "ceiling" bindings rather than establishing individual bound rates for each commodity. Many of these ceilings were at rates higher than those actually used. As a result, the market access provisions of the Agreement impact on the region more from their position as exporters than directly on their import policies.<sup>3</sup>

The new constraints on export subsidies are not likely to change domestic policies in the Caribbean region: few countries have had the

<sup>1</sup> The new rules for agriculture in international trade are by no means the only set of constraints on domestic policy in developing countries in the post-UR era. Regional trade agreements, structural adjustment programs and domestically generated economic reforms have an equal, if not greater impact on policy choice.

<sup>2</sup> By the same token they were not required to grant minimum access quotas on import items, another aspect of the process of tariffification.

<sup>3</sup> The sugar quotas of the EU and the US are, for instance, included in the schedules of these countries as "current access" commitments and hence are "bound" in the WTO.

resources or need to subsidise exports. None of the countries in the region have entered any significant export subsidies in their schedules and therefore will not be able to use them in the future without risking challenge. The main impact of the curb on export subsidies is likely to come as a result of the limits on such subsidies in the EU and the US, and on the impact on world markets of such limits. This should increase over time the import prices for some products and make less frequent the incidence of dumped commodities depressing domestic market prices.

The agreement to classify domestic policies into those that deemed to be trade-neutral (green box) and those that are trade distorting (amber box) clearly has the potential to limit policy choice options for developing countries - perhaps even more than for developed countries. Most policy instruments that aim directly to encourage investment in farming and infrastructure, along with nutritional and other poverty programs will fit comfortably in the green box. Price support policies that rely on administered prices to farmers will be subject to constraints. As most developing countries chose to consider their agricultural policy instruments as "green", they did not include in their schedules a base "aggregate level of support" (AMS). This base is therefore, from the point of view of other countries, zero. Developing countries will therefore have less scope to continue such price policies than developed countries that registered large AMS payments to agriculture in the base period and thus can continue them at a slightly reduced level for some years to come.

#### Available Instruments for Agricultural Policy

Even with the constraint on price supports, the range of instruments available to countries in the Caribbean region is extensive. The list of such available domestic policy tools is given in

Box 1 below. Perhaps the most important category is that of "general services" which includes most of the policies necessary to help agriculture become internationally competitive. Research, extension and training, along with quality control, infrastructure and marketing, come at the top of the list for most Ministries of Agriculture as well as their economic advisors and the representatives of development institutions. Where these items of public expenditure are inadequate to ensure a reasonable income for those farmers that would otherwise be productive in the sector, the category of direct payments allows a range of specified targeted programs. Under the category of food security instruments, countries can accumulate stocks (if not just a side product of generous price supports) and run nutrition programs.

As an aspect of "special and differential treatment" for developing countries, there is also the possibility of employing subsidies for investment and input use under certain conditions, which would in developed countries be included in the "amber" box. The amount of support given by amber box policies is also larger for developing countries. The *de minimis* limit is set at 10% of the value of production for any commodity-specific program with a similar limit for more general subsidies.

It is likely that most of the countries in the region will be able to fashion an agricultural development policy involving these domestic instruments. The main criteria is that the policy instrument not directly stimulate output of one commodity. Taken with the prohibition of non-tariff trade barriers, this implies that development policy will need to be targeted at specific types of situation or individual rather than commodity. Direct action will have to replace broad protection at the border.

**Box 1: Instruments Available for Domestic Policy**

1. Green box policies\* (defined in Annex 2 of Agreement on Agriculture)
  - a. General Services:
    - research
    - training
    - inspection
    - infrastructural services
    - extension
    - pest and disease control
    - marketing and promotion
  - b. Direct Payments:
    - decoupled income support
    - safety-net programmes
    - retirement schemes
    - investment aids
    - regional assistance programmes
    - income insurance
    - disaster relief
    - acreage withdrawal
    - environmental programmes
  - c. Food Security Stocks:
    - purchased at market prices
    - part of national food security program
  - d. Domestic Food Aid:
    - nutritional programs
    - food programs for poverty relief
  - e. "Special and Differential Treatment" Clause for developing countries
    - i. Investment subsidies, so long as they are generally available
    - ii. Input subsidies which are intended for use of poor producers
    - iii. Diversification support, as subsidy for diversification away from illegal crops
3. Non-Exempt measures
  - a. Price supports up to a limit (*de minimis* provision) of "less than 10% of farm gate value" (note: this could be much greater share of marketed value)
  - b. Up to AMS constraint agreed in the country schedule (subject to reduced over time), but this was set at zero for most developing countries who chose instead to claim current policies as "green"
4. Payments linked to acreage limitation programmes (designed for the EU and the US)

**NB: Green box policies explicitly exempted from countervailing duties**

Countries do however, retain some instruments which can be used at the border - in particular, safeguards against disruption of domestic markets by imports. These safeguard measures are listed in Box 2. They range from general balance of payments safeguards which allow for trade barriers to be kept when foreign exchange reserves are low, to specific provisions for supplementary duties in those cases where non-tariff barriers were converted to tariffs as a part of the Uruguay Round agreement. The three most likely to be found useful to developing countries in the region are anti-dumping and countervailing duties and emergency safeguards.

Anti-dumping duties require a complex procedure for establishing the dumping margin, showing injury to the domestic sector and then

linking the two. In practice, such a procedure is hardly likely to be useful to prevent sharp price declines on domestic markets arising from a flood of imports. By the time the process had run its course, the damage would have been done. Most government subsidies against which one would apply countervailing duties are now protected under the WTO schedules. This leaves emergency safeguards, a mechanism quick to use and effective, but not suitable for long-term protection of vulnerable industries. A combination of emergency safeguards and adjustment assistance may be necessary.

In addition to these instruments, there are certain types of measures which have a less certain legitimacy in the GATT/WTO. These include price bands and variable levies. The advantages and drawbacks of this type of

policy are listed in Box 3 below. They need not be protectionist, though it is easy to see how they could become the first step back to granting "relief" from legitimate competition. Though the argument is sometimes made that operating such contingent border taxes within the bound tariff is legal, Article 4.2 of the Uruguay Round Agreement on Agriculture specifically prohibits the use of variable levies, minimum import prices and similar measures

other than ordinary customs duties. Even if the level of duties under such schemes cannot be challenged the instruments can be queried - and presumably, will be the first time such policies threaten the exports of the major trading countries. For this reason, Caribbean governments should be wary of such measures even though they are used by several countries in Latin America.

**Box 2: Safeguards Available Under WTO Rules**

1. General balance of Payments Safeguards (Articles XII and XVIII B)
  - import restrictions allowed when foreign exchange reserves are low
2. Anti-Dumping Duties under article VI and "Agreement on Implementation"
  - duties allowed when imports are less than "normal value"
  - have to establish dumping margin
  - have to prove domestic injury
  - have to show injury due to dumping
  - UR clarified calculation of margin, injury criteria, *de minimus* threshold, time limits for investigation, 5-year sunset clause
3. Countervailing Duties (Article VI and "Agreement on Subsidies and Countervailing Measures")
  - countervailing duties allowed where imports benefit from foreign subsidy
  - have to show injury and subsidy
  - US clarified injury determination, subsidy calculation, conditions for ending investigation. **BUT** many subsidies are now protected in country schedules.
4. Emergency Safeguards (Article XIX and "Agreement on Safeguards")
  - measures can be applied **IF** increased import quantities caused or threatened serious injury
  - proper investigation, public notices, hearing
  - four years and four renewable
  - have to remain "off" as long as they were "on"
  - some discrimination possible among suppliers
  - compensation no longer required in first three years (in including imports, has been absolute)
  - UR attempted to make Article XIX safeguards easier to apply to counter the attraction of anti-dumping and voluntary export restraints
5. Special Safeguards (in UR Agreement on Agriculture, Article 5)
  - price trigger operates supplementary duty
  - import surge activates supplementary duty
  - can only use one of them
  - only for goods "tariffied" and indicated in schedule.

### Box 3 Price Bands or Sliding Scale Tariffs

#### **Advantages:**

- can tie to moving average of world prices and hence avoid increasing protection levels
- apparently 'safe' from challenge in WTO if within bound tariff
- could be made limited in scope, transparent in operation
- could be harmonised across CARICOM or run at a CARICOM level

#### **Problems:**

- could be challenged as "variable levies" illegal in the WTO
- could easily spread to too many commodities
- trade policy could easily become administered rather than transparent
- may not be best way of adjusting to low world prices - direct compensation better!
- could become vehicle for reversion to protection.

### The WTO and Structural Adjustment Programs

The dictates of structural adjustment and domestic policy reform move countries in the same direction as does the Uruguay Round Agreement. The WTO -consistent types of policy discussed above are also favoured by international donors. There are times when the conditionalities appear to move countries at a faster pace than the Uruguay Round would require. Under these conditions there can arise two different problems: (a) whether the WTO schedules in some sense replace those negotiated with the international lenders, and (b) whether there are safeguards that can be attached to the process of liberalisation under structural adjustment that are WTO consistent.

These issues have arisen in at least two cases in the region in recent months. As a result of tariffication of non-tariff barriers as a part of a structural adjustment programme, Jamaica introduced stamp duties over and above the CARICOM Common External Tariff (CET), which had to be reduced according to an agreed schedule. Pressure built up however, on the Government of Jamaica to delay this reduction. Later, Trinidad & Tobago faced a similar issue. The Government has agreed on a plan to convert non-tariff measures to tariffs and to reduce these tariffs to the CET following a schedule. Concern was expressed that this pace of reduction might prove too fast for the sector to adjust.

The comparison between the pace of adjustment in the WTO schedules and those under structural adjustment programmes is a false comparison. The former was never devised as an indication of the desirable pace of adjustment for individual countries: it merely represented the best that countries collectively could agree to in a set of complex negotiations. By contrast, the particular SAPs that have been negotiated individually reflect specific circumstances and objectives. In a large number of countries, both developed and developing, the actual pace of reform of agricultural policies exceeds that required by the WTO schedules.

The issue of safeguards against too rapid a movement to the CET is however, a legitimate concern.<sup>4</sup> Obviously all the set of contingent protections (anti-dumping, countervailing duties and emergency safeguards) are still available. But there is some argument for having a safeguard that is designed for situations of rapid reductions of tariffs rather than subsidy-depressed world prices or dumping by overseas firms. Two devices would appear to be useful in this situation: (a) a snapback to a previous step in the tariff reduction schedule if there has

<sup>4</sup> Though this has arisen in terms of the SAPs it can also be cast as a question of moving from a free trade area to a customs union. How do you encourage countries to move rapidly to a common tariff from much higher levels of protection? Some safeguard provisions might be useful in such a transition.

been an import surge or a collapse of domestic market prices as a result of the pace of tariffication, or (b) the payment of compensation to domestic producers who are injured by the price decline. The latter has a direct fiscal cost but is preferable where local producers are unlikely to become competitive with imports.

The policies which cannot be used under the WTO are generally the same as those removed under SAPs. These include non-tariff border measures, such as, quotas and negative lists, export subsidies, and significant price support programmes which are financed through the taxpayer or an increase in the consumer price. Most of what cannot be legally done under the WTO rules should not in any case be contemplated by policy makers. Non-tariff barriers are not the appropriate instrument to use for a private sector trade environment. Price supports send inappropriate signals to farmers and consumers and encourage investment in the wrong activities. Supporting commodity prices is rarely the best way to help individual firms and farmers. The UR constraints still leave ample space for constructive agricultural policies. The individual country still has to determine which of the policy options are chosen.

