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**Issues for Upcoming Multilateral  
Negotiations on Agriculture and  
Recommendations for CARICOM Preparatory  
Work**

**Timothy Josling**

(Institute for International Studies,  
Stanford University)

**Seminar on "América Latina y el Caribe frente a la  
Profundización del Proceso de Reformas Agrícolas Multilaterales"**

**23 - 24 November, 1998**

**Sponsored by FAO/IICA/WORLD BANK**

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## **Issues for Upcoming Multilateral Negotiations on Agriculture and Recommendations for CARICOM Preparatory Work**

### **1. INTRODUCTION**

The last decade has seen a number of remarkable developments in the architecture of the international trade system. These include the establishment of the World Trade Organization (WTO) to replace the General Agreement on Tariffs and Trade (GATT), the formation of the North American Free Trade Area (NAFTA) and the Southern Cone Common Market (MERCOSUR), and the collapse of the Council of Mutual Economic Assistance (COMECON) which controlled trade among the Centrally Planned economies of Eastern Europe and the Former Soviet Union. Along with these changes has come the resurgence in a number of previously existing regional trade agreements in Latin America and the Caribbean, including CARICOM, the Andean Pact, and the Central American Common Market (CACM).

The next decade promises yet more change. The preferential trade agreements which have encouraged exports from the Caribbean to Europe and from the Caribbean and Central America to the United States are due to be renewed. All the signs point to the likelihood that they will be significantly revised. Further integration among the trade blocs is scheduled, with negotiations on the Free Trade Area of the Americas (FTAA) just months away. A new set of WTO talks on agriculture is set to start in 1999, and the newer issues of investment and competition policy could well be part of the upcoming international agenda.

Countries in the Caribbean region, along with other developing countries, are facing a difficult challenge as a result of these shifts in trade policy. In the case of the Caribbean the pressures are greater than in the past thirty years. Not since the early days of independence and the experiment with federation has the landscape been shifting so fast. Driven both by the trade agreements and by internal economic policy shifts, the region is learning to adapt to the emerging realities of a global economy.

Agriculture and agricultural trade is right in the middle of these changes. The future market for traditional tropical export commodities is increasingly in doubt, but the alternative employment options, either within or outside the sector, for those displaced are not yet clear. Non-traditional exports appear to do well in some countries, but competition for these markets is intense. Selling onto a protected home or regional market also seems increasingly difficult in the light of the trend toward trade liberalization.

Though the subject of this paper is trade agreements, changes in the trade policy environment have been reinforced by domestic economic policy shifts which are in many cases even more dramatic. Unilateral economic policy reforms, often stimulated by the need to borrow from international institutions, add to the pressure on trading sectors such as agriculture. Trade has been a key part of such reforms. Individual countries in the region have already taken significant steps in the direction of opening up their agricultural economies to trade. This inevitably puts pressure on domestic producers, who naturally feel that they are being put at risk by the process of policy reform and trade liberalization. As so many jobs and the security of so many families is at stake, the temptation to keep high levels of import protection is strong. Some backsliding has been evident in Latin America, though in general the reforms have held. Many of the smaller economies in the Caribbean have yet to complete their economic reform programs.

## **2. THE WTO, THE URUGUAY ROUND AND THE IMPLEMENTATION OF THE NEW TRADE RULES.**

### **2.1 The WTO and the strengthened multilateral trade system**

The most important outcome of the recent Uruguay Round was a strengthened multilateral trade system, with a set of expanded trade rules covering most areas of international trade in goods and an increasing range of service transactions. The key change was the agreement in the Uruguay Round to set up the World Trade Organization (WTO). This body now oversees trade in goods and services as well as trade-related intellectual property right issues and some aspects of foreign investment. Moreover, the new rules are likely to be enforced more rigorously than in the past. The strengthening of the mechanism for dispute settlement is already proving to be one of the key differences between the WTO and its predecessor the GATT. The ability to have the findings of dispute settlement panels adopted is a major advance. This outcome is likely to be of great importance for the Caribbean. Multilateral systems are the lifeline for the smaller and less powerful countries. A rules-based system of trade is useful as an antidote to the hegemony of large neighbors. The more liberal trade regime that emerged opens up opportunities for exports for small countries as well as those with more economic weight.

But even the newly created World Trade Organization (WTO) seems to pose threats as well as giving opportunities. The prospect of further liberalization in agricultural goods along the lines started with the Uruguay Round both reduces the value of trade preferences in overseas markets and impinges on the ability of CARICOM countries to defend their domestic markets. The use of the dispute settlement regime by other countries to challenge the EU banana regime has sent a shock wave throughout the region, stirring fears that the tighter trade rules may be more onerous to small economies. In one sense this is true. It is becoming clear that the global system created by successive GATT rounds culminating in the Uruguay Round is one of less protection and more competition. It is also true that rules of non-discrimination are likely to be enforced more actively. Countries will have a greater incentive to become and remain competitive in the global marketplace. It is therefore a less comfortable environment for the shelter of low productivity and passive entrepreneurship. Countries must respond or risk being marginalized.



## 2.2 The Overall Impact of the Round

The Uruguay Round is expected to have two types of impact on countries of the CARICOM region. First are the commodity-specific impacts on markets through the changes in market access and the restriction on export (and domestic) subsidies. These will normally be positive for the exporting regions and sectors, as demand for imports will increase. But if a country already has preferential access into a market which is liberalized with respect to other countries, the outcome could be negative. In the event, the liberalization which occurred in preferred products such as sugar was relatively small, so loss of preference was not significant. Second, the world economy should respond to greater trade opportunities and the greater global income should stimulate direct demand for all products whether moving under preferences or not. For non-preferential goods the increase in demand for exports as a result of greater market access (and the reduction of export subsidies) are reinforced by the outward shift in the demand due to income increases. For preferential goods, however, the demand will shift back as a result of the trade liberalization and may or may not be offset by the outward shift in demand due to income increases. Overall, it is likely that the CARICOM countries gained from higher incomes and growth in other countries more than they lost in reduced preferences.

## 2.3 The Uruguay Round Outcome for Agriculture

For agricultural products the Uruguay Round included the negotiation of an Agreement on Agriculture (URAA) which strengthened the rules under which agricultural trade takes place, as well as binding specific schedules for import tariffs, export subsidies and domestic support levels for agricultural commodities. In addition a separate Agreement on Sanitary and Phytosanitary Regulations (SPS Agreement) was concluded which should make it easier to prevent such regulations being used to give protection to markets rather than control the spread of disease. The results of the Round have at least four implications for Caribbean agriculture. These aspects of the Agreement on Agriculture which have most impact on the CARICOM countries are discussed below.

### 2.3.1 *Tariffication*

The replacement of non-tariff barriers by bound tariffs has a direct impact on the instruments that can be used to protect the domestic market. With the temporary exception of rice in Japan, Korea and the Philippines, tariffication took place with the signing of the agreement. The bound tariffs were entered in agreed Schedules, which became part of the Agreement. The agriculture tariffs from the WTO schedules for the CARICOM countries are reproduced in Table 1. As will be seen, many countries in the Caribbean region took advantage of the option to bind a "ceiling" tariff, generally above the level in use at the time, rather than specify a bound tariff for each commodity. As several of the countries in the region had already converted non-tariff trade barriers to tariffs as a part of their structural adjustment programs the shift in trade policy instruments had less direct impact than on other regions. However for those countries such as St Lucia and Grenada, which have not undergone trade liberalization as a part of an agreed structural adjustment program the stage of converting non-tariff barriers to tariffs is still ahead. By choosing not to calculate specific "tariff equivalents" in the schedules, these countries have in effect tariffied at their "ceiling" levels from the viewpoint of the rest of the world. Caribbean countries have tended to bind tariffs at somewhat higher levels than those in Latin America.

**TABLE 1: WTO SCHEDULES OF TARIFFS FOR SELECTED CARICOM COUNTRIES**

<b>Country</b>	<b>Ceiling binding (%)</b>	<b>Exceptions (number)</b>	<b>Base Rate (%)</b>	<b>Bound Rate (%)</b>	<b>Other duties (%)</b>
Barbados	100	40	135-284	103-216	70
Belize	100	40		70-110	106**
Grenada					
Guyana	100			50-85*	40
Jamaica	100	61		80-200*	15
St. Lucia	100	80	160-290	107-250	
Suriname	20	6	10-20	8.5-17	50
Trinidad & Tobago	100	7	130-180	106-156	15

\*Listed under "other duties and changes" rather than ad valorem tariffs

\*\* Stamp duty 14%, Revenue Replacement duty 92%

The change brought about by tariffication was particularly important in the case of the developed countries, where quotas and variable levies as well as voluntary export restrictions were common. Tariffication was a major step toward bringing agricultural trade into line with most other product groups, where quantitative restrictions were already outlawed. The increased transparency of the tariff, relative to import quotas and licenses, will be helpful in the future to exporters in the Caribbean region.

