Issues on Agricultural Negotiations in the FTAA and Linkages With the Doha Round

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Preliminary draft[**]

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I. Introduction

With the TPA approved, the US Administration is moving dynamically to meet the agendas and timetables established in various international trade negotiations including the FTAA. In this respect, the recent signals suggest that in regional negotiations, the US is giving priority to the FTAA over other alternatives[1]. I believe that for most Latin American (LA) countries, these negotiations represent the best opportunity to revert a generally negative experience with the opening-up process that the region started to implement in the late 80s or early 90s. The reason why the FTAA represents the best alternative is given not by the nature of its agenda, but by the continued reluctance of the EU and Japan to liberalize regional and multilateral agricultural trade.

Nevertheless, an FTAA that provides gains to all participants remains a major challenge for LA. Given the demanding pre-conditions required in these and other negotiations with industrial countries, I am unsure whether all LA countries will be able to confront this challenge successfully. Still, it is of paramount importance that this occurs, that Governments see net gains to their societies, because otherwise a few years down the road, regional relations may become soured by an under-performing FTAA.

Before going into the specific topic I have been assigned, I want to join the authors who have concluded that economic growth and job creation is not only a function of other countries opening-up to imports, but also depends crucially in the capacity to operate a competitive market-based economy. This capacity is a function not only of good economic policies but also, of a strong institutional basis[2]. Many commentators argue that globalization has not been good for Latin America. I disagree. What apparently has failed in Latin America, is the capacity of societies to accompany the liberalization policies they implemented with a strong institutional basis that includes the rule of law, respect for contracts and private property, fight against corruption and efficient governments among others. Countries that lack these institutions will most likely fail to develop no matter how open are foreign markets to their exports.

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[1] For example, Zoellick (2002a) has recently stated that: "We want to offer the Americas the first choice. Countries in the Asia-Pacific, Africa and the Middle East are also interested in free trade negotiations with the US…We want the Americas to be moving ahead…".

[2] Institution as defined by Hamilton (1937): "…connotes a way of thought or action of some prevalence and permanence, which is embedded in the habits of a group or the customs of a people" .

With these introductory remarks, let me now describe the contents of this note. Section II is a presentation of some of the issues that I consider crucial in the agricultural negotiations of the FTAA which cover more than twenty topics most of which are included in the regional negotiations whose text is still bracketed[3]. Furthermore, there are other negotiations and/or implementation of agreements such as trade and environment, that will also have clear impacts on international agricultural trade. Clearly, it is impossible to cover all these topics in a paper and therefore, I have decided to call attention to some of the salient issues that appear to be decisive in defining the extent of liberalization that can be achieved in hemispheric agricultural trade. This trade, will also be influenced by the outcome of the Doha negotiations and therefore, in a number of issues I bring them into the picture. Along the analysis, I will be making some suggestions which will be summarized in the final section.

II. Agricultural-Related Issues in the FTAA Negotiations

After presenting a brief review of the potential export gains from an agreement to liberalize agricultural trade in the Western Hemisphere (WH), this section will address seven additional broad topics that include: i) the meaning and importance of transparent negotiations, ii) a discussion of the possible interlinkages of the FTAA with the US Farm Bill and the Doha negotiations, iii) the role to be played by the principle of reciprocity and balanced concessions, iv) the importance of considering the impacts of alternative antidumping and CVD regulations, v) the role of sanitary and phitosanitary issues, vi) biotechnology issues and, vii) pre-conditions for successful negotiations by LA countries.

1. <u>What is at Stake in the FTAA?</u>

Usually, improved market access is what is meant when people talk about the stakes in trade negotiations. This is certainly important, and I will proceed to review some of the numbers that have recently been presented. Nevertheless, another aspect of importance for LA include the financial linkages that are associated with protectionism in general including agricultural trade barriers. This effect still remains under-researched and following a brief review of the possible trade impacts of agricultural liberalization in the FTAA, I will present few considerations on financial effects.

1.1 <u>Real effects of agricultural protectionism in FTAA countries</u>

Recently, a growing number of papers are reporting estimates of the income and trade effects associated with agricultural protectionism in the FTAA and my purpose here is to review only a couple of them. These estimates are based on

[3] A recent WTO list the following negotiating topics: tariffs, tariff-quota administration, amber box, export subsidies, export credits, state-trading enterprises, export taxes and restrictions, food security, food safety, rural development, geographical indications, green box, blue box, special agricultural safeguards, environment, trade preferences, food aid, consumer information and labeling, sectoral initiatives, and development box which includes single commodity producers, small island developing states and, special and differential treatment, (WTO, 2002).

general equilibrium models and in this regard, I want to emphasize that while providing an indication of potential impacts, these numbers should not be used as substitutes for detailed in-country analysis of what could be the economic effects of the agricultural negotiations of the FTAA. It should be these analysis, and not the numbers thrown by general equilibrium models that should be used in the internal debates of LA countries regarding the benefits and costs of the FTAA. For example, only Governments working closely with their dairy industries can come to know with greater precision the map of trade barriers and other potential or existing threats faced in export markets as well as the constraints for expanding investments in this industry and supporting employment of the workers from industries that will be contracting. In these studies we can raise questions and arrive at a tentative answers that cannot be addressed in general equilibrium models. Unfortunately as far as I know, LA countries have still not undertaken these exercises and I view this as a serious problem [4].

With this clarification, let me now turn to two recent studies that I could consult in advance of the IAD Conference by Monteagudo and Watanuki (2002) and by van der Mensbrugghe (2002). Both papers utilize computable general equilibrium (CGE) models to estimate the trade effects of different negotiating scenarios. In order to isolate the effects of agricultural reforms, the simulations presented in the paper by Monteagudo and Watanuki assume that only trade in agriculture is liberalized while non-agricultural trade is not. The analysis here includes 16 agriculture-related sectors: wheat, cereal grains, vegetables and fruits, oilseeds and soybeans, sugar, plant-based fibers, coffee and tea, bovine cattle, other animal products, bovine meat, poultry meat, vegetable oils, dairy products, beverages and tobaccos, and other food products. The estimates include the elimination of the three main policy distortions: barriers to market access, domestic support and export subsidies. The results show that the biggest impact of the FTAA is given by the removal of barriers to market access while the removal of the other distortions only have minor effects. Given my intention of providing a broad picture, in this point I will concentrate the rest of my remarks on the elimination of barriers to market access[5].

Table 1 shows exports of agricultural products by major exporters of the WH countries and regions and by the EU. The numbers indicate that in 1997, the countries in the WH exported 30% of world agricultural exports. Among different regions of the world, LA has the highest share of agricultural exports in total exports. Furthermore the WH, has the highest trade surplus in agricultural products while other regions have show either close balance or a systematic deficit.

[4] As an indication of what I have in mind that countries could be doing, are the type of estimates and analysis being prepared in the US for example, by the USDA (1998) which looks at the potential gains of the FTAA for an extensive list of agricultural products. Without a detailed assessment on a product-by-product basis, it is risky to estimate the adjustment costs of the FTAA that each country will have to incur.

[5] Other research also indicates that the salient agricultural policies producing the greatest costs, are those that limit market access. See for example, the study by Casaburi and Sanchez (2000).

Exporting Countries/	Agricultural Exports (millions of dollars)	Canada	United States	Mexico	Central America	Andean Comm.	Argentina	Brazil	Chile	EU	Rest of World	Total
Canada	17,873.7	-	52,1	1,9	1,2	1,9	0	1,1	0,3	7,8	33,6	100
United States	65,733.4	10,3	-	8,1	3,9	2,5	0,5	0,8	0,2	15	58,9	100
Mexico	6,542.7	1,9	71,5	-	3,1	1,1	0,2	1	0,4	10	10,6	100
Central America	9,123.6	3	34,4	1	8,9	1,3	0	0,1	0,8	34	16,2	100
Andean Comm.	12,736.0	1,4	25,3	0,7	1,8	8,1	2,4	8,3	1,6	29	21,1	100
Argentina	12,625.4	0,5	5,8	0,6	1,9	8	-	18,8	4,1	23	37,4	100
Brazil	14,656.4	1,6	10,1	0,4	0,5	4,1	3	-	0,4	39	41,4	100
Chile	4,440.1	2,3	23,2	1,9	1,3	8,8	3	3,7	-	19	36,6	100
EU	189,156.4	0,6	4,4	0,3	0,5	0,4	0,1	0,4	0,1	69	23,7	100
Rest of World	143,540.3	1,2	8,5	0,3	0,3	0,3	0,1	0,7	0,1	27	62	100
Total	476,427.8	2,2	9,3	1,5	1,2	1,4	0,3	1,3	0,3	42	41,1	100

Source: Monteagudo and Watanuki (2002).

Table 2 shows ad-valorem tariffs which include the equivalent effects of specific, mixed tariffs and tariff-rate quotas levied by Canada, the United States and Mexico[6]. Table 3 shows the impact of tariff elimination on exports by countrymeasured as the percentage change from the 1997 base year. The results indicate that while the highest export increases are recorded for Argentina and Chile in both processed and agricultural products, all countries in the region including Canada and the US would gain[7].

[6] It is not clear whether the authors have taken into account the price bands used by Chile and the Andean countries to protect many agricultural products.

