

**REGIONAL POLICY DIALOGUE**  
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**AGRICULTURAL NEGOTIATIONS IN THE WTO AND**  
**THEIR LINKS TO THE FTAA**

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### **I -BACKGROUND**

Agriculture occupied a position on the sidelines of the trade liberalization processes from the very creation of the GATT, through seven rounds of multilateral trade negotiations, until the launching of the Uruguay Round in 1986. While tariffs on industrial and high technology products were significantly liberalized over this period, and rules and disciplines were defined for international trade, agricultural protectionism proliferated among the industrialized countries and an entire arsenal of agricultural production and trade-distorting measures and barriers were put into place.

The Uruguay Round, by adopting the Agreement on Agriculture, took a positive step toward integrating agriculture into the multilateral trading system. As a result, an initial level of access was attained to what had until that time been highly protected markets. The different types of domestic support for agricultural production were defined and classified, limits were set and certain reductions were agreed upon within specific timeframes. Limits were also set on export subsidies and certain reductions were established.

The results of the Uruguay Round, however, were bitterly disappointing to efficient agricultural producer countries. By the conclusion of the implementation period for those results, in 2000, tariff protection for agricultural products was ten times higher on average than for industrial goods. Tariff peaks of 200% and 300% ad valorem were commonplace and continuing tariff escalation impeded the access of more processed products.

Total support for agricultural production was also kept at excessively high levels in the OECD countries. In 2000, that figure was estimated at 360 billion\* U.S. dollars –more than the total exports of all the Latin American and Caribbean countries and over four times total foreign direct investment flows into the region.

The result of this highly unsatisfactory situation was the agreement at the close of the Uruguay Round, as part of the negotiation package, that agriculture –together with its associated services— would be subject to new negotiations as of January 2000, in a process that was termed “mandated negotiations.”

Those negotiations were resumed in the WTO in February 2000. It became clear very quickly, however, that an ambitious process of agricultural liberalization and reform would

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\* T.N. One billion dollars in the U.S. is equivalent to one thousand million dollars in Great Britain.

be very difficult to envisage outside the context of a new round of multilateral trade negotiations, broader in scope and coverage than the mandated negotiations. The interests of all parties would have to be covered, particularly those of developed countries with protectionist agricultures that must obtain benefits in certain sectors of priority to them for political purposes, in order to be able to make agricultural concessions. As a result, the WTO Members finally agreed to join efforts in launching a new round. This objective was attained in Doha, Qatar in November 2001 with the approval of the Ministerial Declaration known as the Doha Development Program.

## **II – THE DOHA MANDATE**

In the Ministerial Declaration approved by the Ministers in Doha, the governments committed themselves to agricultural negotiations aimed at: “substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.” It was also agreed that “special and differential treatment for developing countries shall be an integral part of all elements of the negotiations” and that “non-trade concerns will be taken into account as provided for in the Agreement on Agriculture.” The modalities for reform, it was agreed, were to be established no later than March 31, 2003 and the negotiations to be concluded by January 1, 2005, at the latest.

The general results in terms of agriculture can be considered positive and satisfactory for the efficient agricultural producer countries. It is a broad and ambitious mandate that sets a clearly defined course for the basic reform that should be undertaken in the agricultural sector. It offers a good basis for the correction, reduction or elimination of the numerous restrictions in or distortions of world agricultural markets.

## **PROCESS**

The first Special Negotiation Meeting of the Agriculture Committee took place in late March under the mandate of the Doha Declaration. Stuart Harbison, Ambassador of Chinese Hong Kong, who had played a key role in the preparatory process for the Doha Ministerial Meeting as WTO General Council Chairperson in 2001, was chosen to chair those negotiations.

Following a series of informal meetings and consultations that made it possible to reach an agreement acceptable to all Members, the March session turned out a work program and timetable of meetings up until March 2003. The most important differences among the Members concerned the number of meetings, the order in which the topics for negotiation would be addressed, and the dates of the meetings.

The “March 2002-March 2003 Work Program” approved by the Members provides for seven formal negotiating meetings to be held over the period, four in 2002 (June, early September, late September and November) and three in 2003 (January, February and March). These formal meetings will be supplemented by a series of informal meetings and

the multilateral consultations deemed necessary where any of the topics for negotiation can be taken up without any preset order.

Regarding the sequence, the agreement is to hold formal discussions of the three “pillars” for negotiation –export competition, domestic support and market access-- in accordance with the following schedule: export competition: June 2002; market access: early September 2002; and domestic support: late September 2002.