The tariffs that were agreed in the Schedules were in general rather high for agricultural goods, reflecting both the reality of restrictive non-tariff barriers and some creative accounting when the new tariff were chosen<sup>1</sup>. This has posed a challenge for future negotiations on agricultural trade which will have to deal with the reduction of tariffs in the range of 100-300 percent. How such high tariffs are reduced will have impacts on the export prospects for the Caribbean region.

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<sup>1</sup> This process is widely known as "dirty tariffication" and stemmed from the use of low world prices to calculate the tariff equivalent of the non-tariff barriers.

A spin-off from the process of tariffication that has major impact on the region was that those countries that tariffied some non-tariff barrier had to grant import opportunities at least to the extent of existing access agreements. Thus both the US and the EU have “bound” their sugar quotas from the Caribbean in the form of guaranteed access quantities. These tariff-rate quotas (TRQs) are therefore more secure than before, at least in the sense that they are incorporated in the WTO obligations and would require negotiated compensation if they were to be reduced.<sup>2</sup> However there is no guarantee within the WTO that the TRQs not be *increased* or the tariff on above quota imports not be reduced. Indeed it is likely that this will begin to happen in the next Round, thus weakening the degree of preference. CARICOM countries should recognize that “guaranteed access” afforded by the TRQs does not mean “guaranteed preferences”.<sup>3</sup>

### 2.3.2 *Export Subsidies*

The second major implication of the Uruguay Round Agreement on Agriculture for the Caribbean and Latin America is the impact on export subsidies. Here one can note two factors which may have significance for the trade policy of the region. First the existence of subsidies, in particular in the EU and the US, has been a major reason to keep protection in the Caribbean against “dumped” goods, and to develop “price band” policies in a number of Latin American countries.<sup>4</sup> Thus their containment offers the opportunity for some removal of protection. In addition, the prices in world markets may also increase as a result of the limitation on the degree of subsidies allowed. Whilst it is too early to see much of an impact on world markets from the subsidy reduction (world prices for many subsidized products have been relatively high for other reasons since the agreement came into force) it should help to prevent a market price collapse when markets weaken. This could affect export commodities as well as import products. Restrictions on the use of export subsidies on EU sugar sold into world markets will help the non-EU sales of sugar from the Caribbean. The dumping of dairy products by the EU and to a lesser extent the US on world markets is also appreciably curtailed, though considerable subsidies are still allowed in the schedules. This will help to prevent the undercutting of local milk prices by milk powder from abroad. Certain practices widely regarded as helping exports, such as export credits, have not yet been contained and may still distort regional markets.

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<sup>2</sup> The EU decided not to bind the ACP traditional banana quota in its schedule. It did however include the quota for Central American bananas, which therefore have perhaps a little more protection in the WTO against unilateral changes in import policy. The question of banana preferences is discussed extensively below.

<sup>3</sup> One further implication of the process of tariffication is worthy of a mention. It relates to the Special Safeguard mechanism which applies to products which underwent tariffication in the Round, and which were so notified in the Schedules. Those countries that undertook tariffication unilaterally before the end of the Round do not have that option.

<sup>4</sup> Technically, goods benefitting from government subsidies are treated differently from those “dumped” by private firms selling below production cost or the price in the home market. Under the WTO countries can “countervail” with additional duties against the subsidies of other countries. However, subsidies agreed in the Schedules are protected from such challenges for the duration of the agreement.

### **2.3.3 Domestic Support**

The third impact of the Agricultural Agreement is that domestic agricultural policy now comes under the scrutiny of international trade rules. Policies deemed to meet certain criteria which make them minimally trade distorting are placed in a "green box" of acceptable subsidies. Others are subject to reduction over the transition period of six years (ten for developing countries). This should not be a major problem for the CARICOM region which does not practice extensive support buying or other forms of domestic intervention. Most countries decided not to report any such domestic subsidies on their WTO schedules. However the fact that the countries chose to claim that their domestic programs were already acceptable implies that they have bound trade-distorting domestic policies at zero. On the other hand the range of non-trade distorting policies that exist is such that most of the policies likely to be chosen by the governments of the region are acceptable under the terms of the Agreement on Agriculture. The reduction of domestic support in importing countries could help Caribbean American exports, but the restraint put on these policies is weak and applies only at the aggregate (not commodity) level. Moreover some subsidies which are often held to give farmers advantages in trade, such as access to cheap water, are not effectively controlled.

### **2.3.4 Sanitary and Phytosanitary Measures**

A fourth implication of the outcome of the Uruguay Round is the Agreement on Sanitary and Phytosanitary Measures. This attempts to improve one unsatisfactory feature of the trade system, that countries were finding it easy to use sanitary and phytosanitary standards imposed on imports, along with other technical barriers to trade, to protect the domestic market. The new rules make it more difficult to practice this disguised protectionism. Countries are encouraged to make use of international standards for the protection of animal, plant and human health. This eliminates much of the possibility of using such regulations to keep up local prices. If a country wishes to maintain higher standards it can do so if it can make a convincing case on scientific grounds and with acceptable techniques of risk assessment.

The importance of this rule change will be known when it begins to have an effect on the standards of major trading countries. There will not be long to wait. A dispute settlement panel reported this summer on the dispute between the US and the EU over the ban on the importation of cattle which have been given growth-promoting hormones. The EU took the view that keeping hormone-fed beef out of the market was fair in the light of the ban on the domestic use of such substances. The US argued that such substances had no harmful impact on human health and that beef by-products should be allowed into the European market. The panel ruling has gone against the EU, and was upheld on appeal. The reaction of the Union to the outcome of the appeal will go some way to determining whether the SPS Agreement will be seen to be effective or whether there will be a prolonged trade conflict over the panel's findings.

## 2.4 The Uneven Implementation of the Agreement in Europe and America

It is one thing to negotiate a complex set of rules for the agricultural sector: it is quite another to see them in operation. The credibility of the system would be compromised if countries chose their own interpretation of the Agreement, or decided to ignore its implementation when it was politically unpopular at home. So far the Agreement on Agriculture seems to have been implemented with reasonable diligence by most countries as they assimilate its provisions into legislation and practice. Some countries have devised new policy instruments to take advantage of ambiguities in the wording of the Agreement. Canada has defined an "export" category of milk which can sell at a lower price as a way of avoiding the export subsidy regulations. The EU reconstitutes cheese from butter and milk powder so as to avoid the constraints on export subsidies on dairy products. Some of the side deals, such as the "maximum levy-paid import price" for cereals in the EU agreed at Blair House, have proved difficult to interpret and have led to conflicts. Hungary has claimed that its schedules on export subsidies contained some computational errors, and has renegotiated with the major exporters an increase in the allowable subsidies in the transition period. Countries have gone their own way in allocating TRQs and this has led to considerable debate about making the process more uniform.<sup>5</sup> But too much should not be made of these exceptions. Over all the main thrusts of the Agreement, the move to tariffs as the only import barrier, the binding of existing export subsidies, and the categorization of domestic support measures have proceeded smoothly. The revisions to the agreement discussed below are more in the nature of completing and tidying up rather than correcting significant mistakes. A look at how some of the major regions have implemented the Agreement indicates substantial compliance.

### 2.4.1 Implementation in the European Union

The EU had to reform its Common Agricultural Policy (CAP) in 1992 in order to be able to agree to the Uruguay Round outcome. Unlike in the US, where the Uruguay Round had relatively little impact on the operation of domestic policy, the EU has had to make still more changes since that time in order to implement the terms of the Agreement. Nevertheless the policy changes were kept to a minimum by various devices which have preserved much of the instrumentalities of the CAP. The cereals market, for example, is still protected by a variant of the variable levy, as a result of the bilateral deal at Blair House (later multilateralized) that the duty paid price of imports should not exceed 155 percent of the intervention price (the prevailing threshold price). The maximum duty-paid price is not strictly speaking the same as the threshold price: if world prices drop the duty-paid price could be below the former threshold level. But when prices are firm the effect on the market is very similar. The duty actually paid is the difference between the world price and the agreed maximum duty-paid price, just as it would have been under the former variable levy system.<sup>6</sup> Similarly with the import duties for fruits and vegetables, the use of tariffs conditional upon the relationship of import

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<sup>5</sup> For a critical look at the allocation of TRQs and other aspects of the implementation see Ingco and Hathaway (1996).

