

# **The Theater of Agriculture in the FTAA**

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## **Abstract**

One of the most important initiatives to emerge from the 1994 Summit of the Americas was the agreement to work towards creating a Free Trade Area of the Americas (FTAA). The FTAA is debatably the boldest initiative ever undertaken in the hemisphere, and perhaps the world, seeking to integrate 34 heterogeneous nation-states comprising nearly 800 million people with a GDP of roughly \$12 trillion. A true Free Trade Area of the Americas holds the promise of economic growth with equity, as the playing field would become more leveled for inhabitants of all nations in the hemisphere. Arguably, the most vital issue that needs to be negotiated in the FTAA is agriculture. This paper will describe in depth the theater of agriculture, identifying the relevant issues and noting what the current negotiations have accomplished thus far and what remains to be negotiated. Liberalizing trade and eliminating trade-distorting practices in agriculture can go a long way toward achieving more a balanced income distribution within and between countries of the hemisphere, one of the chief problems plaguing Latin America. This paper describes in detail the most salient features of an agriculture agreement, which could promote economic growth with equity in the region.

## **Introduction**

One of the most important initiatives to emerge from the 1994 Summit of the Americas was the agreement to work towards creating a Free Trade Area of the Americas (FTAA) that would provide free market access for goods and services to the entire continent. As the January 1, 2005 deadline for the entry into force of the Free Trade Area of the Americas rapidly approaches, the Western Hemisphere is only fourteen months away from possibly re-defining itself, and in the process reshaping the global economic, political, and social landscapes. The FTAA is debatably the boldest initiative ever undertaken in the hemisphere, and perhaps the world, seeking to integrate 34 heterogeneous nation-states comprising nearly 800 million people with a GDP of roughly \$12 trillion. The goal of the FTAA is to unite the economies of the hemisphere by gradually liberalizing trade within the hemisphere to the point where barriers to trade and investment are eliminated. A true Free Trade Area of the Americas holds the promise of economic growth with equity, as the playing field would become more leveled for inhabitants of all nations in the hemisphere.

The future of the proposed FTAA is uncertain, however, as there remains much to be negotiated, and a head-on collision between the two largest economies involved seems inevitable. If the FTAA negotiations are successful in corralling all 34 nations into one trading bloc, Latin America will become all the more intertwined with the United States, as the hemisphere becomes one and borders seemingly disappear in the context of the free flow of capital, goods, and services. If the FTAA does not transpire, though, or if a scaled-down version of the ambitious FTAA enters into force, economic growth may not follow, and if it does, it may not be equitable growth.

Arguably, the most vital issue that needs to be negotiated in the FTAA is agriculture. Agriculture is a significant portion of GDP for many countries in Latin America, and large percentages of the population in the region rely on agricultural products as their primary sources of income. The United States has a significant agricultural sector as well, and relies heavily on different forms of protection. Attaining improved market access to the U.S. for agricultural products would be a major development toward achieving economic growth with equity for Latin America. A free trade area that excludes agricultural goods would not benefit the countries and the people that need it most, so an FTAA that does not include agriculture on the agenda may be seen as a failure. Similarly, an FTAA without Brazil (the nation most publicly opposed to the reluctance of the U.S. to make major agricultural concessions) would not

really be an FTAA, as Brazil's population accounts for 38.5% of Latin America's populace and its GDP represents 30.1% of Latin American output. Because the issue of agriculture seems to be at an impasse at the multilateral level (in the World Trade Organization's (WTO) Doha Development Agenda), it is essential that some form of an agreement be reached in the FTAA context, not only for the effective implementation of a true free trade agreement, but to set a standard and hopefully raise the bar for the WTO negotiations.

This paper will describe in depth the theater of agriculture, identifying the relevant issues and noting what the current negotiations have accomplished thus far and what remains to be negotiated.

### **The Theater of Agriculture**

Agriculture has forever been and forever will be a sensitive subject when it comes to trade. The most compelling argument for the protection of agriculture is that of the security issue. No country wants to rely on another for its most basic need—food. Therefore, countries may maintain inefficient agricultural structures intact, just to not have to depend on the outside world. The FTAA envisages a hemisphere free of agricultural tariffs and other practices that distort trade, which would allow the most efficient producers to produce and export freely around the hemisphere. This concept makes economic sense in the most fundamental form, recalling David Ricardo's theory of comparative advantage. Agriculture is big business, though, and it will not be easy to dismantle the system that has been intact for much of the last century. Liberalizing trade and eliminating trade-distorting practices in agriculture can go a long way toward achieving more a balanced income distribution within and between countries of the hemisphere, one of the chief problems plaguing Latin America. This section describes in detail the most salient features of an agriculture agreement, which could promote economic growth with equity in the region.