The plan is to resume discussion of the issues, or elements of the issues that are deemed to require more in-depth consideration, at the formal November meeting. Under the Doha Mandate, special and differential treatment for developing countries will be an integral part of all elements of the negotiations and, pursuant to the Agreement on Agriculture, the non-trade concerns of Member countries will be taken into account during the negotiations.

In mid-December 2002, the Chairperson will prepare and circulate a summary of the discussions and in February 2003 a first draft of the modalities for the commitments, prepared on the basis of that summary, will be presented. The meeting scheduled for March 2003 is expected to establish those modalities, which will serve as a basis for the presentation by the Members of their lists of commitments, as mandated by the Doha Declaration.

Chairperson Harbison has presented an annotated agenda to facilitate the discussions that are underway and to contribute to the technical drafting of the possible modalities. This agenda, in the form of a table, contains the proposed key elements and parameters for the technical discussion of each of the three pillars that are being debated today.

### **III – MAIN TOPICS AND POSITIONS IN REGARD TO THE NEGOTIATIONS**

#### **A –EXPORT COMPETITION**

For negotiation purposes, this topic covers five issues to be addressed: export subsidies; export credits; food aid; state trading enterprises; and export restrictions and taxes.

A brief summary follows of the main elements and problems discussed to date in regard to these negotiations and the positions put forward by the Members.

##### **1 – Export subsidies:**

Export subsidies are generally referred to as the most trade-distorting agricultural policy measures. Their use, limited to only a small number of developed countries, reduces and destabilizes prices in the international market, ousts efficient producer countries from their traditional markets, reduces the earnings of crop farms of other exporter countries that, despite being efficient producers, do not have the financial resources to compete with the

Treasuries of developed countries, and damages the domestic production of countries with an agricultural potential that import food products.

Only 25 of the present 144 Members of WTO still have agricultural export subsidies on their Lists. The use of export subsidies has been declining since the beginning of the nineties, but the effectiveness of this reduction has been only relative due, among other things, to the excessively high base level on which they are calculated and to the redirection of these aids by the main protectionist countries toward other types of distortion-producing support. According to WTO notifications, the level of subsidies in 1999 amounted to 6 billion dollars. The countries that rely most heavily on this mechanism are the EU (over 90% of the total), Norway and Sweden, among others, and most of the subsidies center on only a few product categories. ABARE (Australia) has estimated that elimination of all export subsidies could produce a 3.4 billion dollar-a-year increase in global income.

There is no reason for continuing to apply subsidies to agricultural exports and their elimination would contribute heavily toward reducing the existing levels of protection and their consequent trade-distorting effects on the markets. It has been forty years since the GATT prohibited the use of industrial export subsidies. Price and quality are the only legitimate grounds for export competition and the promotion of exports by means of subsidized prices or payment conditions is an unfair practice. Putting an end to these practices would help to bring agriculture fully into line with the same rules and disciplines that are already applicable to other tradable goods in the WTO, thus bringing to a close almost 50 years of discrimination in the treatment of this subject. Their very reduction in recent years is grounds enough for agreement, during the course of the current negotiations, on their complete elimination shortly.

The first full-fledged discussions of the subject in June 2002, while not truly negotiations per se, can be seen as useful. Participation was at a very high level, with the presence of all major trading partners. The varying positions and interests of the Members in the subject, as well as possibilities for future alliances, were clearly established.

In general terms, the situation can be summarized as follows: The member countries of the Cairns Group, supported by the United States, China and most of the developing countries, want to eliminate export subsidies as rapidly as possible. The proposal put forward by the Cairns Group calls for their elimination in three years' time, with an initial reduction of 50% followed by two annual reductions of 25%. China is in agreement with this elimination period, while the United States proposes a longer, five-year period, with elimination to be accomplished via equal annual reductions. Although some developing countries have proposed increasing flexibility in the granting of export subsidies within the framework of special and differential treatment, a basic objective of all of them, on which the Doha Mandate for "progressive removal" is clear and could not be interpreted otherwise, is the elimination of such unfair practices.

A second group of countries headed by the European Union considers that what should be discussed at this stage of the negotiations is the percentages of reduction, and not whether export subsidies should be eliminated or not. They consider the subject to be closely tied in with the treatment to be given to other forms of export competition, as well as to the final

decision on forms of domestic support for agriculture. Their position clearly boils down to limiting the scope of negotiations to only reductions in subsidies, possibly of the type that were effected during the Uruguay Round on this subject. Norway, some East European countries and Korea favor this kind of approach. Japan expressed its preference for additional disciplines on the unitary value of export subsidies and pointed out, as well, that food security should be considered a relevant non-trade concern. Switzerland, for its part, presented a proposal for “modulation” that would allow reductions to be larger for some products and smaller for others.