#### Forging a Strategy for Agricultural Policy

The set of available instruments would seem to be adequate for designing and implementing an agricultural strategy for the Caribbean region.

This strategy could have four components:

- (a) an investment policy to develop a competitive agriculture within the region;
- (b) a social policy to address the issue of rural poverty and food security;
- (c) a trade policy to prevent market disruptions which might jeopardise the other parts of the strategy; and
- (d) an institutional framework within which the strategy can be implemented.

An active investment policy could have a clearly defined objective and a strategy for implementation. The objective for the region

could be to have in place a fully competitive agriculture by the year 2005, when the trade barriers among countries in the Americas are scheduled to be removed. Implementation could be through a partnership with the private sector, under which the government provides the environment and the private sector makes the investment decisions. The public sector will probably retain a role in the provision of research and extension services to facilitate the development of a competitive agriculture and food industry. Such a policy is consistent with the WTO, with the SAPs and with the objectives of CARICOM. Funds should become available if the investment activities are seen to lead toward to genuine competitiveness.

A social policy is needed to go along with the investment policy, if for no other reason than to secure political agreement. Carefully devised, they can also have a positive impact on development by integrating marginal groups of farmers and poor consumers into the mainstream of the economy. Programmes will presumably include targeted nutrition programmes and schemes such as food stamps, to provide purchasing power to consumers in poverty. Provision of basic services in rural areas will assist in the full integration of farmers into the economy and society. Some compensation for those most affected by adjustment to competitive conditions could also be needed to make these changes socially acceptable.

Trade policy still has a role to play, but in a more passive or reactive way than in the past. Countries in the region have agreed to allow free trade within CARICOM and to establish the CET. A rapid move to complete the arrangements for the liberalisation of the internal market and to solidify the CET is clearly necessary to get the most out of CARICOM. Some of the external trade policies mentioned above could be implemented at the CARICOM level, such as, the investigation of dumping and foreign subsidies with supplemental duties being attached to the CET, rather than leaving each member to devise and

operate their own policies. Coordination in negotiations within the WTO and with trade partners could also be a function of CARICOM. Similarly, in the area of export policy, with several major issues, such as, the future of preferences on the horizon, a coordinated position would seem crucial.

The key to all these aspects of an integrated strategy is an institutional framework that is responsive, inclusive and flexible. Political leadership is necessary to articulate goals. These goals need to be embraced by all those whose cooperation will be needed for their attainment. This may require a new attitude of public-private partnership to replace paternalism and suspicion. Within the private sector, new ways of working together may have to be developed. Market development and

quality control are emerging as major determinants of success: each needs institutional support. Research activities need to be focused on increasing the ability of the agricultural industry to adjust and respond to challenges from outside. Education and training have to extend to all levels of the farm and food sector and again be focused on adjustment and flexibility. Regional institutions need to be further developed but kept flexible enough to allow changes in the composition of the region and its relation to other parts of the Americas. Change has to be seen as opportunity for development. The Caribbean region has to seize the opportunity to develop a competitive agricultural sector within the decade or risk marginalisation in an otherwise integrated world.

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*Trade Liberalization, Government, and Private Markets*

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The process of trade liberalization changes the relationship between government and the private sector in a country, between the government in a country and the private sector in other countries, limits the activities that governments can successfully carry out on behalf of businesses in their countries, and sometimes forces governments to take actions they would prefer to avoid.

I have been intrigued by the fond memories that some of my most capitalist, free-market friends in major export businesses have for the now defunct centrally-planned economies with their central buying agencies. It turns out that they liked a system where business was done with a single individual, where prices, specifications, and other conditions of sale were determined by discussion/negotiation and sovereign governments guaranteed payment. In other words, they liked a system where the rules and conditions for trade were determined by governments and not by markets. And these are

individuals and companies that have been hugely successful in competing in market systems and are considered the embodiment of market systems.

Businessmen in closed or highly protected economies are used to dealing with their governments and are highly conscious of the impact that government decisions can have on their well-being. As a result various groups spend a great deal of time and effort to persuade their governments to take actions that will benefit them or to dissuade governments from action that they view as harmful.

Businesses from outside these closed economies that wish to do business or sell into those economies are equally conscious of the impact of government policies in these closed systems. They must either learn how to work with governments in these closed systems, form alliances with internal groups that can aid them, or abandon the idea of doing business in the

country. Trade liberalization changes these relationships largely as a result of the impact of international markets, and companies that have learned how to influence the policies of governments for their benefit may have to learn new skills and adjust to new policies. Even though they are in business they usually have thought relatively little about the power of open competitive markets and the limits they put on both public and private activities.

I want to discuss two elements of the impact of markets on government policies. One is the limit that markets place on government policies designed to assist domestic producers, processors and marketers. The other element is the power of markets to force governments to take policy actions that they and many of their constituents oppose, or to put it another way markets can force governments to adopt policies where none now exist. I want to discuss these both in terms of domestic markets and export markets.

#### Market Power and Government Policies

One aspect of a liberalized trade regime is the futility of trying to get government to carry out domestic market policies that won't work. One set of policies that won't work are various schemes to raise or maintain internal prices for a product above the prices that one would pay for imports. Such schemes often involve domestic production or marketing controls, export subsidies, or multiple pricing schemes. If the product in question is one where domestic production fails to cover domestic consumption needs once the border protection is removed the internal price cannot be maintained above the price of imports. If the product in question is one where domestic production exceeds domestic consumption the internal price cannot be maintained above the world price. The US wheat growers found this out when they convinced the US government to use export subsidies for wheat to raise internal prices after the free-trade agreement with Canada was in effect. The result was a flood of wheat imports from Canada.

Minimum import prices are a favorite of domestic producers. Under a free trade agreement, however, unless there is proof of subsidies or dumping by exporters there is no way that a government can maintain minimum import prices. However, some countries have managed to negotiate agreements that maintained price protection for some raw products only to see them destroyed or undercut by the imports of processed products made from those raw products. Because of pressure from durum wheat producers the US government restricted the import of durum wheat from Canada. The result was a flood of pasta imports that resulted in US pasta makers demanding the removal of the restrictions on raw material imports. Thus, the market forces that drive processors will almost always undercut policies to support raw material prices above competitive levels. Whereas under government regulated trade, raw materials and processed products trade flows can be separated, under an open trading system they are linked by markets.

Sometimes the absence of policies affect internal markets. One of the more notable cases involves the capital markets. Almost every country now recognizes that foreign capital investment in many key sectors of the economy can be an important force for economic growth and modernization of a sector. However, unless a country has a minimum set of transparent laws and regulations in place to protect the owners of the capital there will be no continuing foreign investment. The notorious IMF reforms that are required of countries in financial difficulty are not suggested to appeal to the tastes of IMF bureaucrats but are proposed in order to convince owners of capital that a country is a relatively safe place to invest. Leaders of countries that were part of the former Soviet Union frequently express dismay about the unwillingness of foreign investors to invest in their countries. Basically markets are sending them a message which they either have trouble understanding or trouble in translating into new policies.



### **Market Forces in Export Markets**

There is a tendency for producers and processors to assume that government rules are the major barrier they face in international markets. The reality is that the major barrier they face may be the refusal of foreign markets to accept products from agricultural systems that they do not trust to ensure food quality and safety. If you question this premise ask British beef producers. It is true that the EU has now put a ban on British beef exports but that came in response to a virtual consumer boycott of all beef in many EU countries. Just as foreign investors having been burned in some Asian countries by investments where there are inadequate regulations on financial markets and are unlikely to return until effective regulations are in place, buyers of food in most markets are unlikely to buy products without indications that systems are in place to ensure quality and safety. Consumers in the US, Europe and Japan will stay away from products they feel might be unsafe and as a result, processors and marketers in those markets will not buy products.

The US Government has recently announced a new food safety initiative to ensure the safety of fresh fruits and vegetables from both domestic and foreign sources. I am certain that many foreign producers and handlers must use procedures that will enhance the safety of the products they export to the US. However, I do not think that the power of the Food and Drug Administration inspectors is the power to be

feared. What supermarket chain will knowingly buy products from a source that may make their customers ill? Thus market forces will force countries that wish to compete in major export markets to adopt serious and effective measures to ensure food quality and safety. Whereas you might assume that the natural tendency of business is to resist government imposition of rules to insure food quality and safety, market competition will likely cause businesses to strongly support such policies and to urge that they may be strictly enforced on all exporters to ensure market confidence.

At the Miami CLAA conference last December, I listened to the head procurement officer for one of the largest Caribbean cruise lines explain why they buy all their fresh food supplies from Miami even though it would be more efficient to re-supply at various ports of call. He pointed out that the cruise lines are dependent on their clients having a pleasant experience and food borne illness is not such an experience. Another example of the power of markets to influence decisions.

In the modern world of instant communication, the power of markets as a reflection of consumer preferences is growing as consumers react quickly to products that they perceive as unsafe. This is especially true of the affluent consumers in Europe, the USA and Japan. Producers, marketers and governments must learn how to adjust both public and private policies to this rising power.

### ***The Unfinished Agenda: Latin America and Caribbean Agriculture within the WTO and FTAA***

Dr. Rodolfo Quiros

Director, Socio-Economic Policy, Trade and Investment

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I would like to start by clarifying some issues. One is very obvious. Yes there is an unfinished agenda in the WTO concerning agriculture and other areas and the FTAA agenda in agriculture is just beginning. This is basically because there was no preparatory group in the FTAA process dealing with agricultural issues *per sé*. There

were agricultural and agri-business papers presented and workshops in the private sector side of the Ministerial Meetings, particularly in Denver and in Cartagena. But there were none in San José.

Basically, when the Uruguay Round was completed in 1994 and the WTO established in 1995, there were essentially a number of issues for the reform process of the multilateral trade system in the WTO. The compromise was either in the Agreements themselves or in the Marakesh Agreements of the Ministers of Trade.

Regarding the unfinished agenda of the Uruguay Round, principal issues of **the Reform Process of the WTO Agreements** are as follows:

- Financial Services (Concluded on 12 December 1997)

still being negotiated in the on-going process under the WTO are:

- Basic Telecommunications
- Maritime Transport
- Movement of Natural Persons

Negotiations in the so-called **Automatic Agenda** will focus on:

- Further Liberalization of Trade in Services
- Reducing Agricultural Protection as part of the multilateral system.

There is a process to reach agreement in the so-called **"New Topics"** or new issues of the international agenda:

- Trade and the Environment, (for which there is a Commission working on this and there is an UNCTAD Report on Trade and the Environment);
- Trade-Related Investment Measures
- Competition Policies
- Trade and Social Standards (on which there is no agreement).

The negotiations agenda for the Reform Process of the **Agriculture Agreement** (1999) will include the following topics:

- Market Access (Tariff Quotas)
- Export Subsidies
- Domestic Support

In the present Agriculture Agreement, there remain a number of issues which are very likely to form part of the 1999 Agenda for the process

of reform in the WTO. These areas are identified in a paper by the International Trade and Research Consortium (ITRC) presented in a meeting in San Diego, California last December, co-authored by Prof. Josling, as well as on a presentation made by the Head of the Agricultural Commission in the WTO during a conference in Costa Rica prior to the FTAA Meetings.