[7] The Caribbean countries may be losers in the agricultural liberalization of the FTAA. Nevertheless, this issue requires careful analysis. It should also be mentioned that for the US, the gains reported in USDA (1998) are smaller than those presented here.

Table 2: MFN *Ad Valorem* Tariffs (%) of the Respective Countries and Regions (1997)

Commodities	Canada	US	Mexico	Central America	Andean Community	Argentina	Brazil	Chile	EU
Rice	0,4	4,7	15	28,6	16,4	12,1	13,9	11	62,1
Wheat	34,8	3,9	67	1,2	11,6	6,5	6,5	11	68,5
Cereal Grains	8,6	0,8	38,4	9,7	12	6,6	6,6	11	38,5
Vegetables and Fruits	4,2	5,7	17,9	18,1	15	11,1	11,1	11	8,5
Oilseeds and Soybean	0	19,3	3,1	4,7	10,6	5,9	5,9	11	0
Sugar	6,9	10,4	89,8	29,8	14,4	19	17,2	11	32,2
Plant-based Fibers	0,9	2,1	10,8	6,9	9,6	8,5	8,2	11	0,3
Coffee and Tea	2,7	14,9	10,3	9,7	9,8	9,3	9,4	11	3,5
Bovine Cattle	0,3	1,5	8,3	7,9	8,8	2,6	2,6	11	17,3
Other Animal Products	13,7	0,6	13	12,5	11,6	9,2	9,3	11	5,8
Primary (weighted)	**4,3**	**8,2**	**9,4**	**12,4**	**11,9**	**7,1**	**8,2**	**11**	**8,1**
Bovine Meat	15,6	5,6	34,7	17,5	16,5	12	12	11	55,4
Poultry Meat	66,2	3,7	68,3	34,3	17,3	13,9	13,9	11	15,3
Vegetable Oils	11,1	4,7	19,2	12,9	14,9	12,2	11,9	11	10,9
Dairy Products	133,4	22,2	41,5	37,3	17,9	18,2	19,9	11	40,7
Beverage and Tabaccos	13,6	17,6	32,3	22,6	17,3	21	21,1	11	20
Other Food Products	15,8	10,1	19,9	16,2	16,2	15,2	15,3	11	17,1
Processed (weighted)	**22,4**	**12,3**	**32,9**	**21,9**	**16,5**	**14,4**	**16,9**	**11**	**20,3**
Average (weighted)	**16**	**11,1**	**26,4**	**18,2**	**14,5**	**10,9**	**12,7**	**11**	**13,2**

Note: The sectoral *ad valorem* protection rates are estimated as the simple average of the corresponding ta
For countries and regions in the Western Hemisphere, data includes *ad valoren*, and equivalents of specific, mixed and TRQs.
EU data includes *ad valorem*, specific and mixed tariff equivalents.
For Central America and the Andean Community, the MFN rates are estimated as the simple average of all p the corresponding tariff lines. Tariff rates of macro-sectors and "average" are weighted by trade flows.
Source: Monteagudo and Watanuki (2002).

Table 3: Impact of the Agricultural Tariff Reform on Total Exports (Percentage change from base)

Commodities	Canada	US	Mexico	Central America	Andean Comm.	Argentina	Brazil	Chile	EU
Rice	0	17,13	76,77	8,13	13,82	7,35	-0,02	0	-0,0
Wheat	2,67	0,75	1,08	4,74	17,92	-0,83	-0,43	0	-0,0
Cereal Grains	1,22	2,64	6,72	-0,04	14,92	1,66	5,16	2,75	0,0
Vegetables and Fruits	6,83	3,55	1,47	4,02	4,96	1,66	8,72	8,31	-0,
Oilseeds and Soybenas	5	0,92	37,13	18,5	5,92	4,67	2,15	44,51	-0,1
Sugar	23,72	31,13	12,23	15,66	14,31	23,37	4,38	0,85	-0,1
Plant-based Fibers	2,55	2	3,98	4,62	4,81	1,56	3,9	-0,5	-0,0
Coffee and Tea	2,33	2,69	2,94	5,67	5,2	12,34	1,97	14,66	-0,2
Bovine Cattle	1	0,79	0,84	7,52	8,12	12,93	17,57	23,08	0,0
Other Animal Products	0,46	2,76	0,51	7,66	5,81	1,14	2,14	3,28	-0,0
Primary	**2,86**	**2,51**	**2,48**	**7,76**	**6,47**	**2,28**	**2,81**	**7,4**	**-0,0**
Bovine Meat	6,89	4,25	0,29	12,49	10,94	4,65	0,76	9,56	-0,0
Poultry Meat	3,86	7,81	3,46	16,45	11,15	10,72	3,55	24,93	-0,0
Vegetable Oils	-0,17	7,6	5,32	17,04	6,95	3,57	0,95	22,44	-0,1
Dairy Products	17,46	22,79	46,13	40,39	23,49	14,9	9,69	42,07	-0,1
Beverage and Tabaccos	4,28	3,36	5,16	22,74	23,16	21,36	42,49	30,62	-0,3
Other Food Products	8,19	4,97	10,25	12,85	7,26	14,34	21,14	13,85	-0,1
Precessed	**6,47**	**5,63**	**8,42**	**16,2**	**8,79**	**7,48**	**9,24**	**17,21**	**-0,1**
Agriculture	**4,49**	**3,93**	**5,01**	**10,21**	**7,42**	**5,32**	**5,62**	**13,55**	**-0,1**

Source: Monteagudo y Watanuki (2002).

In contrast to the multi-country multi-sector estimates the note by van der Mensbrugghe (2002) seeks to estimate the export effects of alternative trade agreements that Argentina could perhaps accede to. Again the estimates are based on a CGE model and only simulate the effects of tariff elimination; export subsidies and domestic support are kept unchanged. Also, unlike the paper by Monteagudo and Watanuki this note simulates the effects of tariff elimination of all trade in goods and not just of agricultural products and foodstuffs.

Table 4 presents four of the simulations of the export effects of alternative trade agreements including: (i) the FTAA, (ii) a free trade agreement with NAFTA (FTNF), (iii) a free trade agreement with the EU (FTEU) and, (iv) a multilateral free trade agreement. The numbers indicate that the FTAA has approximately the same effects on Argentina's exports as would have a free trade agreement (FTA) with the

Table 4: Effects on Argentinas' Exports of Trade Agreements

Country/ region	FTAA	NAFTA	EU	GLOBAL
	Change from Base (millons of dollars)			
Brazil	-3.400	800	-1.700	-5.600
NAFTA	2.400	2.800	-800	900
Rest of LA	4.800	500	-1.200	2.800
European Union	900	600	23.200	10.200
Rest of World	1.400	1.000	3.000	9.700
Total	6.200 (12%)	5.800 (11%)	16.300 (31%)	18.000 (34%)

Source: van der Mensbrugghe (2002).

NAFTA countries. Furthermore, the impact of these agreements is approximately one third the impact that a FTA with the EU or a global agreement would have.

Summing-up, the picture that emerges indicates that agricultural liberalization in the FTAA would provide gains for most Members which for some of the most efficient producers like Argentina, are only a fraction of the gains they could achieve in a FTA with the EU or an ambitious liberalization in the Doha Round. Nevertheless as I will discuss below, unlike the trade liberalization in the WH that represents a true and achievable proposition, neither the EU nor the global trade talks appear at this stage likely to produce an important liberalization. Finally, it is of interest to note that the FTAA will redirect exports and in this sense help to diversify markets thus reducing the external vulnerability of many LA countries.

1.2 Financial consequences of protectionism

The traditional models to asses the effects of agricultural protectionism like those discussed above, underestimate or seriously underestimate its economic effects. The reason is that the lower level of exports that can be attributed to the quantitative and price effects of this protectionism, worsens the solvency indicators of efficient developing country exporters. In indebted countries, as many countries in Latin America are, this worsening increases bond spreads and therefore domestic interest rates. If for example, the elasticity of bond spreads (or country risk) with respect to a solvency indicator like the debt service to export ratio, lies between .5 and 1, then interest rates could increase between 10% and 20% if export losses on account of agricultural protectionism amount to 25% which as seen above, lies within the range of possible effects of agricultural trade liberalization. This impact, increases financial costs (particularly to small firms) and slows the growth rate (Nogués, 2003). The issue is of particular importance to many LA countries which are heavily indebted while being efficient agricultural producers.

In relation to this topic, it is of interest to remind that the negotiating agendas in both the FTAA and in the WTO talks do not include the links between trade and debt. It is paradoxical and perhaps an indication of the weakness of heavily indebted countries, that the issue of trade and finance is not a negotiating topic; in the WTO for example, this topic is addressed in a Working Group. Trade and debt are two issues that are more closely linked than say trade and competition or trade and environment. Yet while these two topics of particular interest to industrial countries, are included in the negotiating agendas, trade and debt remains on the sidelines.

This state of affairs should not go on. One possibility would be that in the context of the FTAA negotiations, Latin America gathers the support of the US for putting this topic on the table for substantive negotiations at the Doha Round. Agricultural protectionism by the EU and Japan can go on in part because they face no international costs. The strength of the world economy could be increased if they would have to pay some costs to their actions. Including trade and debt in the multilateral negotiations would change the structure of incentives in a direction that I believe, would add impetus to agricultural trade liberalization.