Export subsidies are harmful to both developed and developing countries. Furthermore, very few developing countries have enough resources to subsidize agricultural exports. For that reason, these negotiations are not expected to establish specific provisions on special and differential treatment for developing countries with regard to this subject, other than a longer timetable for their elimination in the case of developing countries than for developed ones. Nor is it clear what kind of non-trade concern could be considered in the negotiations to eliminate export subsidies.

## 2) – Export credits :

Included under this title are export credit operations, export credit guarantees and agricultural export insurance programs with official support. It is not a question of eliminating export credits for international agricultural trade, but of regulating those that enjoy official support, in such a way that the subsidy elements they may conceal are eliminated, for their use, like that of export subsidies, constitutes unfair competition.

A number of countries, particularly developed ones, use this mechanism to enhance their competitiveness in the export of agricultural products. No official WTO data are available as to total levels of exports benefiting from this type of subsidy. The United States is the country making the greatest use of this practice, with export credits in 2001 estimated at 3.2 billion dollars. The latest OECD figure available for the EU reveals that in 1998, its export credits amounted to roughly 1.15 billion dollars.

WTO discussions in June were also very useful and positive in establishing the extent and scope of future negotiations on the subject.

Basically, two different approaches emerged for addressing the issue:

- (i) As in the case of export subsidies, the establishment of ceilings to be lowered or eliminated within agreed timeframes.
- (ii) The establishment of binding rules on the subject in the WTO, in order to avoid concealed export subsidies.

It has been agreed that all forms of export subsidies should be dealt with the same way. However, it is important to stress the implications for the negotiation process of the two cited approaches. The first approach would require prior identification of the subsidy

elements in export credits. This would mean agreeing on bases and methodology for the calculations and establishing export volume and budget levels in reference to subsidized credits. Then the levels of reduction or elimination of the subsidized credits and the pertinent timeframes would have to be determined. This task, which is considered highly complex by many countries, would be very time-consuming and cause unnecessary efforts.

The starting point for the second approach is that the aim is to eliminate any form of subsidy. A regulatory approach would, therefore, make it possible to rapidly define rules about what is permitted in regard to export credits and what constitutes a concealed subsidy, which should be eliminated, like all export subsidies. While a short transition period could be considered before full enforcement of the agreed rules, it would be better if these were to enter into force, once the disciplines have been defined, on the first day of implementation of the new commitments.

The European Union, Norway, Japan and other East European countries favor the first approach because, according to them, it would allow the same treatment to be given in the negotiations to all export credits and export subsidies. Acceptance of this approach would necessarily reduce the possibility for rapid elimination of export subsidies.

The Cairns Group countries, India, China and some other developing countries prefer the second approach based on disciplines and rules. The position of the United States remains ambiguous, although it recognizes the need for stricter disciplines with regard to export credits.

As for special and differential treatment, a number of developing countries have stated the need to take into account the interests of least-developed countries and developing countries that are net food importers because the disciplines could affect the cost of their imports.

The intent of the disciplines would be to ensure that export credits reflect market practices, avoiding the incorporation of any type of subsidy. Terms and conditions could be incorporated, such as: maximum repayment period for export credits (of both capital and interest); cash payments; minimum interest rate; risk sharing, etc.

### 3) – Food aid

It is generally recognized that it is not the intent of these WTO negotiations to redefine the concept of food aid or to incorporate measures that could hamper the supply of this aid in cases of emergency or true need. It is a matter, rather, of distinguishing between genuine aid and the use of this instrument to market surpluses, a widely used practice that has effectively ousted traditional suppliers from their markets.

The aim would be to agree upon rules and disciplines to keep food aid from being used as a concealed export subsidy. The most important of the various proposals that have been put forward are: that food aid should be granted only in the form of a donation; that it cannot be “tied” to other commercial transactions; and that it should be granted on the basis of requests from pertinent international organizations. Transparency and the system of food

aid-oriented notifications must accordingly be reinforced within the WTO. Aid that fails to comply with agreed disciplines should be considered an export subsidy and treated accordingly.

#### 4) – State Trading Enterprises

State trading enterprises – both exporters and importers – have been included under the heading of export competition because their operations are capable of distorting trade due to their monopolistic nature or to the exclusive rights and privileges granted to them. Inasmuch as these negotiations are aimed at eliminating all forms of subsidy, specific disciplines and notification prescriptions must be agreed upon that will guarantee that state trading enterprises are not used to circumvent commitments in regard to export subsidies.