The major categories for the 1999 agricultural reform under the WTO are:

1. Improve & refine the application of the Agreement, ie, the application of the Agreement by member countries since 1995
  - Tariff Rate Quota (TRQ) system
  - Special safeguard mechanism
  - Export credits
  - Completion of tariffication
  - Dispute settlement mechanism
2. Measures required to Improve Market Access for Agricultural products, ie,
  - Export subsidies
  - Trade distorting domestic subsidies
  - Domestic support (AMS)
  - State Trading
  - Quantitative export restraints
3. WTO Structural issues affecting agriculture
  - Terms of accession and agreed schedules for the accession of new members (eg. China, Russia Ukraine) that will have major impact on world agriculture, both from the point of view of production and trade;
  - Agriculture in regional trading groups VS multilateralism. The issue of whether regional groupings such as the FTAA are compatible or not with multilateral agreements in general under the WTO rules and how can we get them to be convergent and WTO compatible.

The question of tariff rate quotas (TRQs) and how their administration by the different

countries is a major issue and is very likely to get in the Agenda of the 1999 process of reform of the WTO. This refers not only to the TRQs in terms of the volumes and tariffication by some countries in some products, such as rice in Japan and Korea, but also to how the tariffs within and above the TRQs are being managed by the Governments. This issue is very much related to the licensing systems which are part of the administration of tariff rate quotas. Apparently, some countries are not being very transparent in their administration of TRQs.

The special safeguard mechanism is also an issue which will almost certainly be re-examined. This is because, as mentioned this morning, the special safeguard of the Agricultural Agreement applies only to tariffied products which have to be notified in own schedules. Because most countries do not comply with the requirements for notifications, use of this special tariff, which is rather easy and fairly automatic to apply, is not being very widely used.

The issue of export credits and exports or imports on preferential credit terms is one which was simply ignored in the Uruguay Round. This is a practice which may give rise to unfair competition in world markets. The Dispute Settlement Mechanism is also very likely to be included on the Agricultural Reform negotiations agenda, particularly in terms of its effectiveness in terms of agricultural products and the resolution of conflict.

Export subsidies is a topic that will most certainly be on the reform agenda. Other trade distorting domestic subsidies and supports which are inter-related topics, the state trading issue which is still creating distortions in international markets, not only in agriculture and state trading will also be topics for the negotiating groups in the FTAA as well. The issue relating to quantitative export restraints applied by some countries and their relation to food security in a liberalised trade world will also be discussed.

Regarding the FTAA Integration process, there are a number of trading groups within the

proposed Free Trade Areas of the Americas. In terms of their origins:

- firstly there was the movement in Central America, the Common Market of 1960 which is now being re-dynamised under different and more comprehensive trade rules;
- the Andean group;
- CARICOM (including Haiti);
- MERCOSUR, which of course is the largest and one of the newest trading blocs in South America
- NAFTA which is US-CANADA-Mexico.

Of all the countries, the Dominican Republic, Panama, Cuba, are those which are not full members of any regional or hemispheric integration movement. Although Chile has a trade agreement with MERCOSUR, it is not a full membership, as similarly for Bolivia.

As suggested by Prof. Hathaway, that the last tranche of the FTAA process is essentially going to be negotiations between two giants - one US and the other Brazil (part of the Mercosur group), this is basically true. However, in economic terms, there is only one giant, probably one or two middle-sized countries with the rest of the countries in the FTAA group being really very small economies. Taking the US economy to equal the index of 100, when measured in terms of GDP, Canada is only 10% the economic size of the US; Brazil 14%; and the combined Andean Group, which in Latin America are considered middle-sized countries, are only 8%; and Mexico, which already is bound to the US by NAFTA, is only 4%. Making comparisons for CARICOM or the Central American countries is difficult because the figures are so extremely small.

NAFTA is one area of agreement among the five areas that the Summit of 1994 agreed to implement. This is why the goal to achieve significant progress and concluding the FTAA by 2005 is being so actively pursued. Other areas, such as the building of democratic institutions, financial capital market integration, social services and a number of other initiatives

are currently being worked on albeit at a much slower pace than the FTAA and also are not as widely known and discussed as the FTAA.

The important issue relating to the general principles for the FTAA negotiations are:

1. Decisions are to be taken by consensus
2. Negotiations will be conducted in a transparent manner
3. Negotiations are to begin simultaneously on all specific issue areas and the agreements shall constitute a "single undertaking"
4. FTAA Agreements are to be consistent with rules and disciplines of WTO - again the emphasis that everything agreed on in the FTAA has to be GATT-compatible.
  - Commitment to:
  - Art. XXIV GATT 94
  - Art. V GATS and
  - Uruguay Round Understanding
5. Improve upon WTO and disciplines (GATT-plus);
6. FTAA can co-exist with bilateral or sub-regional agreements;
7. Acceptance of obligations as individual countries or members of a sub-regional integration group as a unit;
8. Special attention to be paid to the needs economic conditions and opportunities of smaller economies and countries with different levels of development, specifically areas of
  - transitions cost
  - internal dislocation of the economic activities
  - full participation in the agreement's costs and benefits
9. Rights and obligations shared by all countries. Concessions or measures for smaller or less developed economies should be guided by:
  - a case by case basis
  - transparency, simplicity and ease of applicability.

It is important to note that there has been a conscious differentiation made between

smaller economies and less developed countries that was not originally in the FTAA preparation groups. In terms of the negotiations, I think this differentiation is going to be an important issue.

10. All countries shall ensure that domestic laws, regulations and procedures conform to FTAA principles.
11. Promote prosperity increase economic integration and free trade in the hemisphere which will ensure:
  - raising standards of living
  - improving working conditions
  - better protection of the environment
12. Eliminate barriers to trade in goods, services and investments by no later than year 2005. (significant and concrete advances should be achieved by year 2000)
13. Maximize market openness through
  - high levels of commercial disciplines
  - balanced and comprehensive agreements
14. Facilitate integration of smaller economies
15. Mutually supportive of trade liberalization and environmental policies. (WTO Forum)
16. Observance of worker rights and labor standards. (ILO Forum):

The FTAA Ministerial Groups have decided to leave the issues relating to trade and environmental policies and labour standards for discussion by the specific international organisations, as indicated.

They have also agreed on the chairmanship of the process, ie., who will preside over the Ministerial Meetings which will be held when necessary or at least once every eighteen months. Following from the observation of Prof. Hathaway, that the two biggest countries in the area presiding over the chairmanship of the Ministerial Meeting will influence the outcome of the process in their favour, this is a comment made by many speakers here today, that the smaller countries should monitor closely.

**FTAA: The Chairmanship <sup>a/</sup>**

Chair/Vice Chair	Period
Canada/Argentina	May 1, 1998 - October 31, 1999
Argentina/Ecuador	November 1, 1999 – April 30, 2001
Ecuador/Chile	May 1, 2001 – October 31, 2002
Brasil/USA (Co-Chair)	November 1, 2002 - December 31, 2004

<sup>a/</sup> They will serve for a period of 18 months or until the subsequent Ministerial Meeting)

The FTAA Ministerial Groups have also decided against the operation of a Technical Secretariat. Instead, agreement was reached on establishing and operating an Administrative Secretariat which would basically provide support to the negotiating groups and function as a caretaker of the Agreements. The location of the

Administrative Secretariat will initially be housed in Miami Florida, then moved to Panama City and finally in the last two years of the process, will be housed in Mexico City. Consensus on this was one of the issues which took a long time to negotiate in San José, Costa Rica.

**FTAA: Headquarters**

City, Country	Period
Miami, Florida.; US	May 1, 1998 to February 28, 2001
Panama City, Panama	March 1, 2001 to February 28, 2003
Mexico D.F., Mexico	March 1, 2003 to December 31, 2004

On examining the final Agreement of the Ministers, we are left with a clear structural organisation. The Ministerial Meeting which will be held once at least every 18 months, has a Trade Negotiations Committee comprising the Ministers of Trade of the 34 countries in the area. This Committee will meet at least twice a year, with its first meeting to be scheduled for no later than June 30, 1998.

The attributions and responsibilities of the Trade Negotiating Committee (TNC) of the FTAA at the Vice Ministerial Level are to:

- Decide on the overall architecture and institutional issues of the Agreement.
- Establish, dissolve or merge groups.
- Develop the initial work program for each negotiating group and guide their subsequent work.
- Select a Chairman and Vice Chairman for each negotiating group.
- Encourage full participation of all countries in the FTAA process, especially smaller economies.

- Ensure that concerns of countries with smaller and less developing economies are dealt with in each negotiating group
- Identify linkages and outline procedures for effective coordination of groups dealing with interrelated issues:
  - a. Services and investment
  - b. Competition policy and subsidies, antidumping & countervailing duties
  - c. Agriculture and market access

**FTAA Nine (Original) Negotiating Groups**

Group	Chair/Vice-Chair <sup>a</sup>
Market Access	Colombia / Bolivia
Investment	Costa Rica/ Dom. Rep
Services	Nicaragua / Barbados
Govt Procurement	USA / Honduras
Dispute Settlement	Chile/Uruguay-Paraguay
Agriculture	Argentina / El Salvador
Intellectual Property Rights	Venezuela / Ecuador
Subsidies, Antidumping and Countervailing Duties	Brazil / Chile
Competition Policy	Perú / Trinidad & Tobago

<sup>a/</sup> May 1, 1998 – Oct 31, 1999 (elected for 18 months period or until subsequent Ministerial Meeting).

These negotiating groups should begin their negotiations no later than September 30, 1998.

A Committee, comprised of CARICOM private and public sector representatives has been established to produce a position paper on electronic trading to be submitted to the Ministerial Meeting. There is also a Consultative Group on Smaller Economies and to be initially chaired by Jamaica and co-chaired by Guatemala. Recall that Jamaica headed the group on Smaller Economies in the preparatory phase. We are not very clear about how this group on Smaller Economies is going to relate with negotiating groups. This is an issue which will be clarified in the future.

The Tripartite Committee will remain as an advisory group to the entire process and to all of the organs in this particular structure. They also created one Commission on Civil Society interests in order to introduce private sector, academics, labour and other vested interest groups into the negotiation process. They will report to the Ministers who are responsible for reporting to the negotiating group.

To conclude, I will define the specific objectives of the FTAA Negotiating Group on Agriculture, or terms of reference are listed below. First of all it is very interesting to note that the Group on Agriculture has the same basic objectives and references as the Group on Market Access.

#### 1. Basic Objectives:

- Progressively eliminate tariff and NTB's
- Eliminate other trade restricting measures with similar effects
- All tariffs subject to negotiation
- Different timetables may be negotiated
- Facilitate integration and full participation of smaller economies

Rules of origin, custom procedures and technical barriers to trade are issues that will be addressed only by the Market Access negotiating group and not in the Agricultural Group.

#### 2. The Sanitary and Phyto-Sanitary measures which constituted part of the discussions of

the early Preparatory Groups are now embedded within the Agriculture Group with the directives to:

- advance, deepen and comply with the provisions of the WTO/SPS Agreement
- adhere to the same principles of trade facilitation, transparency and scientific base
- prevent the use of SPS measures as protectionist trade practices.