2. Transparency

In terms of liberalizing trade, there is probably no worse an agreement than the Uruguay Round Agreement on Agriculture (URAA). In part, this outcome is a reflection of entrenched and powerful interest groups that in industrial countries have co-opted policy making to the detriment of their consumers and tax payers. Nevertheless, the outcome is also a reflection of significant lack of transparency perhaps during the negotiations, but surely in its implementation stage. What happened here should never again be repeated and obviously, this also applies to the FTAA negotiations. I will start by commenting on the UR and then provide some brief reflections to the FTAA negotiations.

2.1 Transparency in the UR

A brief recount serves to remind us of some disturbing factors surrounding the UR negotiations. First, the most significant obligations that countries undertook under the AA was the tariffication of their non-tariff-barriers (NTBs). Furthermore, developed countries agreed to reduce the resulting tariffs by 36% over a period of six years that concluded in 2000. During the negotiations it was also agreed that the base period for estimating the equivalent ad-valorem tariffs of NTBs would be 1986-1988, which were years of low international prices and therefore, high equivalent ad-valorem tariffs.

The tariffs that came out of the tariffication exercise and notified to the WTO resulted to be higher and sometimes much higher than the true tariff equivalents of NTBs prevailing in the base period. These inflated tariffs have been called dirty tariffs and as Table 5 shows, in some cases the tariffs notified and bound in the WTO exceed the tariff equivalent by 50% and even by

Table 5: Tariffication of NTBs by the EU and the US

EU	Tariff equivalent (1)	Bound tariffs in 2000 (2)	Bound tariffs/ Tariff equivalents (3)
Wheat	68	109	1.60
Sorghum	89	121	1.36
Rice	103	231	2.24
Bovine meat	97	87	0.90
Other meat	27	34	1.26
Dairy products	147	205	1.39
Sugar	144	279	1.94
Average EU	**45**	**73**	**1.63**
Average US	**13**	**23**	**1.77**

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Source: Anderson (1998).

100%[8]. Over the years, I have find it quite amazing to see many observers base their support of these negotiations on the increased transparency associated with the tariffication exercise. In fact, dirty tariffs, is probably one of the most obscure episodes in the 50 plus years of multilateral trade negotiations (MTNs). For some products, the situation is so bad that even under a significant trade liberalization outcome in the Doha Round the resulting protection levels could end up being higher than before the UR. If this happens then, it will have taken two full multilateral rounds for moving some of the advanced countries´ agricultural protection by an inch[9].

2.2 Transparency in the FTAA Negotiations

In what follows, I deal first with market access issues and then with the subsidy and domestic assistance policies.

[8] How this came to be is a question that has apparently not been researched carefully. Trade negotiators from some countries in the Cairns Group have told me that the notification of tariff equivalents was made at the last minute before closing the UR. After many years of frustrating talks, negotiators were tired and wanted to end and close the round in spite of the fact that they sensed an outcome that was unbalanced against developing countries (Ricupero, 1999) it should also be mentioned that the document entitled "Modalities for the Establishment of Specific Binding Commitments Under the Reform Program" (GATT, 1993) provided the guidelines for the tariffication exercise. Nevertheless, the Modalities Document not being binding, countries were not bound to use the guidelines and the formula it indicated.

[9] Selection of the base period and dirty tariffs were only two of the protective effects of the URAA. Other barriers and distortions legalized by this Agreement include special agricultural safeguards, the famous subsidy boxes, export subsidies and fiscal support. Each of these escape valves for providing protection, continue a tradition of intransparency in international agricultural policies.

a. Market access

Agricultural markets in developed countries remain highly distorted by many instruments including: (i) dirty tariffs, (ii) variable levies, (iii) tariff-quotas with very high if not prohibitive out-of-quota rates, (iv) tariff peaks and tariff escalation, (v) special agricultural safeguards, (vi) export subsidies and, (vii) many domestic support measures. Given the degrees of freedom remaining in the AA for providing protection and subsidies, it is not surprising that as a result of declining world agricultural prices of recent years, the total support to agriculture by OECD countries increased massively after 1997 (OECD, 2002), and this happened without apparently violating the AA[10]. Obviously this worsened the external accounts and solvency conditions of many efficient agricultural producers in LA.

Appendix Tables 1 and 2 show one aspect of this distorted picture. The figures indicate that the import duty (ad-valorem tariffs) is for many agricultural products, the minimal part of the protection granted by the EU. A similar picture is portrayed for the US although in the later case, the height of protection is much lower (Bannister, 2002).

Although it is true that Canada and the US are less protective than the EU and Japan, yet they use all of the instruments listed above[11]. In contrast, agricultural protection in most LA countries is more transparent and in the MERCOSUR countries it is granted mainly through ad-valorem tariffs which means close to maximum transparency[12]. Therefore, if there is going to be 100% transparency in the FTAA market access negotiations it is important that all protective instruments be dismantled[13]. I also note that the engineering of the liberalization process is also a crucial matter that is still under negotiation. For example, ideally all countries should be liberalizing at the same path and things like backloading, as agreed in the WTO in relation to the dismantling of the MFA, should be avoided particularly by the rich countries[14]. The FTAA negotiations are fast approaching the critical stages where crucial decisions will have to be taken. If some Members believe that maximum transparency is yet not present, then there is little time to do what has to be done[15].

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[10] I say apparently, because I doubt that the capacity of many developing countries that are efficient agricultural producers to monitor implementation of international trade agreements is strong enough for detecting violations by other trading partners.

[11] There is also the issue of state-trading companies in Canada who by the way also implements high protection to some sectors like the dairy industry.

[12] To be sure, these countries also resort to barriers like those entailed by specific tariffs whose ad-valorem rates will have to be notified. I have been informed that each country is free to choose its own methodology for undertaking this exercise. Probably transparency in this process, could be improved.

[13] To be sure, the US position is to eliminate tariffs and non-tariffs barriers including "licensing barriers on agricultural products, restrictive administration of tariff-rate quotas…" (Zoellick, 2002). The US is also making room for reasonable adjustment periods for import sensitive products. Exactly what this means is not yet clear, but it is of interest to note that recently, the USITC initiated an investigation into the impact effects of the FTAA for a relatively long list of agricultural products (ITC, 2002)

[14] One lesson from the UR is that there should be an agreed methodology for any tariffication exercise. Another lesson is that sufficient time should be given so that all Members can agree that the results of any exercise, portray a reasonable picture of what is occurring behind non ad-valorem tariffs.

[15] The FTAA negotiations are approaching the stage where countries will have to table their initial offers to be completed between December 2002 and February 2003. After that, offers will be revised and this stage should

b. Export subsidies

On export subsidies, there appears to be a quite unanimous agreement among the FTAA countries that they should be dismantled[16]. The questions appear to center more on when and how fast than on whether. Nevertheless, there are a few standing issues where there appears to be some differences. The first surrounds the question of which policies should and which should not be considered export subsidies in hemispheric trade. In particular, the negotiations have uncovered differences regarding whether export credits and export credit guarantees and insurance programs are subsidies. One group of countries holds the position that these policies do not provide subsidies simply because they are not banned by different WTO Agreement, I believe that this discussion should not be driven by rule-making lawyers but by economics and it should be relatively straightforward to clarify whether this is the case. The draft FTAA Agreement on Agriculture already includes an annex with a long list of regulations that presumably prevent these policies from granting subsidies. Even if this is true, the fact of the matter is that LA is a cash poor region that has little if any capacity for financing subsidies. Furthermore, most LA countries have a weak capacity to monitor compliance with the application of these rules. Therefore, allowing policies like export credit guarantees and insurance programs to be used within the FTAA is more likely to harm LA than the US and Canada. They should therefore in my view, be dismantled for hemispheric trade flows.

At the end of the implementation period of the UR, the following are the amounts of export subsidies (and share in total) allowed by the WTO Agreement on Agriculture (in millions of dollars): EU: $8,496 (61.9%); US: $929 (4.4%); Mexico: $748 (3.5%); Canada: $567 (2.7%); rest of world: $10,593 (27.5%)[17]. These sizable amounts of legalized subsidies have posed two additional problems in the FTAA negotiations: (i) how to treat hemispheric imports that are subsidized by third countries and, (ii) how to treat exports to third markets that compete with subsidized exports from third countries. Among the bracketed proposals on the first point, I sympathize with the one according to which FTAA countries agree to apply countervailing duties to subsidized imports. There is also a proposal that if this is not done, FTAA countries could subsidize their exports to the importing Member. Again, I believe that LA has little capacity to match the subsidies of rich countries and there is a risk that while the US and Canada could do this, such an action would displace exports from other FTAA countries to the importing Member. To sum-up, the best FTAA in my view is absolutely no export subsidies allowed in hemispheric trade, plus an agreement to apply countervailing measures to

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be completed by July 2003. This implies that critical work will have to be done: (i) between the governments and private sectors in order to define which products will go into the different lists and, (ii) in order to arrive at an accurate estimate of the height of the protection granted to each product. During this work several decisions, that can or cannot be characterized by transparency, will have to be taken.