In this area, the United States and the European Union advocate the elimination of the special privileges of those enterprises and the reinforcement within the WTO of the disciplines and of the notification of their operations and activities. Australia and Canada, for their part, defend the existence of these enterprises which they feel do not subsidize exports, on the grounds that they are necessary to offset the domination of the international agricultural market by some large private enterprises.

Several developing countries point out that these enterprises could play a positive role in their countries by helping to stabilize prices and production and assisting small exporters to develop export opportunities.

#### 5) –Export restrictions and taxes

Japan, from the very beginning of the negotiations, has proposed eliminating export prohibitions and restrictions as a key way to offset the imbalance between exporter and importer countries and cope with problems of food security. Market access should be accompanied by measures to ensure access to supplies and these restrictions constitute an important obstacle in that sense.

Several developing countries claim that these measures were established to counteract tariff escalation in the industrialized countries, which hampers or impedes the access of processed goods. The imposition of taxes on raw materials acts as an incentive to the processing industries in those countries, thereby reinforcing the strategy of selling products with a greater added value. Others state that developing countries should be able to establish restrictions or taxes in given emergency situations. Argentina claims that export taxes do not constitute export prohibitions or restrictions and should, therefore, not be a part of these negotiations.

## **B - MARKET ACCESS**

The key objective of these negotiations is to obtain substantial improvements in market access for agricultural products. Possible modalities in this area, therefore, include



directing the negotiations towards at least four basic issues: tariffs; tariff quotas; tariff quota administration and special safeguard measures.

No special session of the Agriculture Committee has yet been held to deal with this second pillar of the negotiations –namely, market access. That session has been scheduled for the first week of September. Even so, an initial exchange of opinions among Members during an intersession meeting late last July could be considered useful and showed that market access could be a critical pillar of the agricultural negotiations. The salient technical aspects and problems to be addressed are summarized below, together with a brief outline of the positions defended by the main actors in this negotiation.

#### 1) – Tariffs.

A series of elements must be considered under this heading. First, the structure of the tariffs: whether they are ad valorem, specific or mixed and how they will be dealt with. Second, whether the starting point for the negotiations will be the bound tariffs in the WTO or those currently being applied by the Members. Third, whether the tariff reduction methodology will involve the use of a formula –and what kind of formula— or another mechanism, which could be a system of petitions, offers or sectoral 0x0-type initiatives, or a combination of the two. Fourth, to ensure that any approach fully covers the reduction of tariff peaks and tariff escalation, which constitutes a pressing need, given the skewed results of the Uruguay Round.

Positions vary with regard to all of these issues. Simply put, it could be said that there is no agreement that these negotiations would produce only bound “ad valorem” tariffs, eliminating all other types. Generally speaking, all of the countries except the United States agree that the reductions should be based on bound tariffs. In the case of the methodology to be used, most are in favor of using a tariff reduction formula. While the European Union, Japan, Switzerland, Poland, Hungary and others maintain that future tariff reductions should continue to be based on the Uruguay Round formula (linear reductions with a minimum per line), the Cairns Group countries and many developing countries favor another type of formula (“Swiss formula” or a “cocktail” of several formulas), inasmuch as the Uruguay Round formula is not appropriate for dealing with problems of tariff peaks and escalation. The most concrete proposal came from the United States, which proposed the use of the Swiss formula, with a coefficient that would ensure that no tariff would remain above 25% by the end of a five-year implementation period. Many Members welcomed the ambitiousness of that proposal. Some developing countries that are beneficiaries of tariff preferences in given markets, called for maintaining these margins of preference in any general methodology that is chosen for a tariff reduction. A number of suggestions were made in regard to the special and differential treatment for developing countries, including different tariff reduction formulas, longer implementation periods for agreed provisions and smaller reductions than those of the developed countries.

The European Union proposed addressing the issue of geographical indications in regard to market access. Several delegations refuted this proposal, stating that the issue is not pertinent to these negotiations and is being discussed at the Council on Trade-related Aspects of Intellectual Property Rights (TRIPS).

## 2) – Tariff quotas.

An exclusively tariff-based protection system through the progressive elimination of tariff quotas is the long-term objective of market access. In order to effectively accede to the markets, however, it is necessary to complement general tariff reductions with a significant increase in those quotas in the short and medium-terms. This is an important task that will have to be defined in these negotiations.