### **FTAA Mandates, Methods, and Modalities**

The San José Ministerial Declaration of 1998 charged the FTAA Negotiating Group on Agriculture (NGAG) with several objectives. More specifically, the NGAG was 'to progressively eliminate tariffs...which restrict trade between participating countries.'<sup>1</sup> In

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<sup>1</sup> While this is taken from the 1998 San José Ministerial Declaration objectives for the Negotiating Group on Market Access, the objectives for the Negotiating Group on Agriculture state that the objectives for the Negotiating Group on Market Access shall apply to trade in agricultural products.

addition, the group was given the tasks to eliminate agricultural export subsidies, to ensure that sanitary and phytosanitary measures not be used as a restriction to trade, and to identify other trade-distorting practices for agricultural products, including those that have an effect equivalent to agriculture export subsidies, and bring them under greater discipline. While domestic support is not explicitly listed as an issue to be negotiated, it certainly falls into the category of 'other trade-distorting practices...that have an effect equivalent to agriculture export subsidies'. The NGAG was told to incorporate progress made in the multilateral negotiations on agriculture (WTO).

In the five years that have elapsed since the mandates were given, several of the methods and modalities of the negotiations have been established, while others remain points of contention. The scope of the negotiations has been determined, and the entire tariff universe is subject to negotiation. The schedule of progressive tariff eliminations has been established, and it consists of four phases: immediate, no more than 5 years, no more than 10 years, and longer, and each country is expected to make significant offers for immediate tariff elimination. The pace at which the tariffs will be reduced, however, has not been agreed upon and remains a divisive issue. It has been agreed upon that tariff elimination will be linear, with the possibility of non-linear exceptions.

A point of contention regarding market access was the base level at which reduction of tariffs would begin. The FTAA has agreed to use the applied rates on the date of notification, with the last possible date of notification having been October 15, 2002. However, some exceptions have been made regarding base tariffs. The base rate used by the nations of CARICOM will be the WTO bound rate, while nations of the Andean Community and MERCOSUR, which have respective common external tariffs, were given a longer period of time (until April 15, 2003) to review their base tariffs.

The Negotiating Groups on Market Access and Agriculture were given specific timelines to establish base tariff levels, make tariff offers, and negotiate these offers. The deadlines to establish base rates are as indicated above. Exchange of initial tariff offers was to take place between December 15, 2002 and February 15, 2003. The countries were then given from February 16, 2003 until June 15, 2003 to make requests for improvements on these offers, forming the basis for ongoing negotiations.

### **Reduction/Elimination of Tariffs**

While the mean tariff rate on agricultural products in the hemisphere is 16.0% (Jank et al., 2002), the tariff structure of the hemisphere as a whole and within each country is very heterogeneous, reflecting trade flows, domestic politics, and fiscal needs. Tariffs in the hemisphere on agricultural products range from a minimum of 0% on many goods for which free trade agreements or preferential arrangements are in place to maximums of 400% on coffee and tea products (chapter 9) that enter St. Kitts & Nevis, 350% on tobacco products (chapter 24) that enter the United States, 238% on meat and fish products (chapter 16) that enter Canada, and 210% on sugar products (chapter 17) that enter Mexico.<sup>2</sup> It is apparent that a convergence toward free trade will require both political will and economic concessions.

Each country or negotiating bloc has its own agenda, but a clear dichotomy exists between the United States and the rest of the countries. It can be argued that Canada, and to some degree Mexico, by virtue of their membership in NAFTA, ally more with the U.S. than other states. In the final analysis, it is between the U.S. and the Latin American and Caribbean countries (LAC), spearheaded by Brazil, where the most significant progress needs to be made. Possibly the most enticing carrot for LAC countries in the FTAA negotiations is duty-free access to U.S. markets. The U.S. already has a low tariff structure, though, as its mean agricultural tariff rate is 11.4%<sup>3</sup>, below the mean for the entire hemisphere of 16.0%. The appeal, then, for LAC countries lies in gaining access to previously limited or restricted markets. One of the methods the United States employs that serves as a barrier to trade is the application of tariff peaks for sectors which it wants to protect from international competition. Other countries employ tariff peaks as well, but their use is often constrained by common external tariffs shared by regional trading arrangements. Table 1 sorts U.S. agricultural tariffs by their simple average. An average duty of 90.7% is applied to tobacco products that enter U.S. borders, but after this peak, all other averages lie below the hemispheric mean of 16.0%, implying a relatively liberal tariff schedule. This can be misleading, however, as with the case of sugar. While the average tariff on sugar (chapter 17) is only 6.4%, there is a tariff-rate quota system intact for sugar which makes it difficult and expensive for countries to export sugar to the United States.<sup>4</sup> Relatively low average tariffs can also be misleading when compared with the maximum tariff imposed on certain products. As Table 2 exhibits, the maximum tariff applied to agricultural goods by the United States rises to 350.0% for tobacco products, while two other categories are taxed at a rate

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<sup>2</sup> Chapters refer to the Harmonized Tariff Schedule.