[16] On this policy, the US seeks to "…eliminate agricultural export subsidies on trade in the Hemisphere and pursue a mechanism that will support achieving the US objective in the WTO negotiations of eliminating all export subsidies on agricultural products, while maintaining the right to provide bona fide food aid and preserving US agricultural market development and export credit programs" (Zoellick, 2002b).

[17] Data from Argentina's Secretary of Agriculture.

subsidized imports from third countries in the most expeditive way allowed by the WTO CVD Agreement.

The second problem, exports to third markets that compete with subsidized exports from third countries, is more difficult to tackle and among the proposals that have been tabled, I believe that the one calling for consultations before Member countries decide to match subsidies is a reasonable one. Obviously, progress in the negotiations on dismantling export subsidies in the Doha Round would reduce problems of unfair trade along the formation of the FTAA. Nevertheless as discussed below, despite agreement by the US and the Cairns Group that export subsidies must be dismantled, the EU remains opposed to this proposal. Therefore, FTAA countries should be prepared for a scenario of more years of export subsidies particularly by the EU, but probably along a declining path[18].

c. Domestic assistance

Although the FTAA talks include issues of domestic assistance, the US and Canada are trying to push for their dismantling in the Doha Round. I discuss these proposals below but I want to note that if little or no progress is made in the WTO talks, some regional exports by LA countries will be at risk. Take for example the case of honey analyzed below where Argentina is a major exporter. Through non-recourse loans, the recent US Farm Bill has assured beekeepers (and other producers of selected commodities) a minimum purchase price which as has occurred in the past (Alberta, 2001), could become heavily subsidized. This may obviously happen in the case of many other products that could become subsidized. These effects have to be carefully assessed by LA countries.

Given as indicated below, that the US proposal at the Doha Round seeks to maintain freedom to provide some domestic assistance, it is very unlikely that the negative effects of these policies will be eliminated any time soon. In the FTAA, LA countries should seek compensation for the residual degrees of freedom for providing agricultural protection that only Canada and the US are in a position to use.

To sum-up, I want to repeat my call for the FTAA negotiations to search for the maximum transparency. Transparency in the tradition of the GATT is associated with the idea of publishing regulations and trade notifications (GATT 94 Article X). This idea of transparency is also what appears to be in the mind of some participants of the FTAA negotiations [19] but this is only part of what I mean by transparency; the less important part. By transparency I mean a clear understanding by all countries of what

[18] At the end of the peace clause (Article 13 of the Agreement on Agriculture) FTAA countries will be better positioned to initiate cases in the WTO dispute settlement body. It is likely that some WTO Members will try to extend the deadline but FTAA countries should forcefully oppose any such attempts.

[19] For example, regarding the US goals for the Quito Ministerial Conference on November 1, Zoellick (2002a) has asserted that he will "…urge that the revised negotiating text be presented to the public, a practice we began last year in Buenos Aires. The release of this text should enhance the transparency of the FTAA process…".

precisely is at stake, of what precisely will be the extent of trade liberalization, of what precisely are the possibilities of nullifying this liberalization with other instruments as occurred in the URAA and most importantly, of what will be the likely costs and benefits. The challenge is how to operationalize maximum transparency and this can only be agreed in the negotiations which will also have to clarify how transparency will be monitored during implementation of the obligations. If this transparency is not put on the table now, then there is a risk that sooner or later the regional relations will become soured in much the same way as the UR outcome has soured many multilateral relations.

3. Linkages Between the FTAA and Doha Agricultural Trade Negotiations

Worldwide gains from agricultural liberalization surpass the gains that can be achieved from the liberalization of the rest of goods (World Bank, 2002). In a sense, the multilateral negotiations, and perhaps the future of the trading system, are hanging on these negotiations. Some countries like Mexico have also signed trade agreements with the EU but other negotiations of LA countries with this region are proceeding at a slow pace the reason being its stance that agricultural barriers will only be negotiated multilaterally[20] . This is a smoke curtain; there is yet little if any evidence that the EU (and Japan), is serious about agricultural liberalization.

There are two black clouds looming against the prospects of agricultural trade liberalization in the global trade talks: the US Farm Bill, and the reform of the Common Agricultural Policy (CAP). For LA, what is at stake in the Doha Round is of the greatest importance. Let me address each of these topics and after that I will say something on how these proposals are interlinked with the Cairns Group and the FTAA negotiations.

1. Farm Bill and the US proposal in the Doha negotiations

After passage of the Farm Bill (Farm Security and Rural Investment Act of 2002), there is a strong sense that the US is engaging in double talks. While in its international policy discourse, it shows clear signals of seeking agricultural liberalization (for example, in the FTAA talks and, in the Doha negotiations where it has tabled a very ambitious proposal), while domestically it follows the opposite path. Congressional approval of the Farm Bill indicates that the US Government has bowed to the demands of its domestic agricultural lobby. This Bill not only locks-in high levels of agricultural support but also increases them by around $45 billions dollars or 21%. Although most of the assistance will go to cereal producers, several other products such as honey have also been added to the list (World Bank and IMF, 2002). In addition to the very

[20] Initially, the MERCOSUR countries offered the EU an FTA but its counter-offer was extremely mercantilist with no significant liberalization of agricultural trade. Unlike the MERCOSUR proposition, the EU´s offer is highly unbalanced and in my view, unacceptable (Nogués, 2001).

negative signals of this Bill, there is a debate on whether the assistance it provides, is in fact decoupled. For example, some analysts challenge the US position that the additional assistance provided by this Bill is decoupled. These analysis conclude that the additional assistance will increase production by 4% and drag further down agricultural international prices (World Bank and IMF, 2002, and Freeman, 2002)[21]. Preliminary estimates indicate that the Farm Bill could induce a reduction of international prices in the order of 5% to 8% (Gardner, 2002) implying serious losses to LA.

As indicated below, the Farm Bill is more or less the opposite of the policies proposed by the US in the proposal it has tabled in the WTO. So could the "real US please stand up". For the time being we must conclude that the Congress is protectionist while the Administration has taken a liberalizing stance. This leaves LA with an uncertain prospect as it remains unclear whether any agreement that the USTR could reach on liberalizing agricultural trade in the FTAA and in Doha will be approved by Congress. On this, let me recall that the Farm Bill was quite easily passed as it was approved by the House with 280 against 141 votes, and by the Senate with 64 against 35 votes. While only time will show where the real US stands, the Farm Bill will continue to entail losses to LA. The FTAA negotiations should include the impacts of the Farm Bill and LA should demand compensation. This proposal is independent on the fact that the Farm Bill is within the range of policies acquired by the US in the UR. If the true spirit of the FTAA is embrace through integration, then a bad WTO agreement such as the AA should not become an obstacle to the vision in the WH.

2. Reform of the CAP

The proposal tabled by the European Commission is also sending a signal that the EU is not prepared to advance in the goal of agricultural trade liberalization. Furthermore, its enlargement will also displace exports of efficient producers in LA.

The main EC proposals for reform as recently summarized by the World Bank and IMF (2002) include: (i) decoupling of direct farm subsidies, (ii) linking direct income payments more closely with environmental, food safety and, animal and occupational safety standards[22], (iii) reducing direct payments gradually by 20% and redirecting the savings in support of sustainable agriculture and rural development and, (iv) reducing intervention prices which in the case of cereals amounts to only 5%. On the level of support, the overall CAP budget would remain at $40 billions euros. Also and most importantly, there are no measures proposed to reduce export subsidies and tariffs

[21] The "…most compelling reason to consider the countercyclical payments as well as the direct payments not to be decoupled, is the fact that program bases are regularly adjusted, or updated in farm bills. The history has been that in every US farm bill, farmers can reasonably expect their bases to be adjusted. If they expect that their future program benefits will increase through them planting more, …, they will produce more" (Freeman, 2002).

[22] Again, there is a debate on what exactly would be the production effect of this decoupling. On this, the World Bank and IMF (2002, page 30) asserts that "…decupling has in the past has not always had as much effect as anticipated (e.g. EU cereals regime, where production actually rose after a switch to direct income support)".

which are the most distortionary elements of its policies and the ones that produce the biggest losses to LA. Finally, in spite of its shallowness, this proposal has been criticized by some European countries. Most likely the EU proposal at the Doha Round will be this proposal or something less.

Therefore, if not even this mild EC proposal has been able to gather support in the EU, then for the time being it appears that the likelihood of the Doha Round delivering an important liberalization of agricultural trade remains minimal. After all is said and done, this Round may end up not being the Development Round that developing countries envisaged when they supported its launching. If to this bleak picture we add the expansion of the EU to countries that are more efficient agricultural producers than the actual members, then the prospects for LA agricultural exports do not appear to be promising. Again, all this will cost money to LA and therefore, it should demand compensation.

3. The Cairns Group

In this very uncertain global scenario, the Cairns Group (CG) that includes several LA countries[23], will have to play a stronger role than in the UR if it wants the Doha negotiations to deliver important agricultural liberalization. This will not be easy as the CG includes a mixed bag of countries with different interests. Its initial move appears ambitious as it has tabled policy proposals for significant liberalization in the three major policy areas: market access, export subsidies and domestic assistance. In some respects, this proposal is more ambitious than that tabled by the US but in others, it is less.