<sup>6</sup> There was a long dispute, now settled, between the US and Canada and the EU on the issue of whether the maximum duty-paid price should apply to each transaction (as the Agreement appeared to say) or to all transactions at a particular time. Clearly there would have been major implications for the incentive to ship different qualities of grain.

prices to predetermined “entry” prices acts much as the previous policy of supplementary duties triggered by reference prices.<sup>7</sup>

Not only have the mechanisms determining market access changed little, the ease of access has improved only marginally. TRQs exist in a number of products, but for the most part these reflect “current access” (i.e. the bilateral agreements that the EU has had with a number of overseas countries). In those cases where new “minimum access” quotas have been opened up, they have not so far always been filled. The above-quota tariffs are often prohibitive, as were the threshold prices that they replaced, and true market access awaits the next round of trade negotiations. In some cases market access actually declined as a result of tariffication. This was particularly the case where levies were previously tied to domestic cereal prices, as with pigmeat. CAP reform had already reduced import levies on pigmeat, but they went back up again when based on the tariff equivalent in the WTO base period.

On the export side the picture is more encouraging. It was always known that the constraints on export subsidies negotiated in the Round were likely to be the most binding: that is why the agreement on such constraints was so difficult to achieve. This has proved to be the case. For a number of products, wheat, sugar, beef and cheese in particular, the export subsidy constraints have already dictated domestic policy decisions. However, in the case of wheat the high world prices “rescued” the policy from the constraints of the WTO schedule, as the need for export subsidies temporarily waned. And in the case of cheese, the export restriction has to some extent been circumvented by the production of processed cheese in bond through the use of already “exported” butter and skimmed milk combined with imported cheese.

The deal secured at Blair House to place the MacSharry compensation payments in a “blue box”, implying that they do not count toward the level of support that needs to be reduced (and are sheltered from most WTO challenges unless they are increased), ensured that the EU stayed well within the AMS constraint. The issue for the next round will be whether the EU can change its method of allocating the compensation payments so as not to need the blue box at all.

#### **2.4.2 Implementation in North America**

The United States has been able to implement the provisions of the Uruguay Round Agreement on Agriculture with relatively little change in domestic policies. In this regard the experience of the US is different from that of the EU and Canada, as well as of Japan and many importing countries, where impacts are more immediate. Indeed it was useful to securing the domestic support for the outcome of the Round that the US gained access to other markets for agricultural products while not relinquishing the responsibility for policy making to international negotiations. Nevertheless the Agreement does have some impact on future policy developments and has already acted to encourage changes which have been implemented for largely domestic reasons. And these domestic policy changes may indeed have the effect of increasing the significance of international trade negotiations on domestic policy.

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<sup>7</sup> If the import price is less than 92 percent of the “entry” price then a high (often prohibitive) tariff applies. (See the chapter by Tangemann in IATRC (1997).



Market access provisions in the Uruguay Round did not lead to a dramatic opening up of the US market for agricultural goods. For many products trade barriers were low before the Round, while for the few “sensitive” items such as dairy products and sugar liberalization was modest. Conversion of non-tariff barriers to tariffs took place in several sectors, notably in beef, where “voluntary export restraints” (to avoid the imposition of quantitative restrictions) had been used to bolster the domestic market over parts of the cattle cycle, and in dairy, where non-tariff import barriers had been widely used to control milk product markets. In these cases TRQs were established to maintain access (beef) and provide for minimum access (dairy) along the lines of the Agreement. The respective TRQs appear not to have been filled in the first year of operation, 1995, though sugar imports have exceeded the quotas. The TRQ is an opportunity for exporters to sell into the US market at a concessional tariff rate. It does not obligate the US to buy that quantity of goods from the world market. Above-quota tariffs remain high for the sensitive goods. Although tariff levels for all agricultural goods were cut on average by 36 percent over the period up to 2000, the US took advantage of the minimum allowable cut of 15 percent for dairy and sugar products. This leaves action on these commodities a natural focus for the next round of negotiations.

Implementation of the Agreement had one impact which was significant in terms of import access to the US. The notorious Section 22 of the Agricultural Adjustment Act, which gave the President the mandate to use quantitative controls whenever imports threatened domestic support programs, was removed. This in turn removed the need for the waiver from GATT rules which had been in effect since 1956. The importance of this is symbolic: it indicates that even the US has agreed to allow the operation of international trade under agreed rules to impinge upon domestic programs.

Export subsidy programs in the US were subject to the cuts agreed in the Round. However the rise in world prices since the base period of the Agreement, and more particularly the high prices in 1995 and 1996, meant that export subsidies for cereals naturally declined. In fact the Congressional appropriation for subsidies has actually decreased substantially in recent years, and there is evidence that the Export Enhancement Program (EEP) is unlikely to be used to its full authorized level in the near future. This is despite the rhetoric, which still seems to regard export subsidies as necessary aspects of commercial policy to be used to maintain market shares and prevent the EU and other exporters from undercutting US sales abroad. The combination of high prices and buoyant export markets has had the effect of reducing the need for such subsidies.

As was expected, the Uruguay Round Agreement has had little impact on US domestic support programs such as the deficiency payments scheme for cereals. That was ensured by the Blair House deal which allowed both the US and the EU to shelter their direct payments in the “blue box” reserved for payments linked to supply control programs. Even without this it is unlikely that the level of payments would have violated the AMS limits which had as a base a period of higher subsidies.

However, even the very indirect restraints of the “blue box” are likely to have been made redundant for the US by the substantial changes in domestic policy embodied in the new Farm Bill of 1996. This bill, the FAIR Act, removed the acreage-set aside conditions for receiving direct payments for cereals. Though there is still some incentive to remain in agriculture, this change essentially “decouples” payments from output levels. It therefore can be assumed *a priori* to be a “green box” policy, leaving the EU alone in sheltering its direct payments from challenge under the GATT by means of the “blue box”.

From the viewpoint of the rest of the world US agricultural trade policy is not always the model free trade regime expounded by that country's politicians and negotiators. Significant tariff and other restrictions on imports of sugar, peanuts and dairy products tend to exclude even efficient foreign suppliers from these markets. The big question for the future is whether the US will be willing to back up its leadership in pushing for free trade in such areas as cereals and oilseeds by offering significant "concessions" on sensitive products. Dairy products and sugar are likely to be at the heart of the next round. Though some progress was made in the FAIR Act towards further reducing price supports for dairy products, and the sugar program just survived in Congress an attempt at radical surgery, the willingness of the US to put these sectors on the international bargaining table has yet to be tested.<sup>8</sup>

Canada has had a somewhat different experience in implementing the results from the Uruguay Round.<sup>9</sup> Two changes in domestic policy in particular stand out as being in direct response to the Round. First, the long-running set of transportation subsidies which gave Canadian grain an advantage on world markets was finally terminated. This change has long been debated domestically, but the pressure from the Uruguay Round limits on export subsidies was effective in finally forcing the issue. Secondly, the non-tariff import barriers which have bolstered the domestic market in the supply-managed commodities (poultry, eggs and milk) were converted into bound tariffs as a direct result of the Uruguay Round Agreement. This change would probably not have been possible for years without the pressure from the Round. The new tariffs are, however, very high (in some cases over 300 percent), and access depends on the TRQs which carry a much lower rate of duty. Thus for Canada one key issue for the future is the extent to which the TRQs will be expanded in further negotiations. Strong resistance can be expected from the provincial marketing boards which run the supply management programs.

Mexico demonstrated a remarkable capacity to change domestic agricultural policies as it reduced protection and reformed its economy. Not much of this change was due to the Uruguay Round. The conversion of non-tariff barriers to tariffs had taken place as a part of domestic economic reform. Export subsidies were minimal, and domestic support was cut drastically from the base period as a result of domestic policy changes. The main impact of the WTO on Mexican agricultural policy is through the TRQs, though the liberalization schedule in the NAFTA is a stronger force for opening up the Mexican market.<sup>10</sup> In addition, the policy reforms are to a large extent "locked in" by the schedules and bindings, and a future Mexican administration would have difficulty returning to the costly and distortive programs of the past. In this respect Mexico is typical of a number of countries in Latin America which underwent structural reforms in the last decade.

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<sup>8</sup> The sugar program may disappear for purely internal reasons. Another bill introduced recently in Congress aims to abolish the system of quotas and support prices in favor of direct payments as a way of reducing consumer costs.

<sup>9</sup> For a more complete discussion of the implementation in Canada see the chapter by Miner and McClatchy in IATRC (1997).

<sup>10</sup> Above-quota tariff bindings for Mexico are still substantial in sensitive commodities such as corn, poultry and dried milk. Actual tariffs are somewhat lower than these bindings.