The coverage of the FTAA Group on Agricultural products is exactly the same as Annex I of the WTO Agriculture Agreement. (Basically Chapters 1 to 24 of HS)

3. Elimination of agricultural export subsidies in the hemisphere.
4. Greater disciplines for other trade distorting practices with similar effects.
5. Incorporate progress made in the multilateral trade negotiations, particularly the 1999 Agricultural Reform in the WTO (Art. 20 of the Agreement on Agriculture) and the review and the SPS Agreement.

The scenarios of the Agricultural Trade Negotiation for the Caribbean area are:

1. WTO Agriculture Agreement Reform - 1999
2. FTAA Process -April 1998-2005
3. Other Free Trade Agreements:
  - Mexico-CARICOM
  - Central America – CARICOM
  - Lomé IV Successor Arrangement and EU Banana Import Regime Review

I think that for CARICOM, as well as for the Central American countries and to some extent the Andean countries, that the Agenda for Agricultural Negotiations is very heavy. I get the impression that the regions are not fully appreciative of the extent of preparatory work that all these negotiations, individually and combined, require, not only for the governments, but for the private sector organisations as well.

<b>Experiences With Anti-Dumping, Unfair Trade Practices and Establishing Trade Units</b>
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**Introduction**

Dr. Keith Roache

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The proponents of globalisation and trade liberalisation project a win-win situation for all participants, prosperity and a universal raising of living standards and absolute transparency in all transactions. The basis for their positive projections, are the assumptions, which I think are questionable, that: a rising tide lifts all boats equally; and that trading activities will occur in a mutually favourable and equitable manner - that is the so-called "level playing field".

My Chairman, Mr. Andrew Wildish in his opening presentation related his experiences with regard to the dumping of US poultry leg

quarters on the Jamaican market by virtue of the fact the US producers were able to sell breast meat at very high prices in the domestic market and the fact that we in Jamaica could not get our breast meat into the US market.

Certainly from our perspective, that's not a fair and level playing field. Ambassador Peter King's presentation emphasised the hurdles in terms of giving effect to some of these anti-dumping and safeguard measures that are available. This morning, we will have the opportunities to share the reality and experiences of countries with unfair trading practices.

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***Experiences with CORECA on Anti-Dumping and Unfair Trading Practices***

Ms. Gloria Abraham

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I thank the organisers for giving me the opportunity to share our experiences on anti-dumping with you.

Earlier presentations made reference to the Article VI - the Anti-Dumping Agreement. However, I think it is necessary to remind you of the three important instruments available under this mechanism:

1. the Safeguard Clause or Article 19;
2. the Agreement on Subsidies and Countervailing Measures;
3. the Agreement for the Application of Anti-Dumping Measures.

**Case Study: Onions in Costa Rica - Background**

To explain the onion situation requires an explanation of the general criteria of Article VI. The provisions of the Anti-Dumping Measures (Article VI 1947 GATT and the Agreement on

Implementation of Article VI of the 1994 GATT).....

*.....allows members to impose anti-dumping measures when a product is introduced at less than its "normal" value and in conditions that injure the domestic industry (defined as a group of producers of the "like" product).*

There are three factors which must be established when trying to prove a dumping case:

- determination of dumping and its margin
- determination of injury in the specific production area;
- causal link between the dumped imports and the alleged injury.

This last point is extremely important because sometimes the dumping allegations do not constitute the most important constraint to the particular domestic industry.

For determination of the injury (Article 3):

- the determination shall be based on positive evidence and involve an objective examination of both
  - a. the volume of the dumped imports and their effect on prices in the domestic market; and
  - b. the consequent impact of these imports on domestic producers.

The definition of Domestic industry is given as follows:

*.....domestic industry shall be interpreted as referring to the domestic producers as a whole of the like products or to those of them whose collective output of the products constitutes a major proportion of the domestic production of these commodities.*

The investigation under Article VI includes the initiation of subsequent investigation and the determination of the margin of dumping.

The Central American process of economic integration has been on-going since 1960, by virtue of the General Treaty on Central American Economic Integration. This integration was based on the establishment of the free trade area which required the harmonisation of all the trade regulations in the region. The Protocol which amended the General Treaty on Central American Economic Integration (Protocol of Guatemala, 1993) established the following:

- Common External tariff with a ceiling of 20% and a floor of 5%;
- Customs Traffic Regime
- Customs and Tariffs Regime
- Rules of Origin
- Safeguard Measures
- Unified Customs Form
- Central American Regulations on Unfair Trade Practices which are to be WTO-compatible.

The Central American Regulations on Unfair Trade Practices which are to be WTO-compatible have been working in the region since 1996. It develops the regulations established in Article VI of GATT 1994. We established an investigation process, which is handled by an investigating authority which falls under the Economic Integration Ministry. This is the authority which recommends the imposition of countervailing measures.

Regarding the application of investigation:

*.....an investigation to determine the existence of any alleged unfair trade practice shall be initiated upon a written application by or on behalf of the domestic industry and the producers' organisation.*

The procedural requirements are:

- to submit the application to the authority to whom the request was presented
- identity of the applications. This is important because the applicant must be a sector that is directly linked to the imported product
- to define the notification address
- complete and detailed description of the allegedly unfair practice
- specific claim
- and fulfill all the other information requirements identified in Article VI of WTO

The Article established a 30 day time-period for the process of investigation to be initiated by the investigation authority. This process involves:

- notification to the government of the exporting country of the alleged dumped product
- open consultations
- decision to initiate the investigation only if there is sufficient evidence to justify it.

This is very important because in the Central American case, the initiation of the investigation had to be published in the official gazette. This notification must also include the justification for the investigation.



In addition, the investigation must be concluded within a 12-month period, and should not exceed, for any case, an 18 month period after initiation of the investigation.

There is also the possibility of taking provisional measures (in accordance with the WTO Rules). If an investigation has been initiated and a preliminary affirmative determination has been made of dumping and consequently injury to a domestic industry, then the authority concerned judge such measures necessary to prevent injury being caused during the investigation. These measures shall not be applied sooner than 60 days from the date of initiation of the investigation. In addition, there shall be immediate termination of the investigation in cases where the authority determines that the margin of dumping is *de minimus* (2%).

The authority shall make a public notice 3 days after the investigation concludes. Each notice shall set forth, or otherwise make available through a separate report, the findings and conclusions reached on all issues.

#### Costa Rica - The Onion Case

In the onion case, there was an investigation to determine the existence, degree and effect of onion (tariff code - 0703.10.00) dumped imports from Nicaragua, Guatemala and the US in October 1996.

As previously stated, the Investigating Authority is part of the Office of Unfair Trade Practices and Safeguard Measures in the Ministry of the Economy.

#### Background:

The applicant in the onion case was the Costa Rica Onion Growers Chamber which represents 47% of the domestic production. The preliminary investigation determined that there existed evidence of dumped imported fresh onions during the May 1995 - April 1996. The preliminary investigation report also presented information on the status

(economic and social) of the domestic industry. In terms of output volumes, onion production is the second most important vegetable crop. The gross value of production in 1994 was estimated to be 445 million colones. The industry employed 12,182 people and its market share of domestic production was 98%.

In terms of the process, determination of anti-dumping was done in accordance with the WTO procedures (Article VI, GATT 1994).

- i. To determine normal value, wholesale prices of fresh onions in Nicaragua and Guatemala were gathered through the Market Price Information System of COERCA. US prices were obtained through official channels
- ii. The export price was calculated as the weighted average of the price of onion imports from Nicaragua, Guatemala and the US, as reported in the import certificate
- iii. Causal link between the dumped imports and the alleged injury revealed:
  - a. that there was **substantially increased importation** of 8,878 tons during the investigation period 1995-1996, 1,800 tons during the preceding period 1994, with a total change therefore of 5,064%.
  - b. **negative effect on domestic production**, as evidenced by a 12% decline.
  - c. **negative effect on employment**, with a 7.7% decline;
  - d. **negative effect on market share**, which declined from 98% in 1994 to 67% between 1995-1996, representing a 33% decrease.
  - e. the **effect on farm gate prices** was a movement from 51 colones/kg in the 1992-94 period to 70 colones/kg.
  - f. the **dumping margins** calculated were:

Nicaragua:	166%
Guatemala:	68%
US:	18%

Based on the results of the investigation, no dumping was determined. Onion prices at the farm level increased instead of declining as a result of an increase in onion imports. This occurred because of the monopoly in the imports on onions into Costa Rica. There are only 4 importers of onions in Costa Rica so the increase was absorbed by them and not reflected on the consumer price.

Finally the case was resolved by using technical assistance from the Ministry of Agriculture about the characteristics and qualities of onions that could be imported into Costa Rica.

When the investigation was completed, the various parties were notified via Public notice. The interested parties were allowed a 30 day period for objection.

Thank you.

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***Brazilian Experiences***

Renato Antonio Henz

Economist/Advisor of the Secretary of Agricultural Policy  
of the Brazilian Ministry of Agriculture and Supply

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Good morning Ladies and Gentlemen,

First of all I would like to thank, on behalf of Brazilian government, the sponsors for the invitation to participate in this important Seminar. Although, I'm neither an expert on the trade defense area, nor is this my main activity as official of the Ministry of Agriculture, the subjects related to trade and unfair trade practices are one of the activities that I have to deal with in my work.

In my presentation on the Brazilian experience with trade defense, I will, at first, give an overview of the institutional structure of Brazilian authorities, mentioning the different instances, technical and political, that interfere in the application of these instruments. Later, I will talk about the Brazilian experience in using measures and indicate the agricultural products, on which the measures are being applied. To conclude this part I will make some comments about the difficulties encountered by the agricultural sector in using these instruments and how we are trying to overcome these limitations. Finally, I will give an outline of the MERCOSUR negotiations on trade defense.

**Institutional Structure**

In Brazil, the technical authority responsible for investigating petitions for countervailing and antidumping duties, and safeguard measures, is the Department of Trade Defense - DECOM, of the Ministry of Industry, Trade and Tourism. This Department has among its functions the responsibility of receiving petitions, elaborating a technical report for initiating the investigation, elaborating a technical report for the application, if it is the case, of provisional measures, and elaborating a final technical report. It is important to mention that one of the characteristics of this structure is that the technical organs that examine the unfair trade practice and the injury to domestic industry are the same. This structure differs, for example, from the model implemented by the United States and Argentina, where those tasks are carried out by different organs.

Any technical report, once concluded, is sent to an Inter-Ministerial Committee - the Advisory Committee of Trade Defense - CCDC, which is chaired by the Ministry of Industry, Trade and Tourism. The Committee is composed of representatives of the Ministries that act in areas related to external trade, that is, the Ministry of Industry, Trade and Tourism, Ministry of Finance, Ministry of Planning, Ministry of the External Affairs, Ministry of

Agriculture and the Chamber of External Trade, coordinating organ of the Brazilian external trade policy.