Table 6 compares the CG and the US proposals in market access[24]. As seen, while the CG proposal is less ambitious on tariff reduction, it seeks a larger expansion of the quota segments of the tariff-quotas. Furthermore, it is clear that the CG proposal reflects a preoccupation with the importance of transforming non ad-valorem tariffs while the US proposal eschews this point. I see this as one of the central elements that the CG should continue to push and the US must clarify.

In export subsidies both the CG and the US proposal seek their elimination. On this I must recall that in the Doha Ministerial Meeting, the EU prevailed in defining a language that is uncompromising on whether these subsidies would be eliminated during the negotiations. Finally on domestic support, the CG proposal is more ambitious as it proposes to: (i) eliminate the amber box while the US proposes to maintain de minimis subsidies equivalent to 5% of domestic production and, (ii) tighten the green box, while the US proposal leaves it unchanged.

[23] Current membership includes: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.
[24] Information provided by a trade negotiator indicates that Canada, probably the most protectionist country in the CG, has not endorsed the proposal in market access.

Table 6: Doha Round Proposals on Market Access

COMPROMISES	CAIRNS GROUP	US
TARIFF REDUCTION	•DC: Swiss formula. First year down payment of 50% of total reduction. •DVC: Reductions depending on the initial level of tariff.	Swiss formula with maximum tariff of 25%.
TIME FRAME	DC:5 years and DVC: 9 years.	5 years.
BASE	UR bound tariff.	Apply tariff in January of 2000.
MINUMUM ACCESS	DC: Increase to 20% of domestic consumption in 5 years. First year down payment of 50%. DVC: Expantion to 14% of domestic consumptions in 9 years.	Part of this increase is to be allocated to non- traditional suppliers.
IN-QUOTA TARIFF	DC: Elimination. DVC: Reduction.	Linial illimination in 5 years
NON AD VALOREM TARIFF	•Transform to Ad Valorem tariff with specific rules.	Does not specify methodology.
SPECIAL SAFEGUARDS	DC: Elimination. DVC: New mechanism to be negotiated.	Elimination.

Source: Argentina's Secretary of Agriculture.

Summing-up, there are dark clouds looming over the objective to liberalize agricultural trade in the Doha Round which have been formed by the US Farm Bill and the EC proposal. How LA, in the FTAA talks and the CG in the Doha negotiations, plays its cards will be decisive not only to the outcome of these negotiations but probably also, to the future of the multilateral trading system[25]. The CG must stand firm by its demands and in this regard, I want to recall the impact it had when in 1990 the Member countries walked away from the Brussels meeting that was supposed to conclude the UR. Because of this action, the negotiations continued for a number of years but in the end, there was not much additional liberalization that was delivered (Hathaway and Ingco, 1996)[26].

More crisis will be necessary if the CG stands firm as this crucial moment requires. In the meantime, LA countries continue to bear the costs associated with: (i) high uncertainty about the final outcome of the Doha negotiations, (ii) the added trade effects of the 2002 Farm Bill and, (iii) the prospects of continuing to live in a divided world economy. Because the stakes are very, LA in the FTAA negotiations and the CG in the Doha talks must be prepared to stand firm sustaining that either the Doha talks deliver

[25] These concerns have are well expressed in the Communiqué of the Cairns Group meeting in Santa Cruz de la Sierra during last October (Cairns Group, 2002): "…without a successful outcome in agriculture, the whole Doha process will be at risk…".

[26] The Blair House agreement, that broke the impasse, was one where the interests of the EU prevailed in much the same way that it prevailed in the final language of the Doha Ministerial Declaration.

agricultural liberalization, or the multilateral system is taken to the very edge of abyss. How to do this is a different matter.

4. Reciprocity and Equitable Compromises

One of the questions put forward by the organizers of the IAD meeting is whether equitable compromises can be achieved. The first point of this section argued that most of the WH would gain from agricultural trade liberalization. Therefore if this liberalization is achieved, it will have been an equitable outcome provided the US neutralizes the negative effects of the Farm Bill for hemispheric trade. One could also understand the question of equitable compromises to be asking whether the FTAA will be characterized by reciprocity in the GATT-meaning of this word. For example, regional trade liberalization in goods is likely to meet the test of reciprocity as defined by the GATT in its preamble and Article XXVIII bis[27]. Up to the UR, the principle of reciprocity was the pillar of the multilateral trade negotiations. This principle protected the smaller Members (at that time mostly European countries) during the first seven GATT rounds. The hegemonic country did not abuse of its power and reciprocity is key to understanding the success of the GATT (Finger and Winters, 2002).

The UR broke the tradition of balance and reciprocity among different trading partners to an extent that has been characterized as resulting in a severe unbalance with the pluses on the side of industrial countries and the minuses on the side of developing countries (Finger and Nogués, 2002). If the FTAA negotiations would had been concentrated on trade in goods then most likely, equitable and reciprocal compromises could had been reached more or less easily as every market is opened on a reciprocal basis. But these negotiations go well beyond trade in goods and whether the FTAA can result in an equitable agreement is an issue that merits careful consideration that goes beyond the purpose of this note. My preliminary view is that the agenda of the FTAA is biased in favor of US interests on issues like services, intellectual property and trade and competition to give just some examples of topics having little economic benefits to offer to Latin America. For example, the US is seeking full access (right of establishment) to the services sectors where it has comparative advantage (banking, insurance, telecommunications, power production and distribution, etc.), but "…excludes immigration policy and access to employment markets from the scope of the services chapter of the FTAA Agreement…" (www.ustr.gov). Recent estimates indicate that negotiations on movements of workers for limited periods of time from developing to industrial countries could produce gains that surpass the full liberalization of trade in goods that remains to be implemented (Winters, 2002). Therefore, excluding these negotiations from the FTAA will most likely result in an unbalanced agreement on services[28].

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[27] Quoting from this Article : "... negotiations on a reciprocal and mutually advantageous basis… are of great importance to the expansion of international trade…".

[28] This is not to say that Latin America doesn't gain from liberalizing trade in these services. It certainly does, but it doesn't need the FTAA to internalize these gains. Services liberalization plus an agreement to submit disputes to an independent body like the International Center for the Settlement of Investment Disputes (ICSID) would suffice. The idea behind the services negotiations in the same way as the idea behind

In intellectual property, the US seeks TRIPS plus regulations. In patents for example, it seeks: (i) extension of duration to compensate for unreasonable delays in obtaining marketing approvals, (ii) limiting the circumstances for granting compulsory licenses, (iii) narrowing the categories of products and processes for which a patent can be denied and, (iv) establishment of maximum criminal fines. The TRIPS Agreement already implies a significant redistribution of intellectual property rents from developing to industrial countries. For the WH, the World Bank estimates that Brazil and Mexico will transfer $530 million dollars and $2,550 million dollars respectively, while the US will gain $19 billions (World Bank, 2002)[29]. Again, the FTAA negotiations on intellectual property do not appear to be leading towards a balanced agreement[30].

Finally, on trade and competition I first want to note that there are many countries in Latin America that still don't have a competition commission. Furthermore, at their stage of development, it is not clear whether the establishment of these commissions would be advisable. To make a positive impact on society, institutions like competition commissions must have a budget to function appropriately and most importantly, they should be fully independent from the political power structure. Even in the biggest Latin American countries there is evidence that at times, these commissions have been co-opted by interest groups and the influence of politicians. Under these conditions, competition commissions can do more harm than good.

Summing-up, under the GATT reciprocity principle, an equitable FTAA is still far away. In my view, the US will have to soften its demands in many of the "new areas" and/or, will have to put more goodies on the table like for example, movement of workers for limited periods of time and an important downpayment in market access. On the other hand, it is clear that the FTAA negotiations could drag on for many more years than now scheduled if every country seeks tit for tat. For example, there are dynamic gains that are impossible to evaluate with the limited instruments that we now have available. Mexico illustrates how some of these gains come to be and while it is true that that this country holds a unique geographical position, other countries like Chile are examples of where the region could be heading in a few years if they continue to open up. The challenge for most Latin American countries is to have the ability to define the elements of their "strategic globalization policies" and then, to document their gains and be able to negotiate an FTAA that is in their interest. The pillar should be the reciprocity principle of the GATT because in its absence, the FTAA is more likely to fail. If this is not done, the FTAA could be see as an imperial success that harms the region. This would be the worst outcome.

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multilateral negotiations should be to widen the gains by improving market access on a reciprocal basis. Adding movement of persons would ensure reciprocity in the services negotiations.

[29] For Argentina, the estimate is in the order of $ 500 million dollars (Finger and Nogués, 2002).

[30] One thing are the estimates on rent transfers and another, the strategy for collecting the paychecks. This strategy has included eliminating products from the GSP, issuing retaliation threats, listing countries in black lists, etc. It is of interest to note that a recent study by the Commission on Intellectual Property Rights established by Ms. Clare Short, UK Minister for Development, presented at the WTO is very critical of attempts by industrial countries of using regional trade negotiations for seeking strengthened intellectual property rights (see www.wto.org).