### 2.4.3 Implementation in South America

The South American countries had without exception embarked on drastic reform of agricultural trade policies in advance of the outcome of the Uruguay Round. This made implementation of the Agreement relatively easy for these countries. Quantitative restrictions to trade had been removed in almost all countries in the region as a part of economic reforms. Price support policies had been abandoned in many countries and reduced in others. Export subsidies were rare in the region. This relatively liberal stance enabled these countries to take an active role in the talks themselves. Five of the countries had participated in the Cairns Group of agricultural exporters who were instrumental in making sure that the issues of agriculture were not once again swept under the rug in the Uruguay Round.<sup>11</sup>

The tariff schedules submitted to the WTO by these countries for agricultural products reflect this open position. Virtually all tariffs are now bound, and the rates at which they have been fixed are often less than in other regions. Argentina, Brazil, Bolivia, Chile, Peru and Venezuela have declared agricultural tariffs ranging from 25 to 68 percent, and Colombia proposed a tariff schedule for agriculture starting at 100 percent and declining to 70 percent (90 percent for a few commodities) over the ten year period (see Table 2). As the "ceiling binding" option was widely used, only a small number of countries and commodities underwent "tariffication" and hence have TRQs and the possibility of use of the Special Safeguard. Similarly, not many countries declared that they had export subsidy programs and therefore are highly restricted in what they can do in this area in the future. The same restraint applies in principle to the level of transfers which are through instruments not in the "green" box: by not declaring such transfers countries will find it more difficult to implement such policies in the future.

**Table 2: Tariff Bindings for Selected Latin American Countries**

	Tariff Binding (%)	No of product groups excepted	range of tariffs for excepted products
Argentina	35	2	3.8
Brazil	35	9	18-55
Chile	25	4	31.5
Colombia	90	14	70-194
Dominican Rep.	40	-	-
Paraguay	35	-	-
Peru	30	6	68
Uruguay	35	4	20-55
Venezuela	40	-	-

Source: IATRC (1994), and IATRC (1997).

<sup>11</sup> The Cairns Group members from the region include Argentina, Brazil, Chile, Colombia and Uruguay. Both at the Montreal mid-term review meeting and again at the Brussels meeting in 1990 which was meant to end the Round the Cairns Group had been the ones to prevent any agreement which did not include agriculture.

## 2.5 Improvements needed to the Agreement

The Committee on Agriculture was entrusted with the task of monitoring the Agreement on Agriculture. This Committee has met several times each year since the Agreement went into force and made its first report to the Singapore Ministerial in December 1996. The experience of the Committee forms the backdrop for the consideration of changes in the Agreement which, in addition to the agenda items discussed below, might be suggested for the next round of negotiations.<sup>12</sup>

Perhaps the most urgent area of the Agreement for revision is the administration of the Tariff-Rate Quotas which were intended to open up previously closed markets. The TRQs for agricultural trade are hardly the jewel in the crown of the Uruguay Round Agreement. Their negotiation created a slew of bilaterals which promises to keep agricultural trade an intergovernmental affair for years to come. Moreover, they have created a new wave of governmental interference with agricultural trade through licensing procedures and provided a playground for rent-seeking traders - who will in turn have an incentive to lobby for the continuation of the high above-quota tariffs. The question is how to prevent the TRQs from interfering any more than necessary with the competitive development of trade.

The negotiations will probably focus on developing a more uniform system for the administration of the TRQs. One issue is whether to allow them to be auctioned, as has been suggested in some academic circles. This would seem an economically sensible solution to the problem of the capture of rents and to counteract the incentives to keep the system in place. But this is also a reason why exporters in particular are likely to resist such a move. If the TRQs were auctioned to the exporter the impact would be much like a tariff. The exporter would bid up to the height of the tariff concession for the right to sell in the import market. The capture by the government of the rent through the auction process in effect turns the TRQ into a quasi-tariff, with the height discovered through the auction process. Where the TRQs replace previous access agreements in which the quota was allocated to the exporter, the result of the auction would be to reduce the return from selling into this market. Thus there could be considerable resistance to the auctioning of TRQs. The best solution may in the end be to steadily increase the TRQs, as suggested below, until the issue of how to allocate them is rendered moot.

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<sup>12</sup> The Committee has also been involved in the discussion of the agenda for the next round, through a device called Analysis and Information Exchange. A sub-group of the Committee meets at the time of the full committee meetings and discusses "non-papers" on particular topics.

The Special Safeguard system is also in need of some patching and more uniformity. Though subject to abuse, trade safeguards are generally considered by governments to be a necessary concomitant to trade liberalization and market access. The issue that is likely to arise with respect to agricultural safeguards in the agenda for the next round is the use of the Special Safeguard Provisions by developed countries to try to maintain protection against imports. One way to avoid the misuse of the Special Safeguard Provisions is to seek agreement on the level of trigger prices. Wherever technically possible, trigger prices should be identical (or equivalent) to the external prices used by the governments concerned in calculating initial tariff equivalents in the UR. Governments had a tendency to use the lowest feasible external prices for calculating tariff equivalents in their Uruguay Round schedules. Hence, using the same prices as trigger prices for the Safeguard Provisions would make sure that additional duties are not used too often, and are not set too high. It will also be important to phase out the use of the Special Safeguard Provisions after the second period of transition. This could be done by gradually adjusting the percentages in both the quantity trigger provision and the price trigger provision year by year so that the safeguards are less and less likely to cut in.

In addition to the overt export subsidies identified in the Uruguay Round, agricultural exports are often assisted by export credits and credit guarantees. These are clearly forms of export subsidy, given to export firms by governments trying to expand trade. The practice was criticized in the Uruguay Round, and as part of the UR Agreement an understanding was reached that governments should 'work towards the development of internationally agreed disciplines'. Discussions on the subject of export credits in general have been continuing in the OECD, and it is possible that agricultural export credits will eventually be brought into conformity with those in other areas of trade.<sup>13</sup> The question of export credits is still a thorn in the flesh of several of the smaller exporting countries. There should be no problem in the New Round to take the terms of an OECD pact and incorporate them into the WTO structure.

The Uruguay Round allowed both Japan and Korea to delay tariffication for an initial period, though they had to give access for somewhat more imports than they would have done under tariffication. Though this political deal was necessary in order to get an agreement, the pressure will be on these countries to step into line and remove the anomaly. Japan has begun the process of preparing for eventual liberalization of rice imports. The Food Control Law which mandated state purchase and sale of rice since 1942 has recently been changed, and the amount of rice privately traded is increasing. Imported rice is finding its way into the Japanese food system despite predictions that it would be rejected by consumers.<sup>14</sup> Korea, partly as a result of joining the OECD, has shown a greater willingness to modify its own domestic practices in the light of outside pressure.

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<sup>13</sup> Present contentions involve the allowable interest rates and the length of credit terms which will be acceptable for the sale of agricultural goods.

<sup>14</sup> It has been estimated that the minimum quantities agreed in place of tariffication were in fact greater than the small volume of rice imports which would have gone into Japan under the very high tariffs that would have been agreed. This reinforces the likelihood that tariffication will be agreed for Japanese rice in the next few years.

The question is more when the major policy decision to adopt tariffication will be taken.<sup>15</sup> For Japan a decision will have to be made by the end of 1999 as to whether to seek an extension of the delay. The specially negotiated additional access (four percent rising to eight percent, as opposed to three percent rising to five percent for goods newly tariffed) is seen in Japan to have increased domestic pressures more than would tariffication have done. This is true in particular if the initial tariff had been set at a high level by the use of a low world price. For Japan to get an additional extension would require not only the expenditure of negotiating capital by that country but also some more generous access agreement which would cause even more price competition on the domestic market. In all likelihood the Japanese government will agree to tariffication rather than seek a further temporary derogation. Korea will probably make a similar decision but has a little more time to consider its options. The other countries that maintained non-tariff measures on the coat-tails of Japan and Korea, namely the Philippines and Israel, will not be in a strong position to resist the implementation of tariffication once that decision has been taken by those countries.

## 2.6 The WTO and the Banana Dispute

Perhaps the most dramatic impact of the WTO on the Caribbean region has been as a result of the dispute over banana exports to Europe. A panel found that several of the mechanisms used to allocate banana imports under the EU's regime of quantitative restrictions violated international trade rules. The dispute has put banana exporting countries at odds with each other and led to the (mistaken) view in some parts of the region that the WTO is being used to undermine the economies of the smaller islands which are heavily dependent on the crop for export earnings. The banana issue is the most contentious trade policy issue for the region and will go some way to influencing future trade relations between the Caribbean and Europe, the US, Central America and indeed within CARICOM.