Tariff quota increases could be based on a certain annual percentage over the bound levels of the Uruguay Round or on some other indicator, such as the determination of a given level of consumption today of a product or an increase amounting to a percentage of the consumption. These increases should be made product-by-product, and not by product group. Within these quotas, tariffs could be either eliminated or reduced by the amounts agreed in the general formula applicable to tariffs outside these quotas. The United States proposed a 20% increase in tariff quotas over the next five years, a figure that the Cairns Group considers to be overly modest.

Special and differential treatment for developing countries and the situation of new WTO members were the subject of several proposals.

## 3) – Tariff quota administration

It is agreed that these negotiations need rules and disciplines to ensure more transparent and effective use of tariff quotas. Quota administration should be directed toward facilitating, not restricting market access, as has happened on numerous occasions.

A variety of quota administration methods have been used to date (auction; “first come, first served”; traditional flows, etc) and each has its own advantages and disadvantages. Experience has shown that the method of administration is not directly related to the percentage of use of those quotas. At the same time, full use of the quotas does not mean that they are being correctly administered. For those reasons, flexibility with regard to the method to be used is necessary, provided that there is compliance with the principles and rules that should be agreed upon in these negotiations to guarantee that all suppliers compete under similar conditions.

To these ends, it has been proposed that the rules should prohibit measures such as the following:

- establishment of export-limiting end-use specifications;
- establishment of prescriptions with regard to national content or other criteria for domestic purchases;
- license distribution through groups of national producers;
- establishment of counterpart licensing systems;
- distribution via auction or the collection of royalties;
- allocation of commercially unviable quantities;
- assignment of tariff quotas to non-WTO Member countries.

A series of proposals were furthered fostering full use of tariff quotas by reassigning unused licenses to other importers, including new participants.

A number of countries, including the European Union, Hungary and Canada advocated assigning the new tariff quotas that are negotiated in this Round on an “NMF” basis –in other words, not to the countries.

#### 4) – Special Safeguard

The special safeguard referred to in article 5 of the Agreement on Agriculture was introduced as a temporary measure for countries that had acceded to the “tarrifizing” process during the Uruguay Round. That safeguard authorizes those countries, when faced by an increase in imports or a drop in prices, to limit imports of the given products by imposing additional tariffs, with no need to prove harmful intent or damage. Many countries consider that now that the implementation period for the commitments agreed during that Round has expired, those measures should be eliminated. Others, particularly developed countries with protectionist agricultures, propose continuing to use this mechanism, adducing that the reform process is still under way and that this new round of negotiations is proof of that fact.

The Cairns Group has proposed eliminating the safeguard for developed countries, but keeping it for developing countries as an additional protective instrument.

Argentina proposed the creation of a countervailing duties mechanism for application by developing countries to imports from agriculture-subsidizing developed countries.

## **C – DOMESTIC SUPPORT**

The disciplines regulating domestic support agreed in the Uruguay Round distinguish between forms of domestic support with agricultural production and trade-distorting effects (yellow and blue box) and forms of domestic support with little or no trade-distorting effects (green box). The yellow box, quantified among the Aggregate Support Measures (ASMs), was the only group for which reductions were agreed (20% in 5 years) during that round. The blue box group, covering support provided under production curtailment programs, was not subjected to the domestic support reduction commitment and the green box group was also exempted from making reductions.

As already pointed out, the reductions agreed in the Uruguay Round were very modest. The OECD has confirmed that support for farmers in the industrialized countries has returned to the high levels prevailing before the conclusion of the Uruguay Round. This aid, provided primarily by several wealthy developed countries, boosts inefficient production that competes unfairly with that of efficient producers, particularly developing countries, and seriously distorts world agricultural trade.

While it would be utopian to imagine that the negotiations will put an end to all types of agricultural support in the developed countries, the purpose of those negotiations is to obtain sizeable reductions in domestic support in general and, in particular, the elimination of forms of agricultural trade and production-distorting support.

WTO agricultural negotiations have not yet touched upon this third pillar –domestic support. A special meeting has been scheduled to address the matter during the week of September 23 to 27, 2002.

The very nature and scope of this subject will assuredly make it the most complex issue to be negotiated. Many technical aspects and problems of different kinds will have to be included, not to mention the political, social and cultural elements that must be taken into account to reach a solution acceptable to all parties. For that reason, we will limit ourselves to a general summary of the positions or proposals already been put forward on the subject by the key actors in these agricultural negotiations.