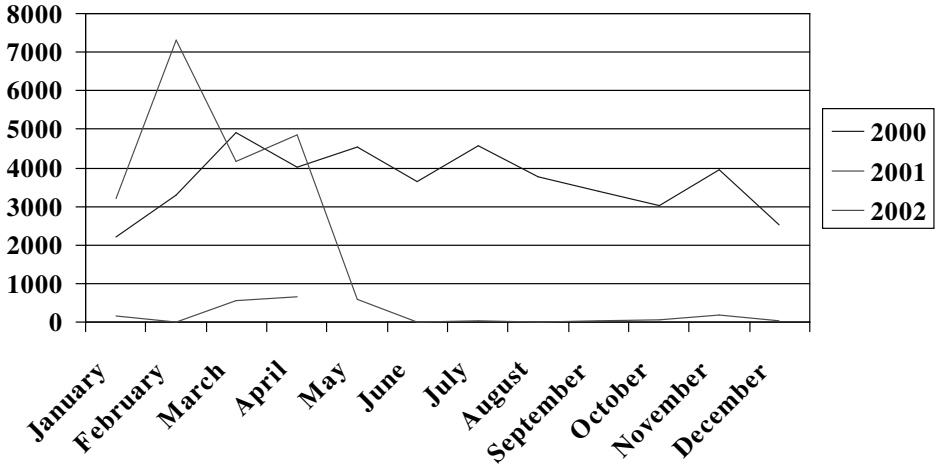
5. Antidumping and CVD Regulations

In his recent letter to Congress, Zoellick (2002b) stated that he wanted to: "Preserve the ability of the United States to enforce vigorously its antidumping and countervailing duty laws". In my view, the FTAA countries should negotiate this issue with great care because after the FTAA is signed, they could end up facing an increasing number of antidumping and CVD measures[31]. The potential of these laws to do damage is huge and this applies with particular force in cases falling on agricultural products. A recent example will illustrate what is at stake.

On December 10, 2001 the US Department of Commerce (DOC) announced the imposition of steep antidumping duties against honey imports from Argentina and China (ranging between 33% and 184%), and countervailing duties against Argentina (5.9%). These are the latest measures taken by the US in a history of support to its honey industry that spans more than fifty years in spite of which, the declining trend has not stopped. The US lacks comparative advantage in the world honey market.

Graph 1 shows the chilling effect that this investigation had on US honey imports

Graph 6:U.S. Monthly Imports from Argentina (In Tons.), 2000-2002



Source: USITC

[31] As occurred for example, by an important number of agricultural safeguards permitted by the URAA.

during 2001 when most of the work was completed by the DOC and the International Trade Commission (ITC). Three factors of the US trade remedy laws as applied to this case illustrate why this issue merits attention from Latin America. The first refers to the use of the regulations to apply what appears to have been close to the maximum possible CVD rate which most likely was in excess of any element of subsidy that the reintegro, the major program countervailed by the US, could have provided[32]. According to the WTO rules, indirect taxes can be reimbursed but there is a difference between this case and how the DOC used to compute the subsidy element of the reintegro program. In the past, the DOC used to estimate the incidence of indirect taxes in the final price and countervailed only the excess portion.

A change of regulation introduced in the UR allowed the US to countervail all the reintegro. In fact, Annex II of the WTO Agreement on Subsidies and Countervailing Measures, authorizes member countries to countervail all reimbursements of indirect taxes when the Government does not have in place a "system or procedure to confirm which inputs are consumed in the production of the exported products and in what amounts…" (WTO, 1995). As most developing countries, Argentina does not have in place such a costly and burdensome system, but still being a cash-poor country, it oversees that reintegro rates are not excessively costly to its treasury [33]. The US resorted to this new WTO regulation (which in fact it probably negotiated), and countervailed the whole reintegro given to honey exports. Since we know that at least some indirect taxes were paid, by countervailing the whole reintegro the US overprotected its domestic producers.

Another issue of interest to Latin America, comes from the dumping investigation. As is well known, there are a number of ways that "normal value" can be estimated one of which is based on actual cost of production. In order to pursue this line of enquiry, a random sample of beekeepers were sent a forty page long questionnaire in english[34]. In Argentina as in most other countries, beekeepers are very poor people and they could not answer the lengthy questionnaire. The DOC then decided to resort to the "best available information" which as usual, happened to be the one provided by the US beekeepers. There is strong evidence that this information overestimated the cost of production and therefore, the estimated dumping margin for honey imports from Argentina. The existing regulations do not eliminate these protectionist effects (Nogués, 2002).

The final issue refers to the long-standing criticisms of US AD regulations according to which, duties are assessed retroactively. This regulation in effect increases the risks of importers to continue importing from a country that is under investigation. The US system is quite unique in this respect, and has strong import-inhibiting effects as the honey case showed. From the analysis of this case (Nogués, 2002), I want to offer two suggestions:

Antidumping in the FTAA. Palmeter (1991), has concluded that: "…the procedure it uses and the implementation of these standards and procedures by the Department of

[32] The reintegro program aims at reimbursing indirect taxes incorporated in the final product.
[33] To be sure, in the past, Argentina could have over-rebated indirect taxes, but this occurred the lesser of the times and when it happened, the excess always ´proved to be very small.
[34] The Government of Argentina also offered an unofficial translation to honey producers.

Commerce increasingly ensure that, at the end of the day, an exporter determined to have been selling below fair value probably has been doing no such thing in any meaningful sense of the word fair". The analysis of the honey case suggests that what was unfair in the antidumping case were not the US honey imports from Argentina (and most likely also China), but regulations and administrative procedures that allow the imposition of high duties against beekeepers that never had a real chance of defending their situation. The regulations and sophistication of the of the WTO and US regulations can perhaps be dealt by major manufacturing enterprises but are well above what poor people in the agricultural sectors of developing countries are able to deal with. Even maintaining the narrow-mindedness of antidumping legislation, the system should be made more development-friendly. At the minimum, what is required is an agreement that the poorest segments of developing countries should not be unfairly treated by convoluted "antidumping" legislations, complex administrative procedures and sophisticated questionnaires that peasants cannot read. Furthermore, the use of constructed costs should not be allowed in agricultural products particularly in situations like that of honey in Argentina where more than 95% of the production is exported[35]. At the very least, negotiations aimed at solving these negative development impacts, require a clear FTAA interpretation of Article 15 (Developing Country Members) of the Antidumping Agreement in the direction of providing more clear rights to LA countries. As it now stands, this Article only offers empty words and if the Doha Round negotiations fail to give it teeth, then at the very least, the FTAA should make inroads.

Agriculture and Countervailing Measures in the FTAA. A similar recommendation applies to countervailing investigations. The assessment by the DOC of policies like Argentina's reintegro program, should not continue to be categorized as providing 100% subsidies. Here again, the treatment of the reintegro program indicates that the DOC was not interested in showing flexibility and making that part of the new WTO language substantively helpful for developing countries (for example, Article 27 of the Subsidy and CVD Agreement on special and differential treatment). Instead, the DOC went directly to that part of the new regulations that facilitates the introduction of a maximum penalty. This CVD case touches on many issues related to the agricultural negotiations including: (i) the treatment of dispersed agricultural industries, (ii) the acknowledgement of structural constraints that impede the development of efficient tax systems and, (iii) the good faith implementation by developed countries of "concessions" granted in the Uruguay Round; promises that have not been met. Again the discussion here, illustrates several instances where some of the good intentions that are now written in the WTO agreements are not being implemented.

On this issue, it is my view that the US should not be playing poker, and it is also my view that in the FTAA negotiations, LA countries should stand firm by its demands for more reasonable AD and CVD regulations for hemispheric trade[36].

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[35] When practically all output is exported: what does it mean to undersell?

[36] Obviously, my recommendation for streamlining AD and CVD regulations also applies to any LA country where this is necessary.

6. SPS Issues

The US position on sanitary and phitosanitary issues (SPS) is to: (i) "…have FTAA countries reaffirm their WTO commitments on SPS measures and eliminate any unjustified SPS restrictions" and, (ii) "… strengthen collaboration among FTAA countries in implementing the WTO SPS Agreement…" (Zoellick, 2002b). I believe that these objectives open the opportunity for important benefits for LA but at the same time, imply a challenge that if these countries cannot meet, may reduce their export opportunities within and outside the FTAA.

Some of the basic principles and goals of the WTO SPS Agreement include: (i) the principle of non-discrimination (Article 2.3) which also states that these measures "…shall not be applied in a manner which would constitute a disguised restriction on international trade", (ii) the principle of scientific justification (Article 2.2) and, (iii) the objective that "…each Member shall avoid arbitrary or unjustifiable distinctions in the level it considers to be appropriate in different situations…" (Article 5.5). Finally, Article 5.7 states that Members can provisionally adopt "…. sanitary or phytosanitary measures on the basis of available pertinent information…", but in these cases, a risk assessment should be concluded within a reasonable period of time.

This Agreement, as well as other UR agreements, was negotiated by developed countries with developing countries playing only a marginal role . Not surprisingly, developing countries have been facing serious limitations in its implementation and this also applies to the FTAA countries (Finger and Schuler, 2001). Therefore, the objective of the US to help in the implementation of this agreement is welcomed and the question is: How can this be done?