The Commonwealth Caribbean countries have enjoyed free access for their bananas into the UK market, as for most other goods, since independence. This access was preserved when the UK joined the European Community in 1973. At that time, bananas also came into France from the Departments d'outre Mer (DOM) and into Italy from Somalia and Ethiopia. Germany and most of the other members imported bananas from Central America with no preferential access. When Spain and Portugal joined the EC in 1986 they bought with them the banana producing regions of the Canaries and Madeira. When the EC introduced the Single Market in 1993 it had to combine the two import regimes into one, as internal borders were to be abolished, and in addition devise a way of supporting the new domestic producers. Thus the EU itself took over the quotas that had existed for the Caribbean producers, mainly Belize, the Windward Islands and Jamaica, and defined access for these countries into the whole EU market.

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<sup>15</sup> Under the agreement Japan has until the year 1999 and Korea an additional four years.



The regime however was challenged in the GATT, and a panel subsequently reported that the EU was to expand access for Central American (“dollar”) bananas. However the panel report was never adopted (i.e.. it was blocked by the EU), though the EU reached a settlement (the Banana Framework Agreement, BFA) with some of those countries to increase their access. However this did not solve the problem. Those countries that were dissatisfied with the settlement chose to pursue the matter with the newly-enhanced dispute settlement process of the WTO.<sup>16</sup> In this they had the backing of the US, at the behest of some US-based firms who felt that they were losing market opportunities to European and other companies.<sup>17</sup> However the outcome probably had little connection with the US involvement: the panel found the allocation mechanism of the licenses violated so many of the WTO rules that it is difficult to see how they could have ruled otherwise. An alternative allocation mechanism for the non-ACP quota is all that is needed to resolve the issue, though finding such a mechanism which maintains the incentive to import ACP bananas may prove tricky.

### 3. OTHER TRADE AGREEMENTS AND THEIR RELATION TO WTO

In the Caribbean region a second type of trade agreement has been traditionally more important than the global rules of the GATT and the WTO. These are the trade accords which grant preferential access for goods from the region into the developed markets of Europe and North America. Such trade relations with the European Union are at the heart of the commercial trade patterns of the Caribbean region. Prospective changes in these relationships are even more challenging than those in the global trade rules and institutions. Depending on the direction taken in talks between the countries of the region and the EU, sweeping changes in trade could occur with potentially drastic impacts on certain countries.

In particular the system of preferential access for certain tropical commodities is at risk. The Uruguay Round appeared to lock in the sugar quotas by including them in the EU tariff schedules. But the value of those quotas depends upon the level of domestic sugar prices in the EU, and this will undoubtedly come down in the future. The Banana Panel, as mentioned above, appears to have agreed that preferential access to the EU market can continue for the ACP producers, but it has queried the way the EU distributed the quotas to the Central American countries. It should also be remembered that the banana policy itself is not popular in all parts of the EU, and could still be changed for internal reasons. Even the preferential access into the EU and US market for rum is under threat from the formation of NAFTA (under which Mexican rum can enter the US free of duty), and the negotiation of the International Telecommunications Agreement which included rum (with impeccable logic) in the zero-for-zero tariff arrangement for telecom equipment has further reduced preferences. Moreover, the broader question of the legitimacy of the Lomé Agreement within the WTO is still unresolved.

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<sup>16</sup> Under the new rules agreed in the Uruguay Round a country can no longer block the adoption of a report from a panel. There is however an appeal procedure.

<sup>17</sup> The US administration seems to have put electoral year politics over regional foreign relations at some stage in the process. Caribbean leaders understood that the US had indicated that it would not challenge the banana regime, and was disappointed to see the complaint go ahead.

### 3.1 The European Union and the Lomé Convention

The Lomé Convention is the centerpiece of the European Union's relationships with the 70 developing countries of the ACP (the African, Caribbean and Pacific countries which once had colonial links with Europe). It is premised on a "preferential partnership" which includes both better access to the EU markets than other developing countries and special lines of development assistance. The Fourth Lomé Convention (Lomé IV) was signed in 1990, reviewed at its midpoint in 1995 and expires in the year 2000.<sup>18</sup> Negotiations on a successor Treaty will not formally start until later this year but preliminary discussions are well under way both in Europe and in the region. The Lomé Convention grants non-reciprocal free access to the EU market for all goods except those that might interfere with domestic policies such as the Common Agricultural Policy (CAP). For these products access is limited by quantitative restrictions. Separate Protocols to the agreement covers access to the banana, sugar, rice, and rum markets in the EU.

The European Union is itself undergoing changes which will have a profound impact on its relations with the Caribbean region. First, it now has fifteen members, only three of whom still have active interests in the region. Whereas the new Scandinavian members, Finland and Sweden, have always been strong proponents of development aid they are unlikely to want to focus it on the former colonies of other countries. Italy has lost touch with its overseas possessions, though Belgium still has links with some African countries. Denmark, Greece, Ireland and Luxembourg have no historical colonial ties to maintain. Spain and Portugal retain strong interests in the Americas, but less so in the english-speaking countries of the region. Germany and Austria are fully absorbed with Central Europe and are not great advocates of preferential trade. Thus it is up to the British, French and Dutch governments to argue the case for continued programs aimed specifically at the Caribbean and other ACP countries. Though a Franco-British alliance could carry the day, the cost might be too high in negotiating capital. There seems a strong chance that the final outcome will be significantly different from today's Lomé.

There is yet another reason why the Lomé Convention is likely to change markedly in the year 2000: it has been declared to be in contravention of international trade rules. The first banana panel raised the issue of the legality of the Convention under the GATT. The Convention could hardly be justified as a part of a Free Trade Area, under Article XXIV of the GATT as it was non-reciprocal. ACP countries did not have to grant duty-free access to the products of Europe. Preferences are also allowed under the so-called "enabling clause" for giving advantages to developing countries. But the justification of the Lomé Convention as a manifestation of "special and differential treatment" in favour of developing countries, encouraged by the GATT, was rendered doubtful by the fact that many developing countries (in Asia, mostly) did not qualify for ACP assistance and trade benefits. In the days before the WTO this conflict between the global trade rules and the trade and development policy of the major players was largely ignored. The reports of panels were merely put on one side if the country whose policy was criticised chose to block adoption. Now, with a clearer set of rules and a stronger procedure to enforce them, the conflict can not so easily be ignored. The Lomé Convention was granted a waiver until the year 2000 from the obligation to conform with the WTO rules. If such a waiver is still required after that year it will have to be renewed annually. This will increase the pressure to bring the relationship between the EU and the ACP into conformity with global trade rules.

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<sup>18</sup> The Sugar Protocol attached to the Lomé Convention has no expiry date.

This has led the EU to consider in a Green Paper various options for the continuation of the trade and aid relationship with the ACP. These options can be grouped under four headings: (a) continuation of the current arrangements (the *status quo* option); (b) the blending of the Lomé agreement with the Generalised Scheme of Preferences (GSP) which allows access for imports from developing countries at zero or reduced rates of duty, subject to quantitative limits (the *integration into GSP* option); (c) full reciprocity of trade access, implying a free trade area between the EU and the ACP countries (the *uniform reciprocity* option); and (d) graduated reciprocity depending on the specific agreements reached with each group of ACP countries (the *differentiated reciprocity* option). The Commission has more recently outlined its more detailed proposals for the future of the Agreement, along the lines of the fourth of these options. For CARICOM this could imply the negotiation over the next few years of a free trade area with the EU, with the sugar protocol standing alone as a specific agreement sanctioned by the WTO.

The existing non-reciprocal trade relationship was in any case bound to be the subject of some scrutiny in Europe. The trade performance of the ACP seemed to be lagging behind that of Asian countries despite the preferential access. Perhaps the preference system itself was discouraging flexibility in trade and locking the ACP into traditional and less dynamic trade patterns. Foreign investment did not seem to be being encouraged by the preferences, and the fact that the arrangements seemed always at the whim of Europe made them less than stable as a base for such investment. The prospect of a new, reciprocal trade relationship between CARICOM and the EU could be more attractive for investors.

## 3.2 North America and Regional Preferences

### 3.2.1 *United States and the Caribbean Basin Initiative*

The United States, like Europe, has special trade relations with the Caribbean region, and these are also in a state of flux. The Caribbean Basin Initiative, put into legislative form in the Caribbean Basin Recovery Act of 1986 (revised in 1990), gives to most countries in the Caribbean and Central American region non-reciprocal access to the US market. In addition there are development funds and other benefits from membership of the CBI club. These benefits have been realised somewhat unevenly, with some countries expanding exports rapidly and others hardly at all. One problem is the set of commodities explicitly excluded from free access under the Agreement. These include textiles and shoes, along with orange juice and sugar. However, for some of these products limited access exists. In addition, various tariff exemptions have been granted for goods reimported into the US if made from exported inputs. In addition to the trade arrangements the CBI countries have also been eligible for certain funds for developments projects. However there were often conditions attached to the use of such monies which not all CARICOM members would accept. Moreover the source of funding has been curtailed in recent months.