In its deliberations on a technical report, the Committee must take into account the national legislation which already incorporates the Uruguay Round Agreements. The report must contain evidence, which either confirms the existence of an unfair trade practice (in the case of anti-dumping and countervailing duties), show existing injury to the domestic industry and establish the causal link between the unfair practice and the injury to the domestic industry. In the case of safeguards, the technical report must demonstrate a sudden and sharp increase in imports, serious prejudice to the domestic industry and the causal link between them. Upon review, the Committee can either approve it or reject the conclusions and recommendations of the report. The approval of the technical report by this Committee presupposes that the petition fulfills all the requirements laid down in WTO rules.

After it is approved by the Committee, the technical report is sent to the political authority for a decision regarding the institution of a countervailing or antidumping measure. Domestic interested parties are granted the right to request the application of a duty, but that doesn't guarantee that the duty will be applied, even when there is a positive final determination approved by CCDC. In deciding whether or not to apply a countervailing or antidumping measure, the political authority takes into account aspects, such as the impact of the measure from the point of view of the overall trade policy as well as other interests. In general, the political decision is based on broad national interest.

The legal responsibility for the political decision is in the hands of the Ministries of Finance and Industry, Trade and Tourism which jointly sign the legal document that enforces measure. However, there is a commitment that other Ministries involved in these matters must be consulted. That is done

within the Chamber of External Trade inter-ministerial organ, which is linked to the Presidency of the Republic, that coordinates the external trade policy. The Chamber gathers high-ranking authorities of the Ministries linked to the external trade, as well as from the Central Bank. Once the decision is taken in this instance, the Ministers of Finance and Industry, Trade and Tourism formalize the decision and sign the resolution that applies the measures.

#### Experiences in Using Instruments Of Trade Defense

It must be pointed out that, in spite of the fact that the legal base from such mechanism has existed for many years, it was only very recently that its use became important. The reason for that can be found in a set of factors, especially the Brazilian trade liberalization launched in the late eighties, which enhanced exposure to unfair trade practices. It is important to remember that the trade liberalization implemented by Brazil in recent years reduced the average tariffs from a level above 50% to the current average tariff of approximately 13%. In addition, the new WTO provisions reinforced the disciplines against the use of non-tariff restrictions making it more difficult for governments to resort to such restrictions as a means of protection against unfair practices. On the other hand, according to the current WTO provisions, the only accepted protection to the domestic industries are the tariffs.

The lowering of tariffs and the reduced possibility of using measures other than tariffs have encouraged the private sector interests to apply trade defense mechanisms. This trend is reinforced by the costs imposed on domestic production by the Economic Stabilization Plan, since 1994 and by the systemic costs of the Brazilian economy resulting from decades of economic closure - the so called "cost Brazil". However, if the interest observed is great, through consultations to DECOM, the number of requests formalized is until now reduced.

Apart from the lack of information about the instruments, one of the reasons for this reduced number of petitions for most producers, is the high cost of the process. Given the little experience in Brazil and the reduced number of specialized consultants that can conduct processes in trade defense areas, many processes are conducted by foreign consultants, mainly from the United States. In the case of agriculture another factor is the great spread of domestic production among small producers over the country which makes it difficult to launch a process. Besides, in many cases it is difficult to establish the clear causal link between the imports and the injury to the domestic industry mostly because the injury is more linked to domestic structural problems than to unfair trade practices.

Due to these factors, a reduced number of petitions resulted in ineffective application of measures of trade defense, especially in the case of agricultural products. Presently Brazil levies countervailing duties on imports of "desiccated coconut" from the Philippines (121,50%), from Indonesia (155,70%), from Sri Lanka (81,40%), from Ivory Coast (87,90%) and Malaysia (195,50%) and on imports of "coconut milk" imported from Sri Lanka (175,80%). There are also antidumping measures levied on imports of "garlic" imported from all Chinese companies, with a specific duty of US\$ 0.40/kg. More recently, since 12/12/97, imports of "mushrooms" from all Chinese companies are being levied with a specific duty of US\$ 1.37/kg. In the case of safeguards there are no measures applied. The only Brazilian sector where safeguards have been applied is the toys sector.

In order to assess the Brazilian experience in the application of trade defense instruments it is important to mention the changes resulting from recent implementation of the Agreement on Agriculture of Uruguay Round. With the introduction of Article 13, the so called "peace clause", an additional limitation was imposed to apply compensatory duties. The Agreement intentionally does not clarify the term "*due*

*restraint*", which must precede the opening of an investigation. This gives room to different interpretations about the possibility to apply measures on countries that are fulfilling the Agreement on Agriculture commitments. In the only case of a countervailing duty applied by Brazil, the case of "desiccated coconut" and "coconut milk", the core of the discussions with exporting countries was not related to the merit of the measure but to the legal base that was used in the process. Whether to apply Tokyo Round or Uruguay Round disciplines. Only the acceptance of Tokyo Round disciplines as a legal base for the process made the application of the measure possible.

During the Uruguay Round negotiations on agriculture, Brazilian officials took some precautions when presenting the Brazilian tariff bindings offer, foreseeing the possibility of mechanisms such as the "peace clause" being introduced. It is thus necessary to emphasize that the Agreement involved the binding of the entire tariff range. Developing countries however were given the alternative of offering "ceiling binding" tariffs for those products for which there were no bounded tariffs when the Uruguay Round was launched in September of 1986. As a general rule, Brazil offered a "ceiling binding" tariff of 35%. However, in view of the inclusion of the "peace clause", for those agricultural products notoriously subsidized in the international markets, the "ceiling binding" offered was 55%.

The idea was to establish an "agricultural umbrella", guaranteeing a protection margin represented by the difference between the tariff practiced, around 10%, and these ceiling bindings. Thanks to the fact that the "peace clause" made it more difficult to use traditional instruments of trade defense against agricultural subsidized products, this "umbrella" represented, in practice, a more effective mechanism to address the effects of unfair trade practices or distorted markets, which often are not caused by a particular export country but that still causes injury. It allowed for the improvement of the margin of

protection by simply increasing the tariffs to reach these consolidated levels without violating WTO provisions. The problem with this particular form of "trade defense" is that there are no established criteria for its adoption. So it can become an open door to undesirable political pressures from more organized sectors, not necessarily threatened by unfair trade practices. However, for some products this margin has already been used with success, as it was in the case of peaches, dairy products and rice.

### Mercosur Negotiations Regarding Trade Defense Mechanisms

Mercosur has set the goal of consolidating the customs union (in other words, of phasing out exceptions etc) by the end of the year 2000. This implies adopting several common trade policy instruments, including those of trade defense.

From the institutional perspective, the region's approach has been not to attribute a supranational character to Mercosur bodies. The procedures for application of the common trade policy mechanisms, including those related to trade defense, are in line with this approach. In other words, they are dealt with in intergovernmental and not supranational bodies, as defined in the Ouro Preto Protocol.

In the spirit of preserving the driving-force of integration in the hands of the governments and not in the hands of a secretariat (which often develops its own interest), the administration and application of trade defense instruments during the Period of Consolidation of the Custom Union has been assigned to the Trade Commission, which acts as the political instance. The technical instance is the Committee of Trade Defense and Safeguard - CDCS. Representatives of the National Section of the CDCS form this Committee, subordinated to the Trade Commission of Mercosur. This institutional arrangement, while providing an inter-governmental forum for discussing trade defense measures, preserves the authority of national government in carrying

out such investigations and in preparing technical reports. In short, in Mercosur trade defense measures continue to be of a national character in the current stage of integration.

Until now Common Regulation on Safeguards has already been concluded and approved, in December of 1996. Besides, a Framework Agreement on Antidumping duties was concluded and approved in December of last year. For this year Mercosur expects to adopt a Framework Agreement for application of Countervailing Measures.

Among the three instruments that had to be put in place, priority was given to an Agreement on Safeguards, particularly because of the "erga omnes" character of these measures. The application of a safeguard measure by a country member, according to national legislation, could not exempt the other partners of the block. This problem was solved with the adoption of a Safeguard Regulation, which allows Mercosur on behalf of member states, as laid down in footnote (1) of the WTO Agreement, to adopt safeguard measures against third countries. This has already taken place in the case of toy sector imports at the request of Brazil and shoe sector imports at the request of Argentina.

The Mercosur Safeguards Regulation establishes a transition period during which Members States interested in applying a safeguard measure can use their national legislation to carry out the proceedings, but the measure is applied by Mercosur based on this Regulation, on behalf of this State member.

In the case of the antidumping measures, Article VI, which regulates the matter, does not contemplate the possibility of the application of measures by the Customs Union on behalf of a state member. Measures restricted to a certain geographical area can only be applied, in exceptional circumstances and under strict conditions of segmented commercialization of the product in the Customs Union territory. In the case of this instrument the analysis of the

injury and the application of the measure should be made by the Customs Union as a unit. This, however, requires, *inter alia*, improving the operational and institutional structure. Countries must, for example, set up compatible databases and harmonize their approaches to technical analysis used by member states.

This task can only be achieved in the medium-term. That is why the application of antidumping and countervailing duties as a single unit is still not in place. What exist now are Framework Agreements on both matters. The framework agreement on antidumping is already in place, whereas the framework agreement on subsidies, as mentioned, is expected to be concluded this year.

According to the current institutional structure of Mercosur, measures of trade defense can be applied by one Member State against another Member State. However, in the future an anti-trust common regulation, which currently is

being negotiated, will change this situation. Once it is concluded, in conjunction with other trade policy instruments, member countries will no longer be able to apply trade defense measures against each other. In the case of unfair competition within the block, they will have to resort to the common anti-trust regulation.

As final comments, I believe that the subject "trade defense and safeguards" are of great interest to developing countries. In the case of Mercosur and CARICOM the utilization of WTO disciplines is more complex because they are Customs Unions. I believe therefore that it is a field where we could benefit from greater exchange of experiences. Maybe FTAA negotiations could possibly provide an opportunity to enhance these dialogues on several emerging trade issues, including those discussed in this Seminar.

Thank you very much.

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## Country Experiences in Establishing TMUs

Introduction  
Mr. Robert Reid

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The discussion over the past two days called for information to be made available to guide our negotiations in the various regional and sub-regional hemispheric agreements. It is recognised that even in meeting our obligations and in representing our national interests, there is need to harness enough information from both within and outside our national boundary. Several countries, in recognition of this, have made it a policy priority to establish instruments of information gathering and analysis. One major example of this, you recall was in the case of Mexico when they were preparing for the NAFTA negotiations.

Currently there is a proliferation of such instruments of information gathering and analysis, but one common aspect, is the word

trade. There is the Trade Policy Unit in Panama, the Trade Monitoring Unit in Trinidad, Guatemala and Costa Rica. We should also take note of the fact that the US is establishing a US Agricultural Trade Office in Miami, similar to some extent to the TMU.

Here in Jamaica, we have been trying to establish a TMU among the Ministries of Agriculture and Foreign Affairs, Planning Institute and private sector, specifically the Jamaica Chamber of Commerce. We have been having on-going discussions on this matter. What I am hoping is that the deliberations will provide some insight as to what is this particular structure. What does it do? What are its functions? What are the institutional relationships between the TMU and public and

private sector? What does it cost to actually operate such as unit? Are there requirements of legislative support to establish such a Unit?

What are some of the constraints to operate such as a unit? What about the relationship of these units throughout the region?

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***Experiences in Establishing TMUs - The Case of Colombia***

Mr. Carlos Federico Espinal

IICA-Colombia

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I want to thank the organizers of the event for inviting me to speak and share our experiences. I must though, apologize for my shortcomings with the language.