The limitations among LA countries to implement this agreement originate mostly from two kinds of development gaps: (1) the scientific gap and, (2) the resource gap. The first gap refers to the poverty of the scientific and technical skills that are necessary to issue new regulations as well as to challenge SPS measures imposed by other countries. There is evidence that this gap helps to understand a number of SPS measures by industrial countries that are well above the international standards approved by the relevant bodies which include the CODEX Alimentarius, the International Office of Epizootics and the International Plant Protection Commission. John Wilson, a leading researcher in this area, and his colleagues have documented a number of instances where these type of actions have resulted in important export losses for developing countries in products such as cereals, beef and bananas (Wilson, 2002 and papers cited therein).

Recent analysis suggests that most Latin American countries lack national capacity to deal with SPS measures. According to IICA (1999a, and 1999b), an SPS system must possess the capacity to undertake a series of functions including: 1) monitoring threats, 2) quarantine capabilities, 3) epidemiological surveillance, 4) management of epidemiological information, 5) capacity to undertake assessment studies, 6) capabilities to verify and certify the status of food, 7) capacity to diagnose pest and diseases, 8) a system to control and eradicate pests, 9) the ability to maintain the identity of agricultural products through

the supply chain, 10) surveillance of hygienic practices, 11) registration and control of agro-chemicals and, 12) capacity to verify and certify biological materials such as seeds and embryos.

Wilson (2002) also reports work undertaken by Bolaños et.al. (2000) assessing the SPS systems of 33 countries in the Americas in relation to their requirements to comply and implement the SPS Agreement. The elements identified and assessed include three broad issues: 1) institutional: meaning mechanisms through which SPS interests are represented and defended, agreements implemented and commitments acquired at international level fulfilled; 2) technological: meaning systems of controls through which SPS problems are identified, controls undertaken and performance monitored and, 3) regulatory: meaning systems of legislation relating to SPS issues and the mechanisms through which these are brought into compliance with international commitments. The results of the analysis by Bolaños et. al. show that the US and Canada followed by the major upper middle income economies of Latin America had the greatest SPS capacity. The low income countries had much lower levels of capacity , particularly relating to technological elements.

This conclusion is along the more general findings reported by Camargo Barros et. al. (2002) and based on the work by Henson et. al. (2000) that presents the results of a survey on the problems faced by developing countries when exporting agricultural products to the EU. As seen in Table 7, the most important hurdles are: insufficient scientific expertise, incompatibility of SPS measures with domestic methods, and poor financial resources.

Table 7: Problems in Meeting SPS Requirements in Exporting Agricultural and Food Products to the EU. Factor	Mean Score
Insufficient access scientific/technical expertise	1.6
Incompatibility of SPS requirements with domestic production/marketing methods	2.1
Poor access to financial resources	2.6
Insufficient time permitted for compliance	3.0
Limitations in own country's administrative arrangements for SPS requirements	3.1
Poor awareness of SPS requirements amongst government officials	3.1
Poor awareness of SPS requirements within agriculture and food industry	3.5
Poor access to information on SPS requirements	3.9
Source: Cited from Henson et.al. in Camargo Barros et.al. (2002).	

How does this picture relate to the FTAA negotiations? In my view, institutional shortcomings should be primarily addressed by the governments working together with the private sectors[37]. On the other hand, technical and scientific shortcomings can and should be addressed in the FTAA negotiations.

In this regard, there is much that the US could offer as part of the FTAA negotiations to strengthen the technological capabilities of SPS systems in Latin America[38]. There are also at least two reasons why Latin America should seek important concessions from the US in the area of technical assistance to develop and manage more efficiently their SPS systems. The first, refers to the unmet promise in the WTO SPS Agreement of the UR according to which "Members agree to facilitate the provision of technical assistance to other Members, especially developing country members, either bilaterally or through the appropriate international organizations"[39]. Secondly, and probably of greater importance, is to note that it is in the interest of every Member to strengthen the SPS control systems without which the expectation of higher trade flows is at risk.

Other SPS areas where the US could contribute to strengthen agricultural trade of LA countries include: (i) clear commitments to work towards the signing of mutual recognition agreements on SPS standards and laboratory certification, (ii) resisting the EU´s attempt to strengthen the precautionary principle, (iii) providing scientific assistance to LA countries when their exports to third markets are threatened by unreasonable SPS regulations, (iv) the definition of concrete steps to strengthen the scientific SPS infrastructure in LA, (v) supporting a greater presence of LA countries in the international standard setting organizations listed above and most importantly, (vi) a clear commitment by the US that it will search for the financial resources, either by grant or by loans, that are necessary to improve the implementation of the SPS Agreement[40].

Some of these issues are addressed in the current draft FTAA but other questions remain. For example, it is unclear exactly how the US will support a greater participation

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[37] The view indicating that institutional shortcomings should be solved by the government and the private sector contrasts with a more traditional assignment of functions whereby SPS issues are mainly the responsibility of governments. Many agents have a role to play in the implementation of good SPS systems including agricultural producers, the food industry, importers and exporters, industrial organizations, and research institutions.

[38] Despite evidence that developing countries are being hurt by standards that go beyond international norms, they have not brought cases to the dispute settlement body of the WTO. Possible reasons that have been explored include: (i) incomplete data regarding the amount of information that is needed to identify a violation, (ii) a lack of interest from the private sector either because it ignores its rights under the SPS agreement or because it faces a struggle in convincing the Government to initiate a case, (iii) the slowness of the dispute settlement process and, (iv) the poor commercial interest that is at stake (Hoekman and Mavroidis, 1996). In the area of SPS measures, another fundamental reason, refers to the scientific basis that is necessary to bring a case; a basis that in most LA countries is lacking or is insufficient.

[39] This unmet promise by industrial countries triggered numerous complaints by developing countries and even came close to threaten the launching of the Doha Round.

[40] To emphasize once again, the negotiations on SPS issues entail financial obligations that many LA countries simply don't have. To take one example, one proposal regarding harmonization asserts that "parties agree to establish harmonized SPS systems for sampling and diagnostic methods, inspection and certification of animals, plants, products…as well as food safety" (draft FTAA Agreement on Agriculture). How much will this cost and where will the money come from?

by LA countries in the international standard-setting organizations, or how the signing of mutual recognition agreements could be expedited. Also, knowing that LA have lost and will continue loosing exports in third markets by the application of the precautionary principle (Article 5.7 of the SPS Agreement), the FTAA could include a commitment by the US to assist LA when it encounters unreasonably SPS barriers in third markets. It is also crucial that the mistakes of the UR not be repeated. One lesson from this experience is that most LA countries need to give teeth to the US commitment to provide technical assistance; in the FTAA, this should become a binding obligation.

Finally, I would like to suggest the importance of preparing a yearly report on the trade effects of SPS measures. For the time being, these measures are driven primarily by scientific and technical considerations where LA is at a disadvantage. I suggest that economics have to be put on the table in order to make it more visible and transparent that in the search for increasing levels of consumer safety, there are trade-offs that are not always taken into account (some of these trade-offs are illustrated in Wilson, 2002). Such a task could be added to the proposed FTAA Committee on SPS measures.

7. Other Agricultural-Related Issues

There are a number of emerging trade issues that while not being formally addressed in the FTAA negotiations, are the subject of pressures and proposals, mainly by the EU, in the Doha negotiations. The salient example is the trade treatment given to genetically modified (GM) products. It is probably the case that over time, the FTAA could strengthen the economic interests of LA countries. My intention here is simply to call attention to this potential externality.

A number of countries in the WH including Argentina, Canada and the US are clear leaders in the production of genetically modified GM crops[41]. The exports of some of these products are threatened by raising consumer concerns in a number of countries particularly Japan and the EU market. Brazil, who in these matters holds strong ties with the EU, is also reluctant to modify its precautionary stance on GM products. Given this scenario, it is unclear whether future developments among FTAA countries may result in additional import barriers against GM products.

There are yet no strong scientific basis for concluding that GM products pose health risks but despite this, there have been instances of countries mainly the EU, prohibiting imports of products on the basis of health concerns[42]. According to the SPS Agreement, in the absence of this scientific findings, countries cannot implement import-restricting measures. Yet, consumers in the EU will continue to demand safety and one costly proposal is to generalize the identification of GM products through labeling and traceability[43]

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[41] A recent analysis of the experience of Argentina is presented in Chudnovsky et al. (2002).
[42] The salient example is the EU import ban on hormone treated beef.
[43] Distinguishing with 100% confidence that a product contains no GM ingredients can be extremely costly: "… the segregation and certification requirements of non-GM importing countries such as the EU are likely to be onerous, and may even be impossible to meet, for non GM producers in countries where GM products are approved…" (Gaisford and Kerr, 2002).

More generally, the few cases brought to the WTO have all been decided by whether or not the import-restraining measures had a scientific basis. The WTO does not make room for import restrictions based on consumer concerns and this basic principle is something that is strongly defended by countries that license GM products. The WTO Panels have always ruled on this basis (Irwin, 2002).

Regarding the FTAA, one scenario is that countries like Brazil who remain reluctant to license GM products may end up moving to the positions taken by Argentina, Canada and the US. This would facilitate hemispheric trade and whether it fosters trade with third countries would depend on the direction to which these other countries move. But Brazil and other FTAA countries could also decide to take a more anti GM stance. In this case, it would be up to Brazil to decide how to control imports and it would be up to the other FTAA countries to decide how to evaluate these measures.