<sup>3</sup> 2001 Hemispheric Database of the Americas and AMAD, IDB-INT calculations.

<sup>4</sup> The tariff-rate quota system for sugar will be discussed in a later section.

that exceeds 130%, and five more between 25.0% and 35.0%. One of these groups (chapter 20) includes orange juice, a sensitive sector to the United States. The orange juice and sugar industries, among others, had requested that their products be excluded from negotiations. However, the United States Trade Representative has announced that it is putting all agricultural goods on the table, and that all tariffs are subject to negotiation, representing a significant concession on the part of the United States. Without further liberalization of these products, LAC countries would gain very little in the realm of market access.

Even though the United States has publicly stated that all products will be on the FTAA negotiating table, there are asymmetries in the initial market access offer of the U.S., which only extends to those FTAA countries that put their own offers on the table. The American strategy is to offer differential treatment to different countries or groups of countries, and thus the U.S. proposal is sensitive to differences in the levels of development and size of the economies, as reflected in the treatment of goods from different blocs. The U.S. proposal would allow 56% of agricultural imports from non-NAFTA countries in the hemisphere to gain duty-free access to the U.S. market immediately when the FTAA enters into force. Other agricultural tariffs would fall into staging categories of five years, ten years, and longer, tailored to individual countries or blocs. 85% of agricultural imports from CARICOM countries would be offered immediate duty-free treatment, while the percentage decreases to 68% for agricultural goods from Andean countries, to 64% for agricultural products from Central American countries, while 50% of MERCOSUR's agricultural goods would be able to immediately enter the United States without taxes. Naturally, the MERCOSUR nations are unhappy with the uneven distribution of special and differential treatment afforded across the hemisphere. These customized timetables for liberalization reflect the needs of the smallest, poorest economies in the hemisphere, providing access fastest to those nations that need it most. By opening markets faster in those countries, the U.S. offer heeds the FTAA mandate of integrating smaller economies in the negotiations. However, if the U.S. offer became the actual terms of the trade agreement, the FTAA could take on the appearance of an aggregation of bilateral agreements instead of a more comprehensive regional agreement (USTR, 2003).

### **The Case of Fruit and Sugar from MERCOSUR and the Andean Community**

Since the United States already has or is currently negotiating free trade agreements with Mexico, Canada, Chile, and the Central American nations, MERCOSUR and the Andean

Community remain as the region's most significant trading partners that receive limited or no preferential access to the U.S. market. The Andean Trade Preference Act grants the nations of the Andean Community unilateral privileges to the U.S. market, but is not a bilateral free trade agreement. The benefits afforded to Bolivia, Colombia, Ecuador, Peru, and Venezuela can be taken away at any moment for any reason by the United States. This could not be done if a free trade agreement existed between the countries. The U.S. does not have any such preferential arrangement with the nations of MERCOSUR, and thus deals with each country independently.

Two of the most significant agricultural products that the countries of MERCOSUR and the Andean Community produce are fruit and sugar.<sup>5</sup> According to trade statistics from the Hemispheric Database, these are among the top 25 products (agricultural and non-agricultural) exported to the world for eight of the nine countries that comprise MERCOSUR and the Andean Community (sugar, but not fruit, is among the top 25 exports for the ninth country, Paraguay). The treatment of these products remains a highly contentious issue in the Negotiating Group on Agriculture because they receive protection in the form of tariffs and/or quotas in the United States. Fruit and sugar are among the agricultural products for which the U.S. employs tariff peaks (see Tables 1 and 2), and there is a tariff-rate quota system intact for sugar. Upon examination of the figures, there appears to be a correlation between Latin American productive efficiency and U.S. protectionism.

Table 3 provides statistics for trade in fruit and Table 4 does the same for sugar. The first column of these tables indicates the proportion of exports of that product (fruit or sugar) to total agricultural exports. From these figures, it is apparent that several nations of the Andean Community are dependent on the export of fruit. Over 20% of Venezuela's agricultural exports consist of fruit, chapter 8 exports comprise nearly 40% of Colombia's agricultural exports, and over 85% of Ecuador's agricultural exports are of fruit. Colombia, Brazil, and Venezuela are the nations that are most dependent on exporting sugar to the world. The second column indicates the relative importance of the export of these products to the U.S. market as a proportion of total agricultural exports to the U.S. The Andean Community is highly dependent on the United States as a destination for its fruit, as the share of fruit exports to all agricultural exports is greater for the United States than for the rest of the world for every country in the bloc except Peru. Chapter 8 products account for 91.25% of Ecuador's agricultural exports to the United States, while 85.62% of its world agricultural exports come from this category. The difference in composition between exports to the world and to the U.S. market is even greater for Colombia. 39.00% of Colombian agricultural exports to the world are fruit while 61.30% of Colombian agricultural exports to the U.S. are fruit. Fruit exports are relatively insignificant for the nations of MERCOSUR, and become even less significant for the U.S. market, except in the case of Argentina. From the U.S. perspective, most imports of fruit and sugar do not come from the nations of the Andean Community and MERCOSUR. This fact could be due to trade distorting practices such as tariff peaks, or simply for competitive reasons. The Andean Community and MERCOSUR countries' production of fruit and sugar may not be sufficiently efficient to capture a large share of the U.S. market. The elimination of barriers to trade could allow this question to be answered.