The Cairns Group, through a formula to be agreed upon, has proposed the negotiation of large reductions in both yellow and blue box domestic support, with a view toward eliminating such world agricultural production and trade-distorting support. The time frame for reduction is also to be negotiated. The formula would provide for a sizeable initial reduction (i.e. 50%) during the first year of implementation. The commitments would apply to all agricultural products, and not product categories. The Group's proposal broaches the need for a reexamination of the basic green box criteria and measures stipulated in paragraphs 1 to 13 of Annex 2 to the Agreement on Agriculture, on the grounds that some of these are production and trade-distorting and that commitments need to be adopted for their reduction. It also recognizes the importance of incorporating specific provisions on special and differential treatment in the area of domestic support in order to give assistance to developing countries, including least-developed and net food importer countries. These provisions could enable those countries to meet their legitimate needs, including agricultural and rural development, food security, subsistence agriculture and small-scale agriculture for the promotion of national food production.

The United States proposal is in this same vein, although it can be considered more concrete and its objectives perhaps more ambitious. It proposes cutting down domestic support to two categories: support with no or only minimal distorting effects (green box), which would be exempted from reduction commitments; and production and trade-distorting support (yellow and blue boxes), which would be subject to reduction commitments. The difference between this proposal and that of the Uruguay Round, category-wise, is that in the case of the United States proposal the blue box would also be eliminated. The direct payments made under production limitation programs would also be incorporated into ASM—that is, yellow box calculations — and would thus be subject to reduction. A ceiling amounting to 5% of the total value of a country's agricultural production, to be reached within a period of five years, is proposed as the maximum amount of yellow box domestic support allowable.

In the United States' own case, the proposed formula would bring down its yellow box domestic support from its present level of 19 billion dollars authorized by Uruguay Round

agreements to 9.5 billion dollars by the end of the agreement implementation period (based on an estimated agricultural production value of 200 billion dollars). In that of the European Union, the formula would reduce the authorized level from 60 billion dollars to 10.5 billion (based on an agricultural production value of 220 billion dollars).

In regard to special and differential treatment, the United States proposes exempting specific subsistence agriculture or rural development programs in developing countries from the reduction ceilings.

The European Union has not put forward any formal negotiation proposal. It has, however, let it be known that the concepts of blue and green boxes, as well as the general rules and disciplines agreed upon in the Uruguay Round with regard to domestic support should be maintained in these negotiations. The EU countries are willing to negotiate additional reductions to the yellow box measures, including a reduction of the “de minimis” levels for developed countries. They propose broadening the category of green box measures to incorporate aspects such as: environmental protection, sustainability of rural areas, poverty relief, food security and animal welfare. Furthermore, they support the exemption from reduction commitments of certain domestic support measures in developing countries that are aimed at food security or rural development. Japan, Norway, Korea and Switzerland, as well as the East European countries generally support this approach. Switzerland has insisted on the difficulty of negotiating reductions before knowing how non-trade concerns will be taken into account. Along this same line, Japan and Korea have spoken of the need to keep national policies on certain products in line with the concept of agricultural multifunctionality.

A sizeable number of developing countries call for the creation of a new box, to be known as “development box,” that would exempt from reduction certain domestic support measures aimed at, among other things, the production of basic food commodities; keeping up employment levels in poor rural areas and enhancing the productive and competitive capacity of certain sectors.

Doubtlessly, it is within this pillar of the negotiations, primarily, that the non-trade concerns expressed by Members, both developing countries and at least some developed countries, should be incorporated among the modalities for negotiation.

#### **IV – OTHER AGRICULTURE-RELATED ISSUES**

As of the year 2000, during the stages of agricultural negotiation prior to that started in March of this year pursuant to the Doha Mandate, some Member countries put forward negotiation proposals that reflected their so-called “non-trade concerns” with regard to certain issues. These included, among others, questions of geographical indications, food innocuousness, the environment, consumer information, labeling of agricultural products, animal welfare, rural development, and so forth. While the Doha Mandate is clear that “non-trade concerns” will be taken into account in the negotiations in the terms established in the Agreement on Agriculture, it is also evident that many of these issues do not belong

in the sphere of agricultural negotiations. In the best of cases, they refer to other WTO forums or agreements (for example, the Agreement on the Application of Sanitary and Phytosanitary Measures, the Agreement on Trade-related Aspects of Intellectual Property Rights or the Agreement on Technical Barriers to Trade).