These dilemmas illustrate that there is "no good existing model upon which to base biotechnology provisions in a new trade agreement such as the FTAA" (Gaisford and Kerr, 2002). The challenge for the WH will be to ensure that regulations based on health and safety concerns are not captured by protectionist interests. If the region agrees that science is what will distinguish "safety" from "protectionism", then I see that common grounds could be found. In this scenario, the tremendous scientific strength of the US could become an important externality to the LA countries.

8. Pre-conditions

It is important to raise one final concern mainly, that there are few developing countries who have the bureaucratic and institutional capacity to negotiate with effectiveness all of the subjects included in the agendas with industrial countries. This concern is central to the technical assistance strategy being developed by the WTO as well as the FTAA. For example, very recently the USTR issued a note including the following statement: "As a foundation for the FTAA´s Hemispheric Cooperation Program we will seek adoption of a US proposal to develop specific trade capacity building strategies. These plans will help countries of differing sizes and levels of development negotiate complex subjects, assist them in implementing FTAA commitments once agreed, and help them make the necessary adjustments to implement an effective FTAA" (USTR,2002).

This statement makes clear that we are entering the decisive stages of the FTAA with many countries lacking effective negotiating capacities. Several countries in Latin America, not always the poorest and smallest, face serious problems including: (1) fragmentation of the decision making process with for example, trade ministries fighting turf battles with foreign affairs ministries, (2) negotiators without supporting studies that indicate what is at stake in each negotiation they attend,(3) negotiators lacking formal training in the art of negotiating, (4) negotiating positions taken with weak linkages to the private sector and to the society at large, (5) underdeveloped inter-agency communications between the negotiators and other government agencies covering areas included in the agendas and, (6)

negotiations undertaken under weak monitoring capacities to track what is being decided and implemented (Nogués, 2001).

Summing up, countries that are weak negotiators run the risk of suffering double losses. First, if they do not obtain increased market access, they loose export opportunities. Second, countries that are not well prepared for the negotiations, may end up signing unbalanced agreements in the sense of granting concessions that are more valuable than the concessions they receive from the other Members. Unnecessary concessions granted today, weaken the negotiating strength of the country in future trade negotiations. I view the possibility that this may be happening to some LA countries this with great concern.

III. Suggestions

Along the discussion I have presented a number of suggestions for LA countries which I would like to summarize briefly in this final section:

1. Strengthen the analysis of trade impacts. Aggregate trade models do not portray the specific realities of each country and each of the major import-competing and export products. Impact analysis are also required in the new areas.

2. Trade and debt should become a negotiating group in the Doha negotiations. For efficient producers, the US Farm Bill and the EC proposal to reform the CAP have made it less likely that important agricultural liberalization will be agreed in these negotiations. Including trade and debt in the WTO agenda could change the structure of incentives in favor of worldwide agricultural liberalization.

3. Demand the maximum level of transparent negotiations. Publication of what is being agreed is only a part of transparency and usually, not the most important part. Transparency in the FTAA and the WTO should include the right of every country to know in advance of signing agreements, what is at stake and what they will be receiving in exchange for what they are giving.

4. LA countries have to assess the consequences of shifting the negotiations on domestic assistance to the Doha Round. The costs to these countries of continuing with these policies should be addressed in the FTAA negotiations and eventually, LA has the right to demand compensation. This also applies to the negative effects of the 2002 US Farm Bill.

5. In line with the fundamental principles of the GATT and now the WTO, LA countries must demand full reciprocity as unbalanced outcomes will be costly to them. The challenge is how to ensure that that the FTAA will pass the reciprocity test.

6. Existing WTO AD and CVD regulations leave many degrees of freedom to the investigating authorities that often result in final decisions that are clearly

protectionist. Promises in the UR to treat developing countries differently have not been met. Leaving these regulations unchanged will damage hemispheric trade. If the US doesn't, then LA should take the lead and demand reforms.

7. With the leadership of the US and perhaps of the upper income LA countries, a program of technical assistance should be implemented with the aim of upgrading the sanitary and phitosanitary conditions of agricultural products produced in the WH. Ideally, the WH should become a region identified with high SPS standards. Significant, not cosmetic, concessions by the US in this area, would be valuable.

8. The US should show its commitment to the FTAA vision and act accordingly in the negotiations. The outcome should ensure that the FTAA comes to be viewed by LA countries as providing gains to all. The US can make this possible and it will take leadership to confront domestic pressure groups that want a mercantilist stance in these negotiations. If this happens, the FTAA will soon run into serious political troubles.

Appendix Table 1: Argentina: Average Ad-Valorem Tariff Equivalents Facing Exports to the United States,[1]
(in percent)

HS Code	Product	Import Duty	Tariff Quota	Specific Duty	Total Ad-valorem Equivalent
24	Tobacco and manufactured tobacco substitutes	39.3	0.0	15.7	55.0
12	Oil seed, oleagi fruits; miscell grain, seed, fruit etc	27.1	7.8	0.0	33.3
04	Dairy prod; birds' eggs; natural honey; edible prod nes	6.5	10.4	11.3	28.3
17	Sugars and sugar confectionery.	5.7	9.2	9.8	24.7
18	Cocoa and cocoa preparations.	5.3	7.0	6.7	19.0
73	Articles of iron or steel.	3.0	0.0	15.4	18.4
21	Miscellaneous edible preparations.	4.9	8.6	3.9	17.3
20	Prep of vegetable, fruit, nuts or other parts of plants	11.4	5.1	0.0	16.3
02	Meat and edible meat offal	12.2	4.7	0.0	15.3
15	Animal/veg fats & oils & their cleavage products; etc	5.1	12.9	0.0	14.1
69	Ceramic products.	13.8	0.0	0.0	13.8
52	Cotton.	0.0	2.0	10.7	12.7
39	Plastics and articles thereof.	7.2	0.0	0.1	7.2
29	Organic chemicals.	6.6	0.0	0.5	7.1
54	Man-made filaments.	6.8	0.0	0.0	6.8
59	Impregnated, coated, cover/laminated textile fabric etc	6.2	0.0	0.0	6.2
38	Miscellaneous chemical products.	4.9	0.0	0.1	5.0
28	Inorgn chem; compds of prec mtl, radioact elements etc	4.2	0.0	0.0	4.2
33	Essential oils & resinoids; perf, cosmetic/toilet prep	1.7	0.0	2.3	4.0
37	Photographic or cinematographic goods.	3.7	0.0	0.0	3.7
22	Beverages, spirits and vinegar.	0.4	0.0	3.0	3.4
41	Raw hides and skins (other than furskins) and leather.	3.4	0.0	0.0	3.4
10	Cereals	1.7	0.0	1.5	3.2

Source: Bannister (2002).

[1] Including preferential tariff rates and ad valorem equivalents of specific and compound duties, averaged from the 10 digit tariff

Appendix Table 2: Argentina: Average Ad-Valorem Tariff Equivalents Facing Exports to the European Union, 2000[1]
(in percent)

HS Code		Import Duty	Tariff Quota	Specific Duty	Total Ad-valorem Equivalent
02	Meat and edible meat offal	12.6	42.4	119.9	174.9
04	Dairy prod; birds' eggs; natural honey; edible prod nes	0.3	20.3	62.5	83.1
11	Prod.mill.indust; malt; starches; inulin; wheat gluten	0.0	0.0	62.8	62.8
10	Cereals	0.3	9.1	48.7	58.1
17	Sugars and sugar confectionery.	5.1	13.3	30.6	49.0
20	Prep of vegetable, fruit, nuts or other parts of plants	19.3	41.5	0.0	42.7
16	Prep of meat, fish or crustaceans, molluscs etc	13.8	0.0	21.2	35.0
23	Residues & waste from the food indust; prepr ani fodder	0.6	0.0	33.8	34.4
08	Edible fruit and nuts; peel of citrus fruit or melons.	8.5	9.0	0.0	10.7
19	Prep.of cereal, flour, starch/milk; pastrycooks' prod	8.5	0.0	2.1	10.6
24	Tobacco and manufactured tobacco substitutes	10.4	0.0	0.0	10.4
21	Miscellaneous edible preparations.	7.4	0.0	1.7	9.1
18	Cocoa and cocoa preparations.	8.3	0.0	0.0	8.3
03	Fish & crustacean, mollusc & other aquatic invertebrate	7.9	0.0	0.0	7.9
15	Animal/veg fats & oils & their cleavage products; etc	4.6	0.0	2.1	6.8
87	Vehicles o/t railw/tramw roll-stock, pts & accessories	6.5	0.0	0.0	6.5
59	Impregnated, coated, cover/laminated textile fabric etc	6.3	0.0	0.0	6.3
22	Beverages, spirits and vinegar.	0.0	0.0	6.0	6.0
76	Aluminium and articles thereof.	5.8	0.0	0.0	5.8
41	Raw hides and skins (other than furskins) and leather.	5.6	0.0	0.0	5.6

Source: Bannister (2002).

[1] Including preferential tariff rates and ad valorem equivalents of specific and compound duties, averaged from the 10 digit tariff level.

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