The case of sugar is skewed due to the tariff-rate quota system, but nonetheless, only Colombia exports significantly less sugar as a percentage of total agricultural exports to the United States than it does to the rest of the world. Despite this finding, other statistics can be more telling. Column 3 of Table 4 provides data quantifying the overall importance of the U.S. market to total exports of sugar. While some countries of MERCOSUR rely predominantly on

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<sup>5</sup> Fruit and sugar refer to chapters 8 and 17 of the Harmonized Tariff Schedule. Chapter 8 consists of *edible fruit and nuts; peel of citrus fruit or melons* and chapter 17 is classified as *sugars and sugar confectionery*.



the U.S. as a destination for its sugar (Uruguay-96.58% & Paraguay-71.92%), Brazil is able to provide only 4.10% of its sugar exports to the United States. Column 4 of Tables 4 and 5 calculates the percentage of U.S. imports of each product that comes from each country. The sum of these percentages for both sugar and fruit is less than 25%, indicating that while some of the LAC countries may be dependent upon the U.S. as an export market, the U.S. is not dependent on these countries for its fruit and sugar. Only Ecuador has a significant share of total U.S. fruit imports (14.2%) and Brazil accounts for 11.75% of U.S. sugar imports.

### **Domestic Support Programs**

The United States is in favor of domestic support reduction, but recognizes that commitments can only be made in multilateral negotiations because as big a culprit as the U.S. is of protecting the agricultural sector, Japan and especially Europe are accused of being even bigger culprits. If the U.S. were to make domestic support reduction commitments as part of the FTAA, it would be in a disadvantaged position in world agricultural trade as the EU and Japan, its primary trading competitors, would not have removed their systems of domestic support. Therefore, the U.S. defers to the WTO Doha Round in order to discipline trade-distorting domestic support. Other countries in the hemisphere, most notably Brazil, are in favor of reducing and eliminating some forms of support at the regional level, and have even threatened to abandon negotiations if the United States does not address the issue. This issue seems to be the most divisive one on the agricultural agenda, and the lack of inclusion of provisions for domestic support could derail an agreement.

### **The WTO and Domestic Support**

The WTO currently employs a system of “boxes” which identifies acceptable and unacceptable forms of domestic support, and sets a limit on the amount a country is permitted to spend on trade-distorting farm policies. The WTO system of identifying subsidies in general labels boxes according to the colors of a traffic light. Subsidies in green boxes are permitted, those in amber boxes are to be reduced, and subsidies in red boxes are prohibited. However, the system of boxes for agricultural subsidies is different and more complicated, with the most notable difference being the absence of a red box, indicating forbidden subsidies. The three boxes in the WTO Agreement on Agriculture are: an amber box, a blue box, and a green box. Included in the amber box (the most prohibitive) are price supports, or subsidies directly related to production quantities. Supports of this nature are restricted to 5% of agricultural production for developed countries and 10% for developing countries. Member countries that had larger subsidies than these minimal levels at the beginning of the post-Uruguay Round reform period are committed to reduce these subsidies in accordance with a calculation called Aggregate Measurement of Support (AMS). Domestic support exceeding the reduction commitment levels in the amber box is prohibited. The AMS is the annual level, expressed in monetary terms, of all domestic support measures where government funds are used to subsidize farm production and income. This one

figure comprises supports for specified products as well as supports that are not for specified products, a method that is currently being called into question. Also being negotiated is whether the established limits should be further reduced.

The blue box is an amber box, but with conditions designed to reduce distortion, so there is a great deal of overlap between the two. Specifically, if a support also requires farmers to limit production, or if the assistance is to encourage agricultural and rural development in developing countries, it is included in the blue box, for which there are no spending limits. In the current negotiations there is debate as to whether blue box supports should continue to be permitted without limits because they serve as a mechanism to move away from more trade-distorting subsidies, or if they should be prohibited and moved to the amber box.

Subsidies in the green box are permitted, and in order to qualify they must not distort trade, or at most cause minimal distortion. These subsidies must be government-funded (not by charging consumers higher prices) and must not involve price support. Examples of such subsidies include environmental protection, regional development programs, and general government services in the areas of research, disease control, infrastructure, and food security. Also included in the green box are programs that are not targeted at particular products, although the trade-distorting effects of such subsidies are a source of contention in the current negotiations. These types of subsidies include direct income supports for farmers that are decoupled from current production levels or prices, government financial support for income insurance, and income safety-net programs.