The CBI would appear also to be vulnerable to charges that it violates international trade rules. It does not constitute a free-trade area under the terms of Article XXIV, which would require reciprocal access and wider coverage. Nor does it qualify as a scheme to grant developing countries "special and differential treatment" as it discriminates in favor of a group of such countries. The prospect is therefore strong that there will be pressure to make the CBI reciprocal, and hence more like a free-trade area. This pressure would intensify if the Lomé were to become also (for the CARICOM countries if not for all ACP) a reciprocal trade agreement. Indeed it is possible that the CARICOM

countries may have to face requests for reciprocal treatment from both the EU and the US at about the same time, soon after the turn of the century.

Will the US continue to give preferential access on a unilateral basis to the Caribbean area? The commitment by the US to support specific commodity flows between the US and the Caribbean region appears much more shaky than arrangements between the Caribbean and the European Union. This is reflected in the experience with the US sugar quota and sugar imports from Caribbean countries over the past decade. The value of sugar imports from Caribbean countries declined from \$393 million to \$172 million between 1983 and 1989, reflecting the 78% reduction in the sugar quota, though it has since increased. Although the US sugar quotas are now safely embedded in the GATT Agreement, the domestic price could fall if the US sugar programme loses support in the Congress. Future Mexican sugar production is also an unknown. Sugar is included in the bilateral US-Mexico agricultural agreement which forms part of NAFTA. Mexico is to receive a quota for sales of sugar onto the US market, which will increase slowly over time, though a last minute change in the transition arrangements limits the scope of Mexican access. Eventually, after fifteen years, the US and Mexican markets will be unified. Mexico is not currently an exporter of sugar, though this situation could change. It is even possible that CARICOM's sugar byproduct export market in the US will decline in the future because of Mexico's sugar production potential. Its rum production capacity is already five times that of Jamaica. Should relations between the US and Cuba ever normalise, one could imagine that there would be pressure to find some room in the US market for Cuban sugar, as well as other products.

Despite this pessimism there is one positive sign. President Clinton has recently begun to emphasise the Americas again in the trade policy of his Administration. The recent trip to Mexico, Costa Rica and Barbados gave the President the opportunity to meet regional leaders and assure them of continued US interest, from a security as well as economic perspective. The US is very concerned with the increasing role of countries in the region as a channel for illegal imports such as narcotics. The US has also offered to make sure that the region does not suffer too much as a result of the reallocation of licenses under the banana regime. In addition, funds under the "Section 936" Program of the CBI, which are about to end, could be restored in some other form. Taken together this suggests that the US Administration could suggest a more generous package of trade and aid for the region in the next few months. Indeed the President told the regions leaders in Barbados that he would enhance the trade and aid treatment for the Caribbean (by proposing a NAFTA Enhancement Bill) sometime this year. Nevertheless the relations with the region will continually be dogged by the anomaly of Cuba. Much as the US Administration would like to move toward more normal trade relations with that island, domestic political considerations make it uncertain that this will happen without a major change in the Cuban regime itself.

### *3.2.2 Canada and CARIBCAN*

Canada has always had a special relationship with the countries of the Caribbean, from the days of trade in sugar and rum to the extensive cultural and educational interchange. Under the CARIBCAN agreement of 1986, Canada offers the CARICOM countries duty free access for essentially all goods except those of a sensitive nature such as textiles. Canada imports sugar from the Caribbean, but at world prices. The pact was renewed for a period of 10 years in 1994. The arrangements are however due to be reviewed in 1998 by its trading partners in the WTO. Canada will therefore soon be under the same pressure as the EU and the US to generalise or make reciprocal this access, as it is likely to found in violation of the WTO. Generalisation would imply spreading access to other developing countries: making the arrangement reciprocal would imply allowing Canadian goods in without the CET of CARICOM.

Negotiations have not been initiated to modify CARIBCAN, and it is not clear what suggestions might emanate from the Canadian side. Canada has a reputation as a country with a generous disposition toward developing countries, but it also has growing interests in Asia and suffers periodically from internal constitutional tensions which occasionally restrict its foreign policy stance. The initiative of Canada to seek a free trade pact with Chile when NAFTA expansion was put on hold indicates that it is prepared to move ahead of the US on occasions. However it is clear that the relationship between Canada and the Caribbean will follow the trend of those with the US and the EU towards a more balanced access and less emphasis on traditional export commodities.

### ***3.2.3 Eroded Preferences***

The conclusion of the NAFTA posed a potential problem for the Caribbean region as well as for Central America. It gave Mexico a preferential position in US (and Canadian) markets which eroded the preference of the CBI. In those cases where the CBI had not established preferential access for the Caribbean it gave Mexico better access to the US market. Thus the general impact was thought to be negative, though many commentators judged the impact to be small. This phenomenon of eroded preferences is an important aspect of trade policy in the present situation: the widening of a preference agreement can have as much impact on trade as the removal of such preferences.

As a response to the possible negative impacts of NAFTA, a bill was introduced in the US Congress that would have given NAFTA Parity to the CBI countries. This would essentially have removed the restrictions on textiles and apparel and some of the other trade barriers which remained on CBI exports to the US. This bill was never passed, and has now been superseded by the Administration's plans to "enhance" the NAFTA by a modification of the CBI.

As significant may prove to be the loss of exclusive preferences in Europe. Enlargement of the EU itself dilutes the value of the preferential access if new members are producing the same products. In this regard the otherwise beneficial impact of a wider EU into which CARICOM goods sell is offset somewhat by the fact that new members have completely free access to that market at internal prices. But with the EU forming free trade agreements with the Mediterranean Basin (to replace their present limited non-reciprocal trade arrangements), negotiating a similar deal with South Africa, and in talks with MERCOSUR, the degree of preference for Caribbean goods in Europe is already declining. In the same way, preferential access for CARICOM goods to the Venezuelan and Colombian markets become less valuable the more other countries also have that access.

### 3.3 CARICOM and the Caribbean Region

Recognising that the CARICOM market was small relative to neighboring countries such as Colombia and Venezuela, and even the Dominican Republic and Haiti, not to mention both North America and the MERCOSUR bloc, the idea emerged from within CARICOM to form a broader grouping which would include most of the countries in the Caribbean basin. CARICOM had already negotiated a (non-reciprocal) trade agreement with Venezuela in 1992 and has recently agreed a similar agreement with Colombia. These included provisions eventually for some degree of reciprocal treatment of Colombian and Venezuelan goods, at least in the markets of the MDCs. Belize has begun exploring the possibility of a free trade agreement with Mexico, and has the tentative blessing of CARICOM if that country does not get better access to Belizian markets than other member states. Mexico has also expressed an interest in a similar alliance with CARICOM as a whole, thus linking the CARICOM to the "Group of Three". The motivation from the point of view of the Group of Three is presumably political, to have trade allies in the region, as they do not yet get preferred access into CARICOM. This approach seems a somewhat weak reed for building competitive regional markets.

The most ambitious step was taken in 1994 when the decision was taken to establish a trading group that would cover both the Caribbean nations and the countries of Central America. The Association of Caribbean States (ACS) could eventually include about 40 countries, with 25 members and 15 associated territories. Membership would include Colombia, Mexico and Venezuela (the Group of Three), the Central American states, and the CARICOM countries, as well as Haiti, the Dominican Republic and Cuba. Indeed much of its attraction is to bring the Spanish, French and Dutch-speaking islands of the region together in an economic unit. Such a group would comprise about 200 million people and have an estimated GNP of \$500 billion. The ACS however has got off to a slow start. Its role is yet not clearly defined and its public recognition is low. It may serve for a time as a convenient meeting place for the regional governments but until or unless it defines its mission it is unlikely to be truly effective.

### 3.4 Supra Regionalism

In recent years a new form of regional trade agreement has been emerging on the trade landscape. This has entailed the linking of groups of countries, who may be members of more orthodox regional trade agreements, in a type of supra-regionalism. The two most notable examples of this genre are the Free Trade Area for the Americas (FTAA) and the Asia Pacific Economic Cooperation (APEC) process. Others that are of interest, but so far have been less significant for agriculture include the Transatlantic Agenda between the US and the EU and the MERCOSUR/EU negotiations to explore the possibility of a free trade area. These all have the potential to change the conditions under which agricultural trade takes place. In particular they might be possible instruments for trade liberalisation which are complementary to the WTO process.