In the Colombia case, we speak of a monitoring system for trade rather than a monitoring unit. That's why I shall begin by defining some of the terms in the Colombian case and to chart the basis for explaining what functions are carried out within the Trade Monitoring System.

**Functions of the Trade Monitoring System:**

- to administer the commitments to regulations made under trade agreements.
- to follow-up on trade policies of partner countries, including subsidies, domestic supports and other instruments of trade policies.
- to provide the support required for ongoing trade negotiations,
- to ensure the protection and control of trade practices and regulate the implementation of countervailing duties for the use of safeguards.
- to undertake training and the dissemination of information which is absolutely essential to ensure that the principal players in trade are aware and informed about all of the ongoing elements of the TMS.

In the case of Colombia, given the functions for the TMS, the different laws, decrees and regulations constitute the framework within which the Unit carries its functions are outlined as follows:

- Articles 226 and 227 of the Constitution of Colombia which deal with the aspects of

Colombia's integration and trade with the rest of the world.

- The Foreign Trade Law of 1991 which has all the principles, and is a framework law defining all the responsibilities, particularly the principles that rule government's participation in foreign trade. I would like to point out examples of such principles that have a direct bearing on agricultural trade.

1. the articles that apply to the abolition of the state trading enterprises, particularly government monopolies on given imports
2. the authority provided to the government to set up a price stabilization fund for major agricultural export products.
3. the authority provided to government to establish a variable tariff level in order to stabilize domestic prices during situation of international price fluctuations.

The other particular legal regulations which comprise regional instruments are applicable to Colombia as part of the Andean group and the Customs Union today named the Andean Community. These common market regulatory instruments are:

- the Andean System for price bans, here in decision 372. This Andean System of price bans is an integral part of the CET within the Andean Community. This system is designed to stabilize import prices and has been applied in three countries of the Andean group- Colombia, Ecuador and Venezuela. The system is administered by the Secretary of the Andean Community.

- the Andean Agricultural Safeguard which is essentially designed to safeguard the domestic market from wide fluctuations in trade particularly in terms of prices.
- Andean Harmonized System of Sanitary and Phyto-Sanitary measures that is applied to agricultural products.
- a provision for Intellectual Property Rights on vegetable materials
- an Andean regulation on technical norms for agricultural products
- sanitary registry for registration of foodstuffs.

In addition to the above, there are also common Rules of Origin for the Andean group. There is also a single import document and there are trade facilitation regulations on trade within the Andean group. Apart from the Andean regulations, there are special local provisions of the Colombian Government that are WTO-compatible. Among these, includes one covering the use of agricultural sector safeguards and among these safeguard clauses, with a special provision dealing with agriculture and to avoid market injuries. There is provision for a countervailing duty over the tariff which would apply when international prices fall below the domestic cost of production and presents a real threat or injury to domestic production. This particular safeguard does not apply to products that are subject to variable tariff levels.

There are also some internal regulations pertaining to the application of Article V of the Uruguay Agreement on Agriculture. An internal decree also specifies the criteria and procedure for the application of anti-dumping measures and countervailing duties. There is a decree 2079 which makes provision for the application of an automatic import licenses for competing imported products. This mechanism was notified to the WTO under the TRIMS agreement - Trade Related Investment Measures.

Given this legal framework there are a number of organizations, both private and public that participate in the Trade Monitoring System. Trade negotiations are basically carried out by the Ministry of Foreign Trade and the Ministry of Agriculture. Producers and private sector organizations participate more in the preparatory stages than in the negotiations *per sé*, as advisors to the process during special sessions. There exists two associations, including the Colombian Association of Industry which encompasses Association of Agro-Industrial private sector organizations. The Colombia Ministry of Agriculture has also made use of IICA's services, particularly in the areas regarding competitiveness for the different agricultural products. The administration of follow-up of trade agreements is the responsibility of the Ministry of Foreign Trade and the Ministry of Agriculture. Product-specific private sector organizations in Agriculture are responsible for following-up on the administration of trade agreements and particularly to monitor closely unfair trade practices relating to the particular products of concerns to them.

In the inauguration of trade agreements, the Ministry of Foreign Trade plays a major role along with the Department of Planning which has a Ministerial status in Colombia. The National Association of Agriculturists in Colombia in the past, has participated particularly in the evaluation of some of the instruments and provisions contained in trade agreements. In this particular area, I would like to stress the participation of Colombian Universities, one which has recently concluded an evaluation of the workings of the Andean System of Price Bans.

In terms of the information requirements for the operation of the system we must make mention of the role of the Ministry of Foreign Trade, the Ministry of Agriculture and the National Department of Planning and the product- or commodity- specific producer organizations which also play a very important role in providing and updating the information. In



addition, much use is made of the information produced by international organizations such as IICA, World Bank, the OAS and the USDA. In satisfying the training needs for the system, three official institutions, the Ministry of Foreign Trade, the Ministry of Agriculture and the National Department of Planning have public funding for this purpose. In particular, training activities have been carried out by IICA in conjunction with a consortium of official and public organizations.

In terms of an organizational structure, at the highest level is the **Higher Council on Foreign Trade** which is presided or chaired by the President of Colombia with the participation of the Ministry of Economic Development, Foreign Trade, Foreign Relations, the Ministry of Economy, Agriculture, Energy, National Planning Department, the General Manager of the Central Bank of Colombia. The General Manager of the Colombia Foreign Trade Bank and the General Director of Customs act as the Secretaries to the Higher Council for Foreign Trade. It is basically a normative Council. The Executive Arm for this Council is the Ministry of Foreign Trade with the Colombian Institute for Foreign Trade (third in line) the one responsible for administering foreign trade procedures.

The Ministry of Agriculture in this system has as higher authorities the Council of the Ministry of Foreign Trade and INCOMEX, with two departments: the Head of the Colombian Agricultural Institute (ICA) which is in charge of technical laws, particularly sanitary and phyto-sanitary laws and the General Director of Trade and Commercial Negotiations, which falls within the institutional framework of the Ministry of Agriculture and also acts as a liaison unit between the Ministry of Agriculture and the Ministry of Foreign Trade. Within the Ministry of Agriculture, the Foreign Trade

General Director has an internal organization function which includes monitoring of trade, overseeing of the administration of trade agreements and preparation for future negotiations. There are individual units specifically responsible for the following specific areas:

- the Andean Community and the Andean Administration of Price Bans;
- the WTO;
- the Banana Agreement under the EU,
- MERCOSUR;
- the FTAA,; Mexico/Venezuela and Colombia;
- Chile / CARICOM / Central American Common Market;
- Panama
- Bi-lateral agreement with the USA;
- the EU, Canada, the Dominican Republic;
- the relationships with the other organizations - the Higher Council of Trade and Tariffs and Customs Directorate and the administration of the system of products under automatic licensing agreements.

To conclude I would like to stress two points:

This is a very complex system which presents its share of problems, such as dispersion of activities, micro-coordination problems, competition within different units comprising the System and of course, internal power plays (where everyone wants to be the head). Basically, it is a system that is still emerging, and we have to recognise that it is only five years old and that teething problems still exist.

However on a positive note, there is increasing participation of the private sector organizations in the functioning of the entire system, with this increased participation, in some cases, taking the form of co-financing of some of the studies and research that is required by the system.

***Proposal for the Establishment of a TMU in Costa Rica***

Ms. Gloria Abraham

In the Central American process of integration, the Ministers of Agriculture Forum and the Secretariat of this Council of Ministers, in May 1996 proposed the establishment of a Trade Monitoring Unit in the Ministries of Agriculture in Central America. The rationale for this decision was that Ministers of Agriculture must become fully aware of the commitments under trade agreements and must have specific units capable of making the necessary recommendations. In addition, the Units must coordinate policy decisions with other Government departments and with the private sector.

The Trade Unit (TU) was conceptualised to function as a Working Group/Task force and not to become a bureaucratic division in the Ministries of Agriculture. There are five important tasks specified for the TUs in the Ministries of Agriculture:

- to implement and complete the commitments made in the WTO Agreements and to prepare for the next round of agriculture negotiations in 1999;
- to prepare for the trade and integration bi-lateral negotiations of the Central American region with Mexico;
- to pay attention to the FTAA negotiations, particularly now that there is an agriculture working group;
- to reinforce the participation of the agricultural sector in the process of free trade area in Central America;
- to coordinate the decisions taken with the private sector for the agricultural trade negotiations.

Among the duties of the policy trade unit is to assist in decision making on trade issues and to prepare proposals for negotiations in the areas of market access and technical norms, sanitary and phyto-sanitary measures, safeguards,

unfair trade practices. In addition, the unit must follow-up and elaborate on technical decisions within the process of Central American integration and develop information systems in support of these policy decisions. The most important functions which relate directly to trade issues are the market access issues as previously mentioned. The agricultural sector is responsible for making proposals that transcend the usual protection instruments using the mechanisms provided for in market access provisions.

For the effective operation of the TU, two important issues must be considered:

- the training of the human resources of the units, including the training of the private sector; and
- the appropriate use of the information systems and the constant updating of the database, particularly as it relates to import volumes and values by country, as well as for exports, domestic and international prices. This information is necessary for analysis and decision making on safeguards and countervailing duties and other instruments of market access;

Finally, the other important task of these TUs is their participation in the negotiations processes.

This proposal, which was submitted in 1996 was well received by Guatemala, El Salvador, Costa Rica and Panama. As a result, the agricultural sector is now participating in the FTAA negotiations. The sector is actually participating in the negotiations between the Central American region and Mexico and in the activities that aimed at strengthening Central American participation in the international trade negotiations.

***Experiences of Guatemala in TMU***

**Mr. Bernardo Lopez**

**Unit of Commerce Support and Statistical Information (UNICEA),  
Ministry of Agriculture, Cattle, Forest and Fisheries Sectors, Guatemala**

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I would like to thank you for the opportunity to be here and to share our experiences, over exactly a one year period, from March last year to the present, with our TMU. I would like to place the emphasis on the rationale for establishing our TMU and to share with you our operational problems.

Our general objective of the integrated policy on external trade for Guatemala outlines that the basic elements of agricultural external trade have to be consistent with the external trade policy of the entire country. The commercial policy of Guatemala is based on the production, transformation of raw materials and a continuous search for competitiveness of products for local consumption as well as for exports. Based on this objective, we hope to achieve the following:

1. favourable conditions for the growth and development of trade and investment;
2. the promotion of international marketing negotiations;
3. enabling policies for the modernization of agriculture in Guatemala.

We place special emphasis on human resource development in agriculture. There are three other areas which relate mainly to the administration and negotiation of trade agreements. We could summarize by saying that the two fundamental areas as far as external trade policy of the country are:

1. the development of competitiveness
2. participating in external negotiations and the administration of commitments of those agreements.

In developing our institutional TMU structure, it was decided that the unit had to be very small but highly functional. There is a total of 8 persons working in the Unit in Guatemala and of these, only 4 persons are based in Head

Office with the other 4 specialists contracted as the need arises. The Unit is organised into three sub-units, each of which deals specifically with:

1. the area of standards;
2. market access;
3. information and analysis.

The first two areas are further sub-divided into:

- negotiations and
- follow-up and administration of agreements.