The possibilities of domestic support reform exist primarily in the multilateral context, as the exclusion of domestic support from the U.S. offer indicates that it is not willing to compromise on this issue in a regional context. At least one other country in the hemisphere has a similar position on this issue (GAO, 2001). In order to deal with domestic support in the context of the FTAA, one possibility would be to create rules on the use of domestic support outside the hemisphere, although there is disagreement among FTAA countries on how to go about this. Alternatives include negotiating with third parties not to employ support measures, suspending tariff preferences for violators, and allowing for fines if support is used. There are also potential solutions at the WTO level. One avenue of possible reform would be to change the criteria for the WTO “boxes”, as described above, thereby altering what would be considered legal and illegal subsidies, possibly including special and differential provisions for less developed countries (Díaz-Bonilla et al., 2002). Another possible path toward reform suggested by Díaz-Bonilla would entail measuring domestic support (i.e., AMS as calculated by the WTO) by product instead of by aggregate value for the entire agricultural sector. Yet another method he proposes would be to limit all or some domestic support measures as a percentage of the total value of agricultural production, which could help level the playing field that now favors

industrialized countries. However, it is almost inconceivable that any such concessions would be made during FTAA negotiations, with primary U.S. competitors (EU and Japan) on the side.

Domestic support is generally defined as payments made to farmers that raise or guarantee prices or income. Some examples of such measures applied in the United States include market-price support programs, loan deficiency payments, commodity loan programs, and marketing loans. Market-price support programs consist of government buying-in at a guaranteed price. Loan deficiency payments are direct transfers to producers when market prices are lower than commodity loan rates. These payments do not have to be repaid, and serve to minimize potential loan forfeitures and subsequent government accumulation of stocks. Commodity loan programs can either support market prices or provide income support through marketing loans. Commodity loan programs allow producers of designated crops to receive loans from the government at crop-specific rates per-unit of production by pledging production as loan collateral. Marketing loan provisions allow farmers to repay loans at less than the original loan rate when market prices are lower, lowering the potential effect of supporting prices by reducing governmental stock accumulation through forfeitures.

The varying levels of agricultural domestic support throughout the hemisphere are evident from Table 5, which is based on members' notifications to the WTO. One caveat of the data is that reporting is incomplete; all members of the WTO are required to notify domestic support, but compliance is weak and becoming worse (Hoeckman et al., 2002). The fourth row of data (DS 4-9) is interpreted as the official level of domestic support, from which the AMS is calculated. Domestic support reduction commitments were made from a base AMS, which was calculated as the average of its total amber box support for all commodities during 1986-88. The first row of data (DS 1) includes some very large figures, but these are support measures which are permitted by the WTO; they are not considered to be as distorting as other forms of support, and are therefore exempt from reduction commitments. The second and third rows of data (DS 2 and DS 3) do not include significantly large figures (except in the case of Europe) and are also exempt from reduction commitments. When domestic support (DS 4-9) is considered as a proportion of total agricultural exports and imports, a clearer picture of support levels emerges. Within the hemisphere, Venezuela (15.99%) and the United States (15.75%) lend the most support to their agricultural sectors, followed by Mexico (8.16%) and to a lesser extent, Canada (4.82%) and Brazil (2.28%). The European Union, through its Common Agricultural Policy, supports its agricultural sector with measures amounting to 42.65% of its total agricultural trade, a level significantly higher than any country's level in the Americas. Countries not included in

the table either reported no domestic support, failed to notify the WTO, or reported minimal levels of support. Comparing the 1995 levels of support for LAC nations (not included in the table) against the most recent year's figures (1999, but in some cases 1998 or 2000) in absolute terms finds that the United States, Mexico, Chile, and Brazil have increased domestic support. The other countries in the hemisphere have either been reducing or maintaining their levels of domestic support over this time period.

Table 6 lists the Aggregate Measurement of Support commitments for various LAC countries as well as other major agricultural producing nations. The Total AMS Commitment Level is determined by a formula briefly described in the text box above. The Current Total AMS is the amount of domestic support that each country notified to the WTO for that particular year. Reporting is incomplete, however, and many notifications are outstanding. Except for Argentina in 1995, every country complied with their reduction commitments during the period 1995-1998. Data from 1999 and after is not as complete.