### **3.4.1 *The EAI and the FTAA***

The widespread adoption of more liberal trade and macroeconomic policies, together with the decline in strategic factors in trade, has caused a rethinking of the issue of hemispheric commercial relations. A broad US view of hemispheric trade and commercial relations was incorporated in the Enterprise for the Americas Initiative (EAI) which was announced by President Bush in June 1991. The EAI was conceived to include the countries of Latin America and the Caribbean. Many countries of Central America, South America and the Caribbean have already entered into framework agreements with the United States under the EAI. The North American Free Trade Agreement (NAFTA) is intended to be consistent with the approach of the EAI. More recently, at the Summit of the Americas in Miami in November 1994, leaders of the hemisphere announced their intention to complete the negotiations for a Free Trade Area of the Americas (FTAA) by 2005. The process has developed rapidly since the 1994 Summit of the Americas in Miami (see Box). Subsequent meetings of the trade ministers at Denver, Cartagena and Belo Horizonte have reconfirmed the target, and the next heads of government meeting (in Santiago in March 1998) should see the start of negotiations toward this goal. The CARICOM ministers have confirmed their support for this venture, and promised their participation. Thus the groundwork will over the next few years be laid for a merger of the various regional trade agreements (MERCOSUR, CARICOM, CACM, Andean Pact and NAFTA) as well as the numerous bilaterals that exist in the Americas. It is this trade environment that should be the focus of attention as policy makers and private firms prepare Caribbean agriculture for the next century.

### **3.4.2 *Transatlantic trade agreements***

Among the most controversial of the supra-regional agreements is that which spans the Atlantic. About two years ago, as a result of the apparent success of APEC, there emerged a feeling in Europe that a new initiative was needed to keep the US engaged in Atlantic issues rather than being pulled evermore towards the Pacific. The Atlantic relationship is strongly based on security concerns, but it was felt that an economic dimension would be advantageous. At present the formation of a free trade area between the US (and Canada) and the EU is not on the table, though prominent politicians on both sides have proposed such a deal. Instead the current focus is on non-tariff trade barriers including the mutual recognition of standards and testing.

This is however of more than passing interest for the Caribbean. For the CARICOM countries such a prospect of closer economic harmonisation of policies would assist greatly the problem of having to decide on the relative merits of Europe and the US as the export market of choice. Ultimately a free trade pact would resolve the issue of choosing which trade bloc to join. If agriculture were included then this would change greatly the focus of trade tensions across the Atlantic. At worst it could lead to some costly trade diversion. But if this prospect in turn led to a reduction of protection then impact on the sales of commodities into the US and the EU could be changed significantly.

#### 4. MAIN ISSUES FOR THE WTO AGENDA

It is understandable that there is some reluctance among countries to consider yet another round of agricultural trade negotiations. The long drawn out process of the Uruguay Round, seven years from start to finish, was not one that many wish to repeat.<sup>19</sup> But further negotiations are indeed on their way, and agriculture will be among the topics under discussion. The agenda is already being formed and the issues discussed. It is not too soon to identify which aspects of the international trade system for agricultural products still need fixing and how to best go about fixing them. In fact now is a particularly good time to be thinking about these issues, before attitudes are hardened and options foreclosed.

The Uruguay Round itself has already agreed the next steps for the multilateral process of trade liberalization in agriculture. The Agreement on Agriculture (in Article 20) called for talks to be initiated no later than 1999 (the last year of the implementation of the scheduled reductions in protection, at least for developed countries) *on the continuation of the process of reform of the trade system for farm products*. The Agreement confirms 'the long-term objective of substantial, progressive reductions in support and protection resulting in fundamental reform' (WTO, 1996, p55). The WTO ministers meeting in Singapore in December 1996 confirmed the timetable and recognized the need to firm up the agenda and begin the process of analyzing alternatives. The agenda itself will be decided by countries within the next year or so, initially by informal contact among the major actors. To this end an informal body known as the Analysis and Information Exchange Group has been set up within the WTO Agriculture Committee to aid such discussions in advance of formal meetings.

The Round will have to decide on the next step toward the greater market-orientation promised at Punta del Este. This is the most challenging step. The reforms of the Uruguay Round were more successful in changing rules than in reducing protection and liberalizing trade. Protection in many markets is still very high, and allowable export subsidies still threaten the stability of markets. The strategy for the continuation of the reform process will therefore need to encompass additional market access provisions, further reductions in (or even elimination of) export subsidies, and more discipline in the area of trade-distorting domestic subsidies, if it is to lead to a freer agricultural marketplace. In addition countries will need to begin to confront the issue of state trading in agriculture. The use of export restraints may also be challenged, in part as a reaction to the concern over food security in importing countries.

The biggest task of the next Round will be to advance the process of reform by taking the next step towards a world market undistorted by high import barriers and government subsidies. This task was begun in the Uruguay Round, and the mechanisms are largely in place. However, it is in the nature of protectionist policies that removing the first few percentage points of a tariff or subsidy is relatively easy: the challenge comes when farmers begin to sell their enterprises. Though the ultimate test of competitiveness is survival in the marketplace, that test will be resisted by those whose livelihood is at stake. The range of protection levels exposed by the process of tariffication makes clear that the process of trade liberalization has far to go. The next Round will not in itself achieve the competitive environment which will make best use of the world's agricultural resources. However, unless it can

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<sup>19</sup> For a full discussion of the treatment of agriculture in the GATT and the reform of the agricultural trade rules in the Uruguay Round see Josling, Tangermann and Warley (1996).

make a significant move in that direction, it will have failed to continue the process started with the Uruguay Round.

#### 4.1 Improving Market Access

Tariffication, as was intended, has made the conditions of market access in agricultural trade significantly more transparent. What is now visible is the level of protection for long hidden by non-tariff barriers. This level of protection in agricultural markets is exposed as very high relative to the trade barriers in manufactures. The question for the next round is what process can one initiate that would lead to a removal of this discrepancy in any but the longest time period. How does one get from tariffs of 100-200 or even 300 per cent to levels of 5 - 15 per cent found in most other areas of trade, or to zero if free trade is on the cards? This looks to be a tall order: it implies a continued period of significant tariff cuts extending well beyond the time-frame of the next Round.<sup>20</sup>

One way to effect this reduction of trade barriers in a shorter time-frame is to negotiate a major 'across the board' tariff reduction, perhaps aiming for a 50 per cent cut in all tariffs over a five year period. This would, however, still leave some tariffs at a very high level. Alternatively, agricultural tariffs could be reduced on a formula basis, with higher tariffs being reduced at a greater rate. The 'Swiss Formula' which was used for tariff reductions in industrial goods in the Tokyo Round would be a candidate. This could be a faster and fairer way to the same end, with much of the 'water' being squeezed out of the high tariffs (and the element of 'dirty tariffication' being removed) in the first stage.<sup>21</sup>

Another benefit of using such a formula approach is that it would reduce the distribution of tariff levels among products. The process of tariff reduction in the Round may have increased the variance of tariff levels.<sup>22</sup> The UR agreement provided for a simple unweighted average reduction of 36 per cent, with a minimum cut of 15 per cent for each tariff line. Many countries took advantage of the option of cutting tariffs on sensitive commodities by the minimum and making bigger percentage cuts on items of less domestic sensitivity. As an alternative approach to the problem of tariff dispersion, a maximum level of tariff could be agreed to which all higher tariffs would have to be reduced over an agreed period. This could be combined with an across the board cut to give both a general reduction as well as a consolidation of rates.

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<sup>20</sup> Tangermann has suggested using the same base which was established in the Uruguay Round for the next set of tariff cuts. A further 36 percent cut from the same base would imply a 72 percent cut over the two "reform" periods. In this way the continuity of the process would be emphasized and the same percentage cut would have greater impact. See Tangermann (1997).

<sup>21</sup> The 'water' in a tariff is the unused protection when no imports can sell at the tariff inclusive price. The 'dirty' element in the agricultural tariffs refers to the use of price gaps between domestic and world markets which overstated the existing protection at the time of tariffication, leading to larger than necessary tariffs. Tariff bindings were also often set well above the actual tariff in operation, giving an element of discretion to governments which one might call "policy water". Thus a reduction in the high rates of tariff removes the water, cleans up the tariff and removes the discretionary element of ceiling bindings.

<sup>22</sup> This was the case, for example, in the EU, Japan and the USA. See Tangermann (1995).

To remove some of the “policy water” a different approach could be considered. One could for instance eliminate the present gap between bound and actual rates. Bindings could be reduced to no more than the maximum applied tariff in an agreed historical period (say 1993 to 1998, if the negotiations were conducted in 1999). This would lock in agricultural trade reform in a more effective way than at present. It would not, of course, remove the element of protection introduced through ‘dirty tariffication’, and there could still be ‘water’ in the tariffs as currently applied. It would only remove the discretionary element of protection that countries were able to build into the Uruguay Round tariff bindings for their own flexibility. This would, however, increase considerably the credibility of the liberalization process. It would among other things put a limit to the spread of ‘price band’ systems of variable protection that several Latin American countries have adopted to stabilize domestic prices.