Regardless of the substance of some of those proposals, the current agricultural negotiations may not be the proper sphere in which to reopen, modify or amend other multilateral trade agreements. Some of the countries that are most protective of their agriculture and that have put forward proposals on these matters have stated that while it is not their aim to directly negotiate some of these issues in the current agricultural negotiations, their flexibility in making offers for negotiation in this area will depend directly upon the progress and definitions that are obtained in other WTO spheres and forums (in other words, labeling standards in the TBT Committee, geographical indications in the TRIPS Council, additional provisions on the “precautionary approach” in the Agreement on the Application of Sanitary and Phytosanitary Measures, etc.). It should be pointed out that inasmuch as there are no mandates for the negotiation of most of these matters, efforts are being made through these agricultural negotiations to reopen agreements in other WTO spheres.

Implicit within these proposals, which have generally received little support beyond that of a small group of Members (primarily the EU, Japan, East European countries, Switzerland and Norway), is the possibility of their use as protectionist tools, restricting or obstructing the possibilities for market access by agricultural products through technical, sanitary and environmental provisions. The position of the Cairns Group, the United States and the broad majority of the developing countries has been and continues to be one of rejection of the proposals and of the attempt to tie them in with the current agricultural negotiations.

Another issue not touched upon in the Doha Declaration, but that has been mentioned on several occasions, above all by the United States, concerns the marketing of genetically altered organisms. Worldwide trade in these products is currently valued at three billion dollars, but is expected by 2010 to reach twenty-five billion by WTO estimates.

The European Union and Japan, among others, require special labeling for these products, adducing the need for consumer protection and information, in what is considered to be an unjustified barrier to trade in the context of WTO provisions and a means of discrimination against producer countries. The latter consider this measure to be extremely costly to food processors forced to fulfill those requirements when no valid scientific reasons have been forthcoming to demonstrate that consumption of those food products poses potential dangers. The United States has expressed interest in addressing the issue in these negotiations.

## V – SOME REFLECTIONS ON THE LINKS BETWEEN WTO AND FTAA NEGOTIATIONS

Negotiations for the formation of the FTAA are proceeding simultaneously with those taking place within the WTO. The issues under negotiation are almost the same and the two processes are expected to conclude the same year. Although the objectives of the two negotiations differ, both are aimed at liberalizing trade. The opinions, taken from economic literature, differ as to the alternatives and priorities that Latin American countries should assign to each of these spheres of negotiation. What is clear is that these processes cannot be seen as alternatives and that they could be complementary. The question to be asked then is: What is the relationship between the two negotiations? To what degree are their objectives and results interlinked?

A key element to be borne in mind is that, irrespective of any additional disciplines or agreements (at times called “OMC-plus”) that may be reached among the countries participating in the FTAA, both the existing WTO provisions and those that emerge from the current negotiations should be incorporated into the FTAA negotiations and into their results as the foundations for the future Agreement.

Another basic aspect is that both negotiations are based on the “single undertaking” principle, whereby the final results of the negotiations will be adopted as a global package, in accordance with the results obtained in each area of negotiation. The claim, within the FTAA, that issues of great interest to some countries must, because of their multilateral nature, be negotiated within the WTO will undoubtedly affect the treatment of other issues that are of interest to other countries. Those negotiations could lose vigor and slow down as a result. An illustrative example of this situation is the treatment of agriculture.

In the FTAA negotiations, the United States has maintained –properly, to our way of thinking— that the case of agriculture, and particularly subsidies, should be negotiated in the WTO because its multilateral nature makes it unfit for bilateral or regional negotiation. At the same time, that country suggested moving ahead in the FTAA with the negotiation of a series of issues, such as: industrial products, services, investments, intellectual property, competition and other matters that are of special interest to it. Countries affected by that decision would have good reason if they decide that those issues as well should be taken to the multilateral sphere. It will be clear by the end of the WTO negotiations whether the results will constitute foundations on which to continue building within the FTAA or, in actual fact, a ceiling above which no additional concessions can be made. This will constitute the basis for defining the dimensions and scope of what will finally become the package for negotiation in the FTAA.

The FTAA should have its own “added value” in agricultural matters, above and beyond the commitments resulting from multilateral WTO negotiations, so that the opportunities for the countries parties to the Agreement can be deepened and expanded.

The three “pillars” being discussed in multilateral WTO negotiations are also to be found on the FTAA negotiating agenda.

In the case of market access, the progressive elimination of tariffs and trade-restricting non-tariff measures among the countries of the region has been established as one of key aims of the FTAA, with a view to establishing a hemispheric free trade area. In the WTO negotiations, it is not elimination, but reductions that are discussed. Quite possibly, attainment of the goal of eliminating tariff and non-tariff barriers in the FTAA could move the multilateral negotiations toward greater trade liberalization.