### **Export Subsidies**

Export subsidies distort trade by giving a price advantage to the exporter who is being subsidized. Prices are reduced for importing countries, but other exporting countries suffer a depressed price as a result of the subsidy. There is a consensus among FTAA negotiators to eliminate export subsidies within the hemisphere. However, there is no such agreement as to what constitutes an export subsidy, or on how to handle third-party export subsidies. (GAO, 2001) The issue of third-party export subsidies may be rendered irrelevant, because the WTO has recently proposed to phase out export subsidies over nine years. Depending on the architecture of the FTAA agreement, this gradual elimination in the WTO, if it does in fact happen, would probably serve as a blueprint for the schedule in the Western Hemisphere. Precautions must be taken, though, in the case that multilateral reductions are not implemented according to plan. If the FTAA countries were to eliminate export subsidies, they would be at a disadvantage to third parties if the WTO plan failed to enter into force. Therefore, there must be some original conclusion within the context of the FTAA regarding export subsidies. Rules would have to be created regarding the use of export subsidies outside the hemisphere.

Of a more basic nature, the FTAA must come to a common understanding as to what defines an export subsidy. At issue is whether export credits, credit guarantees, insurance programs, and international food aid should be considered export subsidies in a potential FTAA

agreement. Under the definition currently used by the WTO Agreement on Agriculture, these measures are not considered export subsidies. The U.S. has proposed using the WTO definition, but has been met with resistance from other countries that seek to expand the definition of an export subsidy to include some, if not all of these measures.

One final subject under this heading concerns state trading enterprises (STEs). The U.S. has called for the staged elimination of exclusive export rights granted to state trading enterprises such as the Canadian Wheat Board. The Canadian Wheat Board is Canada's exclusive exporter of wheat to LAC countries, so the U.S. would like to gain access to this export market. The U.S. position in the FTAA seeks to permit access for private traders to previously closed markets so that foreign firms can operate and compete in selling agricultural goods for export in countries where STEs exist. During the phaseout period the U.S. proposes that STEs be required to provide data on pricing and that national governments be prohibited from providing funds or financial support to the entities.

As Table 7 indicates, export subsidies are not nearly as significant as domestic support because fewer countries employ them, and the levels of assistance are lower. Export subsidies comprise a small fraction of total agricultural trade for nations in this hemisphere, except in the case of Costa Rica. Export subsidies do, however, distort trade, and their regulation is imminent.

### **Sanitary and Phytosanitary (SPS) Rules**

Sanitary and phytosanitary measures are concerned with food safety and animal and plant health regulations. They are used to impede the dissemination of pests and diseases among animals and plants, and to ensure that food is safe for consumers. However, these measures are often employed as barriers to trade, most often introduced by developed countries upon developing countries' trade (Barros et al., 2002). The use of SPS measures as a form of protectionism prompted the WTO to create the Agreement on the Application of Sanitary and Phytosanitary Measures. The basic principles of the WTO SPS agreement are non-discrimination and scientific justification. The non-discrimination principle is akin to the most-favored nation principle; that SPS measures be applied only to the extent necessary to protect human, animal, or plant life or health and that they do not arbitrarily or unjustifiably discriminate between trading partners where identical or similar conditions exist. According to the scientific justification doctrine, SPS measures which result in higher standards may be maintained or introduced if there is scientific justification or as a consequence of consistent risk decisions

based on appropriate risk assessment. Countries are encouraged to use international standards when imposing SPS measures, as established by the Codex Alimentarius, the International Organization of Epizootics, and the International Plant Protection Convention.

FTAA negotiators have agreed to fully implement the WTO SPS agreement, but the method of implementation remains a point of contention. The U.S. has proposed that the FTAA countries accept and apply the WTO SPS agreement rather than include a detailed rewrite of the agreement in the FTAA text, as other countries have put forward. The U.S. is seeking to strengthen hemispheric collaboration on issues delineated in the WTO SPS agreement and to work together to develop standards in international bodies, but does not want to create a separate hemispheric organization to deal with sanitary and phytosanitary matters. The U.S. would also like to reach an agreement to exchange information on new research data and risk assessment procedures and to coordinate technical assistance.

### **Concluding Remarks**

The issues surrounding the FTAA negotiations on agriculture are indeed complex. It will take a creative, out-of-the-box approach to reach an agreement that is amenable to all parties involved. Without an accord on agriculture, the FTAA would certainly still be a relevant regional integration project, but it would lack an important element that could contribute to more even economic growth with equity throughout the hemisphere. It must be kept in mind that negotiating a comprehensive Free Trade Area of the Americas encompasses many areas that this paper has not discussed. While agriculture may be the most sensitive area, there are eight other negotiating groups in which concessions can be made in order to accommodate liberalization of trade in agriculture.

The fundamental objective of an economic integration effort such as the FTAA is to increase welfare within the region, stimulating economic growth and fostering development and stability in each nation. This concept is in accordance with the Summit of the Americas initiative of economic growth with equity; yet, economic growth with equity cannot occur in a vacuum. Accordingly, the benefits of a more deeply integrated hemisphere would extend beyond those achieved from increased trade flows. The auxiliary effects of regional economic integration would help promote institutions such as democratic governance and social development, necessary counterparts of economic growth with equity.