The rationale for this further sub-division is that the intensity of the treatment of the various topics varies between the point of discussion and the point of administering/implementing commitments to the agreement. The area of norms (standards) is very easy to negotiate but very difficult to manage on a daily basis. This is contrary to the area of market access where the negotiation is very difficult but the routine management relatively easy. Our problem as a small country/economy is not one of negotiations, but rather, one of the proper administration of agreements that we have negotiated.

These are the basic activities that the TMU has carried out over the years. As you can see they are not very different to what was presented earlier this morning by Gloria Abraham. The areas in which there may be differences relate to negotiations. UNICEA's functions in terms of the International Trade area are:

- to give support to the Ministerial office with the decisions to be taken on international commerce in agricultural, fishing and forest products;
- identification, administration and implementation of the commercial measures: fees, application of exception

measures, technical, origin and SPS regulations,

- to follow-up on the commitments of Guatemala with the WTO;
- to participate in the negotiations for the FTAA, Central America-Mexico agreements, Dominican Republic, Panama;
- to establish with collaboration of the private sector, an information system to provide support in the market access decisions (to follow-up the economic variables, product prices and agricultural raw materials). Here, we have gone further than the Colombians, because when the public does not have the technical capabilities in a specific area, the Ministry of Trade will appoint a private sector expert to work with the public sector and to participate in the negotiations.
- to publish commercial/trade information of the agricultural, fishing and forest sectors through the monthly Joint Report.

The fundamental premise of Guatemala's commercial policy for the Agriculture, Fishing, Forest and Food Sectors is to promote the agricultural and food development within the framework of trade liberalisation, through supportive management of the production systems. To promote the development of agriculture within a specific framework is a task that all of us in developing countries must undertake since the developed countries did so in an era when they were able to protect their agricultural sectors. The general objective is to support and expand our agricultural products in the world market. In order to achieve this, our production must also be competitive in the domestic market.

In terms of trade liberalisation (market access/commercial opening), we have prioritised issues relating to our international negotiations as follows:

- to follow-up the WTO related aspects
- the Central American Integration process
- the WTO Round on Agricultural Negotiations in 1999;

- FTAA 2005.

In terms of the Administration of the Treaty, there are two noteworthy points:

1. the accomplishment of commitments under the Agreements, although it has been extremely difficult;
2. System Adequation - ensuring that we establish adequate systems/procedures to administer the Agreements, particularly as they relate to SPS and Information Systems.

Strictly from the point of view of agriculture and forestry, the following policy areas are of priority:

- Competitiveness: through structural transformation of the productive system and also institutional development;
- supporting the production systems
- food security.

The Department of Information and Analysis was initially created as a part of the TMU. However, following the re-organisation of the MoA in Guatemala, this young department (which had been functioning for only nine months) had to provide support to the entire agricultural system in Guatemala. It is interesting to recall that during the nine months the general objectives were:

- to analyse the behaviour of econometric variables;
  - production
  - imports
  - apparent consumption
  - index of consumer prices

The specific objective was to evaluate, diagnose and forecast the behaviour of the agricultural, fishing and forest products.

There are some obvious reasons why such a monitoring unit was established in the Ministries of Agriculture in our countries. One was the lateness of the Uruguay Round of discussions relating to agricultural products and the results of a workshop of Agriculture Ministers held last year October (Santiago,

Chile) among the joint Inter-American Council. There were ten points on the agenda for the Ministers of the South American region which was developed jointly with IICA. Out of these ten points, seven of them are related to agricultural trade. The results of a unit similar to what we just spoke about in only one year of work, have brought a closer working relationship between the Ministry of Trade in Guatemala also with the private sector and is also helped in the design of policies. The unit has also been able to influence decision making.

The removal of the Information Unit from the original TMU allowed the TMU be become

more focused on areas related specifically to trade. This will facilitate the achievement of our initial objective in the coming year. This also takes us into a new area which is external promotion of agriculture and the search for foreign investment in agriculture. Our traditional markets to date, have been the US, Central America and Europe. We are very interested in Japan and the Caribbean and will be actively pursuing trade with these new regions.

Thank you.

<b>Summary of Discussions Generated by Presentations</b>
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Diana Francis

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- Concerns were raised regarding continued SPS-based restrictions on entry to US markets for competitive Caribbean products, such as poultry parts. It was recognised that there is an SPS problem in the US. However, once a strong case can be made of this discrimination, then the next course of action would be to appeal to the WTO. Another course of action could be the bi-lateral negotiations with the USDA to obtain certification for the potential export commodity.
- Concerns were also raised regarding the lack of wherewithal and resources among Caribbean countries to prepare and effectively execute anti-dumping or unfair trade practice cases against industrialised countries such as the US. Participants were informed that resources are available under the WTO for assistance to countries with legitimate claims, to prepare and execute anti-dumping cases. However, caution was advised in terms of the implications of the political reactions of the major trading partners to such action.
- It was observed that the use of safeguard measures are not very common. However, the new WTO trade rules made their implementation much more feasible since any compensation and retaliation action to the imposition of safeguard measures were suspended for a three-year period. It was suggested that the main restrictions which make countries reluctant to impose safeguards are associated with the need to incorporate MFN considerations and equal treatment to all trading partners.
- The rationale of the rule regarding tariff escalation was to allow developing time to countries to add-value to their primary products. Participants were advised that this issue should be actively pursued in the next round of negotiations, even though there may be some resistance by the environmental lobby.
- It was agreed that private sector bodies should assume a more proactive role in influencing policy through the provision of and/or facilitation to information and data critical to the policy planning and negotiation processes. It was also agreed that this role should go further, with the private sector being actively involved in the negotiation processes. Increased private sector in areas previously thought to be the domain of governments should not mean a reduced role for governments. The public-private sector partnership must be a complementary one, with both parties fulfilling their responsibilities.
- It was recognised that Mercosur held a strong influence in the FTAA negotiations process. In this regard, Mercosur reiterated its position to not over-emphasize the issue of differential treatment to lesser developed countries in the FTAA process. However, this position does not preclude Mercosur from facilitating differential treatment within its own bi-lateral arrangements. MERCOSUR assures that it is open to dialogue on integration with the CARICOM region, but that the limits on this dialogue are based on the agenda for negotiations.
- It was shown that the CARICOM CET has generally hindered the development of intra-regional trade. Within this context is the need to seriously examine and effectively resolve the trade-inhibiting factors. A study to inform changes in the CET for agricultural products, a recently initiated exercise between the CARICOM and IICA, was an important first step

towards this goal. The importance of parallel considerations towards the development of an information system to adequately facilitate intra-regional trade, the development of a programme to assist in improving competitiveness of private sector exporting firms as well as the incorporation of the impact of reduction commitments under the WTO *vis-a-vis* any planned reductions of the CET schedules was stressed. It was recommended that this restructuring exercise be guided by quantitative analysis of the impact of the various reductions under the WTO to inform reductions of the CET for agricultural products. Support from the MoAs and agri-business private sector towards this initiative was solicited.

- A need to clearly articulate the various activities under the CARICOM RTP, to provide an indication of the implementation time schedule as well as progress in implementation to date was identified. It was explicitly stated that the success of the RTP depends on the extent to which national governments, through the MoAs, participants in the design of the programme, commit to the implementation of activities under the RTP. Greater support from the MoAs towards this initiative was thus solicited.
- A need for a strong CARICOM lobby in order to influence the post-Lomé IV negotiations and in the shaping of the new arrangement was also identified. Access to the necessary information was seen as a precondition for successful representation and negotiations. This information must necessarily include the identification of the sectors and particular products which can accommodate reciprocity as well as the implications on government revenue of the termination of preferences. The importance of effective private/public sector collaboration in this undertaking was stressed.
- Regarding the development of an information base, it was recommended that a starting point be the development of a matrix which identifies, for each specific commodity, the threats faced in this transition period within the Lomé and other agreements and proposes a strategy to deal with same threats. This will facilitate the articulation of a regional position for negotiations.
- It was suggested that the Caribbean region can increase its influence on international trade negotiations, particularly in the upcoming WTO Agriculture negotiations in 1999, if strategic alliances are made with other strong groups of similar interests, such as the Cairns Group. Its negotiating position could also be strengthened if CARICOM undertakes to bind its CET schedules under the WTO, that action will force countries to coordinate in terms of their external commercial policies in influence. To date, in spite of the existence of the CET, there appears to be little coordination of CARICOM policies in the discussions of the Uruguay Round of the WTO and of its schedules with the WTO.
- There is very limited scope for CARICOM as a group or on an individual country basis, to successfully negotiate for higher tariff bindings. Given the trend of the negotiations, there is practically no scope for increasing protection to domestic industries by arguing for higher tariff bindings in the next Round. It is more realistic to expect that the next Round will put pressure to bind the applied rates; - in other words, even with an existing binding at 40%, there will be increased pressure to reduce to 25%, or 15% even over a period of time.
- It was widely accepted that the Region is preparing for the FTAA in 2005. While the WTO rules allow for the establishment of

trade agreements, such regional arrangements must be WTO-compatible. Within this FTAA process, the region also needs to be actively involved in the design of the arrangement and in deciding what the rules of the free trade agreement should be.

- It was noted that in terms of the food industry, an important element which is emerging is the heavy emphasis on industry-imposed processes as a method of achieving food safety. Food safety was identified as a key issue in the wealthy consumer markets driving the trade systems. There are international standards imposed for trade in food products. Within this, for their products to be accepted countries must register own standards which must be compatible with international standards. This compatibility however, does not mean that their products would no longer subject to product checks.

Practical experience from Guatemala indicated that most of the food safety problems arose when domestic producers tried to compete in the main partner markets, such as in California. In this regard, an important services of the Information Unit is the provision of information on SPS requirements of major export markets, particularly as it relates to food safety.

- It was recognised that there exists many different inquiry points providing trade information, such as SPS barriers, terms

and conditions of export market, market prices, etc. However, there is need to develop a coordinated public information and awareness system which can point exporters, manufacturers etc. to the relevant information. There is a consensus that there must be public and private sector alliance regarding the sourcing and provision of necessary information. The function of the TMUs in this context could be to access all the information available (UNCTAD, USDA etc) and organised for easy retrieval and dissemination for policy and decision making on the agricultural sector.

- Based on the discussions, the importance of appropriate and timely information was well appreciated. However, two important aspects to consider are: how such information should be managed in terms of its quality; and how the information system is to be financed, i.e., whether it should be developed along the lines of a TMU. The financing of the TMU system depends to a large extent on the efficiency of its human resources. Since the private sector is willing to pay for a high quality of product, their financial support in this area would be an important source of financing. In this regard, it is important to strengthen the strategic alliances between the public and private sector.



<b>Establishing Trade Monitoring Units -Defining An Action Agenda</b>
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**Summary**  
Diana Francis

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As stated by Mr. Robert Reid, the experiences of Guatemala, Colombia and Costa Rica suggested different approaches to establishing institutional instruments of information gathering to facilitate negotiations. There were strong suggestions in favour of the establishment of both:

- a coordinated system with emphasis on **Trade Monitoring System**, as opposed to a "unit"; and
- discrete units within the Ministry of Agriculture.