In regard to export subsidies, the FTAA has set itself the goal of creating a subsidy-free hemisphere. The Doha Mandate follows the same line, calling for the progressive elimination of export subsidies. The short-term results that are obtained in this area in the FTAA will be directly linked to the multilateral agreements that are reached to make them viable. While a basic agreement on eliminating subsidies in the hemisphere is quite possible, the treatment to be given to subsidized exports originating in other regions would still require agreement. An agreement for the rapid elimination of export subsidies in the WTO would undoubtedly contribute to the accomplishment of this aim in the FTAA.

As for domestic support, the WTO is the only forum where effective agreements would appear to be possible at this time. A hemispheric agreement imposing new disciplines with regard to domestic support would be difficult to imagine unless an agreement to that effect has first been reached in the multilateral arena. It is inconceivable, for example, that the United States would agree to negotiate, with other countries of the region only, limitations on the domestic support it grants, leaving it subject to restrictions that would not be applicable to the EU or Japan, for example. It would appear to be obvious that the concessions that the US or Canada –to cite two of the main actors— could make with regard to subsidies, would be made in negotiations with countries from outside the region, rather than inside it. The success of WTO negotiations is essential to give a positive boost to FTAA negotiations in this area.

Agriculture would clearly appear to be a core element of the FTAA negotiations and, for many countries, a decisive element on evaluating their results. Obviously very close links exist between progress in multilateral negotiations and what can be accomplished in the FTAA and there is a very strong interrelationship among all of the pillars being negotiated.

The objective of reaching a hemispheric agreement on total market opening is, therefore, linked to the reduction/elimination of the subsidies granted by several of the region's countries today. A free trade agreement should establish the appropriate conditions for fair competition among economic agents based on their comparative advantages and relative efficiency, and not with the Treasuries of countries that grant their producers enormous and plentiful subsidies. Conditions do not appear to be favorable today, however, for reaching hemispheric agreements to reduce the domestic support granted by countries; these issues should be addressed in the WTO. It is our impression, therefore, that breakthroughs in the FTAA --even with regard to the elimination of barriers to market access--, above and beyond the final objective sought, will depend largely on the progress that is made in WTO negotiations, particularly in reducing/eliminating subsidies. Commitments for limiting/eliminating subsidies by some of the region's countries are important to the progress of regional negotiations; it is clear, however, that those reductions can be



negotiated only in the multilateral sphere. In any case, it is quite doubtful that results can be obtained in the FTAA before the course of WTO multilateral agricultural negotiations and their results become clear.

The conclusion to be reached here is that the agricultural negotiations that are carried out in Geneva will be the point of reference over the next few months for the advances that can be made in the FTAA. In both negotiations, special and differential treatment must be central to agreements that are acceptable to all parties.

To conclude, in the case of sanitary and phytosanitary measures, these are not on the WTO negotiating agenda and countries of the region are strongly opposed to reopening the WTO Agreement on the Application of Sanitary and Phytosanitary Measures at the proposal or suggestion of some European countries. Future FTAA disciplines may contribute to a better and more effective implementation of the Agreement in the region by means of measures to facilitate trade and the elimination of obstacles to agricultural exports and imports.

# ANNEX

## Levels of agricultural support (in millions of U.S. dollars)

	<u>U.S.</u> (1998)	<u>E.U.</u> (1998/99)	<u>Japan</u> (1999)	<u>Switzerl and</u> (1998)	<u>Norway</u> (1999)	<u>Canada</u> (1998)	<u>Korea</u> (1999)
<u>ASM ("Yellow Box")</u>							
(Commitment level)	(20.696)	(78.433)	(37.103)	(3.180)	(1.529)	(3.137)	(1.577)
Level used	10.392	51.043	6.705	2.258	1.383	532	1.305
<u>"Green Box"</u>	49.824	20.958	24.081	2.190	548	876	4.590
<u>"Blue Box"</u>	0	22.418	831	0	984	0	0
<u>De minimis</u>	4.750	414	292	0	0	733	409
<u>Total domestic support</u>	64.966	94.834	31.909	4.448	2.915	2.140	6.356
<u>Total Export subsidies</u>	147	5.588 <sup>(a)</sup>	0	292	128	0	12

(a) Data for 1999/00, equivalent to 5.6 billion ECUS. The amount reported for the period 2000/01 is 2.8 billion ECUS.

Source: Prepared by the author based on WTO data.