The creation of a hemispheric space would be part of a process of strategic geopolitical positioning that would enhance the visibility of the region and create solidarity among participants. The foundation of a strong and relevant American bloc would increase the region's bargaining power vis-à-vis other regional blocs, allowing it to play a more significant role in the world trading system and eventually influence global economic policy. A stable region would become more attractive for foreign investment, which would further develop the region and increase its significance in the international economic scheme. A strong regional agreement would act as a lock-in policy and a commitment mechanism for members, furthering the goals of the Summit of the Americas process with regard to democracy, human rights, protection of the environment, and peace. All of these ancillary benefits would spur further growth and development in the region, smoothing the income distribution toward a more equitable arrangement.

**Table 1: United States Tariff Peaks (by Simple Average)**

Chapter	Tariff Item	Simple Average
24	Tobacco and Manufactured Tobacco Substitutes	90.7
04	Dairy Produce: Birds' Eggs; Natural Honey; Edible Products of Animal Origin	12.4
20	Preparations of Vegetables, Fruit, Nuts or Other Parts of Plants	11.1
19	Preparations of Cereals, Flour, Starch or Milk; Pastrycooks' Products	9.0
07	Edible Vegetables and Certain Roots and Tubers	9.0
52	Cotton	9.0
12	Oil Seeds and Oleaginous Fruits; Miscellaneous Grains, Seeds, and Fruit; Industrial or Medicinal Plants; Straw and Fodder	8.2
42	Articles of Leather; Saddlery and Harness; Travel Goods, Handbags and Similar Containers; Articles of Animal Gut	8.0
17	Sugars and Sugar Confectionery	6.4



**Table 2: United States Tariff Peaks (by Maximum Tariff)**

Chapter	Tariff Item	Maximum Tariff
24	Tobacco and Manufactured Tobacco Substitutes	350.0
12	Oil Seeds and Oleaginous Fruits; Miscellaneous Grains, Seeds, and Fruit; Industrial or Medicinal Plants; Straw and Fodder	163.8
20	Preparations of Vegetables, Fruit, Nuts or Other Parts of Plants	131.8
16	Preparations of Meat, of Fish or of Crustaceans, Mollusks or other Aquatic Invertebrates	35.0
07	Edible Vegetables and Certain Roots and Tubers	29.8
08	Edible Fruit and Nuts; Peel of Citrus Fruit or Melons	29.8
51	Wool, Fine or Coarse Animal Hair; Hosiery Yarn and Woven Fabric	27.2
04	Dairy Produce: Birds' Eggs; Natural Honey; Edible Products of Animal Origin	25.0
52	Cotton	19.8

**Table 3**

	<b>Fruit Exports as a % of World Agr. Exports</b>	<b>Fruit Exports to US as % of Agr. Exports to US</b>	<b>% of World Fruit Exports to US</b>	<b>% of US Imports of Fruit</b>	<b>% of World Agr. Exports to US</b>
<b>Argentina</b>	1.79%	16.77%	7.42%	1.01%	0.79%
<b>Brazil</b>	1.34%	7.26%	12.70%	0.77%	<b>2.34%</b>
<b>Paraguay</b>	0.02%	0.00%	0.00%	0.00%	0.49%
<b>Uruguay</b>	7.52%	0.08%	0.03%	0.00%	2.33%
<b>Bolivia</b>	1.58%	53.46%	<b>36.02%</b>	0.11%	1.07%
<b>Colombia</b>	<b>39.00%</b>	61.30%	<b>38.19%</b>	<b>7.84%</b>	<b>24.30%</b>
<b>Ecuador</b>	<b>85.62%</b>	91.25%	<b>35.72%</b>	<b>14.20%</b>	<b>33.51%</b>
<b>Peru</b>	7.04%	6.65%	<b>40.99%</b>	0.20%	<b>43.39%</b>
<b>Venezuela</b>	<b>20.74%</b>	27.65%	15.31%	0.26%	<b>11.48%</b>

Source: Hemispheric Database

Figures are for the latest year available, which is 2001 for most countries. However, for Brazil, Bolivia, Peru, and the United States the data is from 2000, and 1999 data is used for Venezuela.