The establishment of an appropriate institutional system is a particular challenge facing Caribbean countries as they seek to prepare for the negotiations and to integrate more in the global economy. The design of this system will inevitably involve careful deliberation on critical issues, including:

- the choice of infrastructure of and the establishment of strategic linkages with the various existing information systems and sources;
- the real costs (financial and human) and resource requirements for effective, source of financing and opportunities for cost recovery;
- the level of autonomy, including the level of public sector influence as opposed to the

establishment of strong partnerships with the private sector;

- definition of its role, ie., should it serve all sectors, or given the dominance of agricultural products in trade negotiations, would the agricultural sector benefit be better served from its own specialised Unit/System which could be used as a blueprint for the development of similar institutions for other sectors;
- Given the different approaches to establishing this Unit/System, how is the interface within a hemispheric and regional context to be established and maintained?

Whatever its perceived role, there will be the need for technical assistance in training of persons charged with the responsibility of operating such a Unit/System.

Four working groups were instructed by Mr. John Stovall, to discuss and decide on the ten (10) most important follow-up items that should be included on an Action Agenda of the Region's Leadership (Governments, Private Sector and Regional Institutions), Identify Lead Agencies and to Define a Strategy for Moving Forward. The main elements of these discussions are summarised below.

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**SUMMARY OF WORKING GROUP DISCUSSIONS**

There was general agreement that Caribbean countries lack the institutional capacity to provide policy negotiators with the information and analysis needed to represent the region effectively and negotiate in our best interests in the upcoming WTO and FTAA trade talks. A primary objective of this workshop was to provide the country representatives with the capacity to establish a trade negotiations information base. In this regard, the

Colombian, Guatemalan and Costa Rican experiences provided a base from which the development of such capacity could be built upon.

In Colombia, this instrument is referred to as a Trade Monitoring System (TMS); in Guatemala, Costa Rica and Trinidad and Tobago it is called a Trade Monitoring Unit (TMU). These institutions are relatively young

(Colombia 5 years, Guatemala and Trinidad & Tobago roughly 1 year), and were established to enhance knowledge about trade commitments, to follow-up on trade regulations and trade policies of trading partners, to measure the impacts of these on domestic agriculture and to provide planning and support for trade negotiations. Jamaica is the second Caribbean country actively pursuing steps towards the formation of a TMS/TMU.

While recognising the institutional, legislative and other complexities involved in the establishment of a TMS/TMU, there was consensus in terms of the need to establish this capacity in the region. The development of such capacity was deemed a critical component to position the agri-food sector to take advantage of the opportunities created by global integration and to avoid or reduce the adverse impacts of the adjustment to trade and economic liberalisation. There was also clear recognition that a successful TMS/TMU required effective public-private sector collaboration, particularly full support from the private sector and academic institutions.

The main elements arising from discussions on the establishment and operation of a TMS/TMU for Agriculture at the national level are summarised below.

### 1. Institutional Capacity

It was acknowledged that the opening of trade will result in the displacement of human resources and affect living standards in the medium-term. During this transition period, governments should seek to put in place parallel systems of human resource retooling at the sectoral level and at various levels of economic occupation within sectors.

The development of regional capacity was considered critical to complement such national initiatives. However, an initial step should be to undertake a review of the existing institutional capacity to undertake policy formulation, implementation, monitoring and evaluation with a view towards strengthening the capacity and

coordinating mechanisms. The effective coordination involving universities, research institutes, Ministries of Agriculture and other relevant institutions would ensure the optimal use of the limited technical and financial resources available in the region.

### 2. Institutional Structure:

There was consensus that countries should create a strategic planning unit (or committee, board, directorate, etc.) composed of individuals from the public, private, and academic sectors to periodically establish and re-evaluate the TMU/TMS priorities and objectives. The active involvement of clients in this process should help to ensure that the TMU/TMS's program of work remains focused on priority activities.

Based on the shared experiences, it was suggested that the unit should be strategically located within the Ministry responsible for Agriculture but with **strong** links with the Ministries responsible for Trade, Negotiations and Foreign Affairs. In addition, the Unit should be small, but functional and comprising highly skilled/trained personnel. The unit should also be provided with the capacity to access short term specialised, expertise to support functions when required.

It was agreed that policy negotiators would be the principal and immediate clients of the TMU/TMS. However, the many other stakeholders must be brought into the planning process which defines the overall negotiating posture of a country, including the program of work for TMU/TMS.

### 3. Functions/Work Programme

#### **3.1 Information Base**

Much of a TMU/TMS work programme will be to gather data and information from a variety of sources, then process, package and disseminate the critical information for easy consumption by its clients. Collecting, summarizing, and communicating information focused on client needs is as critical as undertaking original analysis. While much information exists about

the agriculture production and trade sector of Caribbean countries, it is generally scattered among different organizations and individuals, not well organized nor readily available in a timely manner or in a format to facilitate analysis and trade policy negotiations.

As countries become more involved in global markets, the understanding of the global agri-food environment is as important to survival as the understanding of the domestic agri-food system. Negotiators thus need to know the own current level of agricultural support and trade barriers as well as that of their trading partners in order to ensure that the resulting agreements effectively maximize gains and minimize losses. The generation of and/or access to information in preparation for the next round of World Trade Organization (WTO) negotiations and for the upcoming Free Trade Area of the Americas (FTAA) negotiations is an issue of primary and immediate importance facing Caribbean countries.

In this regard, a TMU/TMS needs to provide information about on commodity competitiveness and policy positions of both customers and competitors. This requires having access to economic and policy databases which provide information on all competing producers and markets of interest. This also necessitates upgrading of the information infrastructure and technology in order to facilitate the effective collection and compilation of data and analysis and dissemination of information in a form which is useful to the trade negotiation processes and to the implementation of the Region's commitments to multilateral agreements.

The TMU/TMS should also have an pioneering role in the creation and maintenance of an information network through which all interested groups and individuals share information which support a country's trade and policy negotiating position. This will necessitate the full coordination of the private sector in the establishment and operation of an agricultural information system. At the

minimum, the economic dataset required to strengthen the agri-food production and trade policy analysis should include:

- supply-utilization quantities
- prices
- exports and imports for the major agriculture and food commodities produced or consumed
- agricultural sector aggregate and macro-economic information such as income, investment, population, employment, capital flows, interest rates, balance of payments, price indices, resource availability, etc.
- domestic and trading partner and agricultural and trade policies

### 3.2 Research & Analysis

While the short- to intermediate- run objectives of a TMU/TMS would be to support trade (WTO/FTAA) negotiations, its long-run objectives should be much broader. Economic and policy analysis in support of agri-food domestic and trade policy formulations will always require a major TMU/TMS resource commitment.

Since the WTO and FTAA negotiations will revolve around lowering policy barriers, to foster increased global market integration, negotiators need to know the aggregate economy welfare position as well as welfare gains and losses at the commodity and social group levels in own and external markets. In this regard, the TMU/TMS needs to identify the potential losers and winners, but to also analyze the extent of the loss and gains as domestic support and trade barriers are lowered. This analysis will be facilitated by the capacity to quickly analyze specific policy proposals emerging from WTO and/or FTAA negotiations in order to strengthen negotiating positions.

### 3.3 Negotiations

Policy negotiations are an integral part of any country's agri-food sector for the foreseeable future. This will require an ongoing process of

monitoring of agricultural and trade policies and food and agricultural situation and outlook. The TMU/TMS should be equipped to:

- i. follow-up and elaborate on technical decisions of agreements
- ii. ensure commitment undertaken in various multi-lateral and bi-lateral trade agreements
- iii. monitor the impacts of same on domestic production and food supply
- iv. assist in decision making on trade issues
- v. assist in preparing proposals for trade and integration negotiations at the bi-lateral, hemispheric and international levels.

For the effective operation of this function, it will be important to build consensus among all parties involved - private and public sector. Such wide consensus will facilitate negotiations and reinforce the sector's participation in the process of free trade. The strengthening of strategic political alliances between countries within the region will also assist in enhancing the region's negotiating position. However, as countries become more committed to and involved in global food markets, a TMU/TMS will need to have an increasing role in developing and implementing policies and mechanisms which foster increased agricultural trade, particularly exports from small market economies.

### 3.4 Export Promotion Strategies

The development of strategic plans to penetrate export markets and to exploit opportunities created by liberalized markets was also underscored as an important activity in the adjustment process. This requires pro-active planning in order to best prepare Caribbean countries to effectively exploit the opportunities that may arise. Given the trends towards the consumption of processed foods, this market focus should of necessity emphasise the production of higher value-added products through the development of the agro-industrial sector. In this regard, the role of the TMU/TMS could be to:

- assist with the development of appropriate policies and incentives to encourage agro-industrial development

- assist with the identification and verification of real market opportunities and niches in importing countries
- provide directories of importing/exporting and shipping agents
- provide information on guidelines and requirements regarding trade barriers, food safety requirements, SPS regulations, information contacts, etc.

### Regional Level

To facilitate the interface of national units within a regional and hemispheric context, it was proposed that a CARICOM Trade Monitoring Unit (CTMC) be created. Given the limitations of Individual Caribbean countries, in terms of their influence in the global or hemispheric negotiations, a regional body would be the more feasible option. Thus the existence of a functional regional TMU/TMS will greatly assist in strengthening the negotiating capacity of the Regional Negotiating Machinery.

The goals, missions, products, etc of the CTMU of necessity, would be similar to those of national TMU/TMSs. The strength of CARICOM as an effective regional negotiator, depends on consensus among its constituent members. In this regard, given the different interests of individual members, a CTMU would ultimately bear the responsibility of collating country information, identifying and evaluating trade-offs among countries and the merging the individual country positions into a regional position in support of negotiations at the CARICOM region level.

### Conclusion

The above is by no means a complete terms of reference for a TMS/TMU, whether it be at the national or regional level. However two points which must be reiterated are the need for proper training of personnel of the unit as well as the private sector, and the importance of the appropriate use of information systems and constant updating of the database, particularly all aspects of market information. ■

**Closing Comments**

**Mrs. Mavis Campbell  
International Trade Specialist  
Ministry of Agriculture**

I would like to apologise on behalf of the Permanent Secretary of the Ministry of Agriculture, Mr. Aaron Parke, who is unable to be with us.

First of all I would like to thank the co-sponsor of this seminar, IICA and all the other collaborators and to say it has been a pleasure to have collaborated in hosting what has been a very successful seminar.

This seminar has been extremely relevant to the work that we have been trying to do in the Ministry of Agriculture, particularly in the area of international trade. The discussions have been very useful for us, they have sought to point the direction for us in some very important areas where we need to pay more attention. Particularly in the area of international trade, we are looking towards the immediate agenda of international negotiations, also at the area of information and data collection, processing and dissemination.

One of the areas that we hope to develop is a stronger communication link between our Ministry and the Ministry of Foreign Affairs and Foreign Trade, which has the responsibility for international trade negotiations and of course, with our farming and processing community and to ensure that all interested parties make an input into these international negotiations which impact on the agricultural sector.

I must congratulate all of us for conducting a very successful seminar. The presentations were obviously very interesting, very animated and so too were the discussions and participation in the sessions.

This seminar focused on some of the main issues that will demand our attention in the future and has assisted us in organising our future work programme. We have also been able to strengthen regional and hemispheric contacts which will assist us with the implementation of this programme.

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99- Global Market Integration and the Agri-Food sector

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