**Table 4**

	<b>Sugar Exports as a % of World Agr. Exports</b>	<b>Sugar Exports to US as % of Agr. Exports to US</b>	<b>Sugar % of World Sugar of US Imports of Sugar</b>	<b>% of World Agr. Exports to US</b>	
<b>Argentina</b>	0.45%	13.23%	23.29%	2.81%	0.79%
<b>Brazil</b>	<b>17.92%</b>	31.41%	<b>4.10%</b>	<b>11.75%</b>	<b>2.34%</b>
<b>Paraguay</b>	0.58%	84.42%	71.92%	0.81%	0.49%
<b>Uruguay</b>	0.89%	37.03%	<b>96.58%</b>	0.67%	2.33%
<b>Bolivia</b>	1.64%	35.55%	23.18%	0.26%	1.07%
<b>Colombia</b>	<b>26.99%</b>	14.17%	12.76%	<b>6.41%</b>	<b>24.30%</b>
<b>Ecuador</b>	1.46%	1.05%	24.08%	0.58%	<b>33.51%</b>
<b>Peru</b>	8.76%	9.82%	48.62%	1.06%	<b>43.39%</b>
<b>Venezuela</b>	<b>10.91%</b>	8.39%	8.83%	0.28%	<b>11.48%</b>

Source: Hemispheric Database

Figures are for the latest year available, which is 2001 for most countries. However, for Brazil, Bolivia, Peru, and the United States the data is from 2000, and 1999 data is used for Venezuela.

**Table 5: Domestic Support Notifications to WTO (in US\$M)**

<b>Country (Year)</b>	<b>Argentina (1999)</b>	<b>Brazil (1998)</b>	<b>Canada (1998)</b>	<b>Chile (2000)</b>	<b>Colombia (1999)</b>	<b>Costa Rica (1999)</b>	<b>Mexico (1998)</b>	<b>United States (1998)</b>	<b>Uruguay (1999)</b>	<b>Venezuela (1998)</b>	<b>Europe (1998)</b>
<b>DS 1</b>	299	2,420	876	110	79	17	1,448	49,824	28	591	20,958
<b>DS 2</b>	0	373	0	3	40	1	128	0	5	47	0
<b>DS 3</b>	0	0	0	0	0	0	0	0	0	0	22,418
<b>DS 4-9</b>	80	492	1,262	40	6	2	1,258	15,134	10	375	50,782
<b>Total (DS 1-9)</b>	379	3,285	2,138	153	125	20	2,834	64,958	43	1,013	94,158
<b>Total Agricultural Trade</b>	12,402	21,583	26,204	4,140	4,642	2,309	15,419	96,075	1,479	2,345	119,058
<b>Domestic Support as a % of Total Agricultural Trade</b>	0.65	2.28	4.82	0.97	0.13	0.09	8.16	15.75	0.68	15.99	42.65

Source: World Trade Organization Document TN/AG/S/4, March 20, 2002  
Hemispheric Database  
European Commission, Agriculture Directorate

Note: DS 1 includes 'green box' measures that are exempt from reduction commitments.  
DS 2 includes measures for which developing countries are exempt from reduction commitments.  
DS 3 includes direct payments under production-limiting programs.  
DS 4-9 includes measures which do not fit into the exempt categories, and are therefore not subject to reduction commitments.  
Data is for most recent year available (1998, 1999, or 2000) of WTO notifications  
Europe refers to the 15 countries which reported as the European Union.

**Table 6: Total Aggregate Measurement of Support (AMS) Commitments**

Country	Currency	1995		1996		1997		1998	
		Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS
Argentina	\$ 1992 rate	85,378,903	122,779,312	84,228,057	84,142,109	83,077,212	83,014,846	8,,926,366	81,414,872
Brazil	US\$ '000	1,039,126	295,033	1,025,012	363,284	1,010,899	306,845	996,786	82,820
Canada	Can\$ million	5,197	777	5,017	619	4,838	522	4,659	790
Colombia	US\$ '000	392,465	58,109	387,165	3,961	381,858	14,393	376,555	9,771
Costa Rica	US\$ '000	18,153	0	17,908	0	17,663	0	17,417	80
Mexico	Mex\$ 1991 million	28,622	1,365	28,238	915	27,853	3,194	27,469	3,799
United States	US\$ million	23,083	6,214	22,287	5,898	21,491	6,238	20,695	10,392
Venezuela	US\$ '000	1,287,221	541,784	1,269,826	331,261	1,252,431	456,549	1,235,036	210,578
Australia	\$A million	570	152	551	144	531	132	511	120
New Zealand	NZ\$ million	348	0	336	0	324	0	312	0
Europe	ECU billion	79	50	76	51	74	50	72	47

Source: World Trade Organization Document TN/AG/S/4, March 20, 2002

**Table 7: Export Subsidies in the Hemisphere**

Country	Colombia	Costa Rica	Mexico	United States	Venezuela	Europe
Export Subsidies (US\$M)	23	123	5	147	5	5,996
Total Agr. Trade (US\$M)	4,302	2,041	17,479	98,128	2,179	
%	0.53	6.03	0.03	0.15	0.23	

Source: Hemispheric Database and Marcos Sawaya Jank, Ian Fuchsloch, Géraldine Kutas, "Agricultural Liberalization in Multilateral and Regional Trade Negotiations", 2002.

Note: Total Agr. Trade includes imports and exports in chapters 1-53.

Europe refers to the 15 countries which reported as the European Union.

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