A somewhat different approach to the issue of tariff reduction has had some success in other areas of trade, such as information technology. This approach is to negotiate “zero-for-zero” agreements which would eliminate tariffs completely on particular goods.<sup>23</sup> Clearly there are advantages as well as disadvantages in such an approach. Political sensitivities restraining liberalization in some products such as dairy and sugar would not hold up a move to competitive markets in others such as oilseeds and pigmeat. Trade would therefore be expanded in the latter markets as protection was reduced. However, the benefit of this “trade creation” from the point of view of both the importing country and the world as a whole would be offset by the costs of “trade diversion” as zero-tariff items replaced the lower-cost but higher-priced goods still subject to tariffs.<sup>24</sup> The zero-for-zero approach rests in part on the notion that the isolation of the markets that are presently highly protected will force them eventually to come into line. Unfortunately, it is equally likely that one might “let off the hook” the sensitive commodities unless the sector-by-sector reductions were in a framework which ensured no long-term exclusions.

An alternative way to tackle the problem of the high levels of tariffs resulting from tariffication is to expand the guaranteed market access which forms a part of the provisions of the Agreement on Agriculture. Removing the TRQs, as discussed above, may not be an attractive option for the exporting countries. Expanding them, however, is one simple way of reducing their importance, at the same time lessening the impact of the high ‘above-quota’ tariffs. Doubling the minimum access quantities, for instance, would make many of the high bound over-quota tariffs irrelevant. An increase in TRQs, say, of one per cent of the level of domestic consumption in each year over a five year period would remove much of their negative effect. In most markets the quotas would become non-binding before the five-year period was over. In effect, tariffication would have taken place at the level of the reduced tariff applicable to the TRQ. The main political objection to this could be that the “within quota” tariffs were generally left to the discretion of the importing country to fix at levels which they judged would attract the guaranteed access quantity. This implies that some form of re-negotiation might have to take place on the level of these tariffs.<sup>25</sup>

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<sup>23</sup> This approach is discussed more fully in Miner *et al* (1996).

<sup>24</sup> The EU knows well the problem of “unbalanced” protection as a result of easy access to oilseeds negotiated in the Dillon Round.

<sup>25</sup> This of course also offers a possibility to start such tariffs for within-quota trade at a reasonable level in relation to other goods. All “within quota” tariffs could be bound at (say) 20 percent, and not reduced until they became the operative tariff for the bulk of agricultural trade.

## 4.2 Removing Export Subsidies

The practice of subsidizing exports of agricultural products is still allowed by the Uruguay Round Agreement, albeit in a reduced form. Countries which import agricultural products have been the gainers in economic terms from the subsidies, but even among these countries the disturbance of the domestic market has often caused problems. In the next round of negotiations, it will be more difficult than ever to persuade countries who export agricultural goods with little or no subsidy to allow countries such as the EU and the US to continue their market-distorting practices. A further push to rein in these subsidies is likely to be high on the agenda of the Cairns Group.

Elimination of export subsidies altogether would clearly have significant advantages. The prerequisites for dispensing with export subsidies are a renewed confidence in world markets, with firmer and more stable price levels for the major products, and reduced dependence on intervention buying in domestic policies. The former condition depends on the success of the Agreement in increasing trade and reducing protection. As for domestic programs, it is possible that practice and sentiment in both the US and the EU may have moved away from the use of market support policies to other instruments by the turn of the century. If that were the case it could be politically easier to get effective curbs on the use of export subsidies by the time of the New Round. A new set of negotiations could, say, set the target to phase out export subsidies over a five year period, by 2005. If such a move was successful, export subsidies for agricultural products would have been relegated to an inglorious place in trade policy history.

Perhaps more likely is a continuation of the process of reduction in the expenditure on export subsidies and in the quantity allowed to be subsidized. It may also be found desirable to introduce a binding on the per-unit export subsidy allowed, perhaps in place of the expenditure constraint. This would then correspond to the binding of the level of import tariffs and the quantitative instrument of the TRQ. In any case, a further substantial reduction in the ability of countries to subsidize exports will go a long way toward improving competitive conditions on world markets.

## 4.3 Curbing Export Taxes

The practice of export taxes and export restraints through quantitative controls is also likely to be addressed in the New Round. Within the GATT export controls are generally disallowed, though export taxes are deemed innocuous. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for "export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party". As exporters do not usually complain about restrictions imposed on their competitors, most export restrictions go unchallenged. But there is a clear conflict between the ability of exporters to withhold supplies to relieve domestic shortages and the reliability of the world market as a source of supplies for importers. In periods of general tight supply the effect of export restrictions would be to exacerbate the shortage.

As a result, importers such as Japan may lead a movement to constrain the ability of exporters to restrict supplies. After all restraints on exports are no less inconsistent with an open trade system than restraints on imports. Export taxes should be included under the same qualifications as quantitative restrictions. The argument has already surfaced in connection with the Food Security Declaration appended to the Uruguay Round Agreement (the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries). It seems inconsistent to leave in place the possibility of export taxes and quantitative restrictions that have an immediate and harmful impact on developing country food importers.

#### 4.4 Reinstrumentation of Domestic Support

It is one of the ironies of the Uruguay Round that, although the biggest conceptual breakthrough was the acceptance by countries that domestic policies were a legitimate concern of trade talks, the actual disciplines imposed on those policies were rather weak. The question for the next Round is therefore whether to strengthen or abandon the attempt to constrain domestic policies. In one sense the issue is less crucial than in 1986. Most developed countries have modified their domestic agricultural programs in recent years to improve the targeting and reduce the output-increasing nature of farm income supports. The AMS constraints are as a consequence not binding in most cases.

However, this does not mean that the constraints on domestic support have been ineffective. The role of the Agreement in supporting this domestic reform process should not be underestimated. The process of reinstrumentation of domestic support programs, away from those that most impede trade, has begun. But the AMS constraint on domestic policy puts useful pressure on countries to continue this process. The shelter of the green box is both to guard against challenge from trading partners and to avoid being counted toward the AMS. This suggests that the AMS constraint should in fact be tightened to avoid the temptation of backsliding and to promote further reforms. The present reforms are in general less secure and easier to reverse than trade rules.<sup>26</sup> This tightening would make the “green box” much more effective. Exemption from the AMS and avoidance of challenge between them make a powerful case for making domestic policies conform with the green box criteria.

The ‘blue box’ containing the US and EU direct payments which were granted exemption from challenges under the Blair House Agreement was a creature of its time, necessary to get agreement to go ahead with the broader Uruguay Round package. It is, however, still a somewhat awkward bilateral deal not appreciated in other parts of the world. Such an anomaly can surely be removed in the next round. The policies of the US and the EU themselves are changing for internal reasons. The new US Farm Bill goes further than ever before to make the payments to farmers decoupled from output and therefore compatible with the green-box. The EU is considering a similar move as a continuation of the reform started in 1992, as a way of making the CAP consistent with enlargement. The task for the New Round will be made much easier if the EU and US have both modified their payments such that they meet the conditions laid down in the green box. The “blue-box” can essentially be emptied and locked.

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<sup>26</sup> The reform of the CAP is not yet in “permanent” form, and the US Farm Bill only lasts for the next seven years, at which time Congress may decide that direct decoupled payments are not enough to support rural incomes.



#### 4.5 New Issues and Challenges for Trade Rules

Just as the agricultural trade rules have been undergoing significant change, the challenges faced by the trade system in other areas have been mounting. These challenges include the entry of China, Russia, the Ukraine and other countries into the WTO, the issue of state trading which has reared its head in a number of agricultural disputes, and the emerging topic of trade in the products of bio-technology. Each of these has a strong agricultural component. The prospective new WTO members are major players, actual or potential, in agricultural markets. Under what terms they join will influence the nature of those markets. State trading is more widespread in agricultural markets than in other sectors, and more controversial. And the fact that an increasing number of biotech products are coming on to the market ensures that this challenge will grow in importance over the next few years.

#### 4.6 Entry of China and Russia into the WTO

The application of China for re-entry into the WTO (it withdrew from GATT membership in 1950) poses very significant problems and enormous possibilities for agricultural trade, as for many other aspects of the international trade system. The problems are caused in particular by China's internal political and economic structure, where state-owned firms still produce much of the output, and the ability to trade internationally is still tightly controlled.<sup>27</sup> The opportunities are the result of the huge market potential as a result of strong economic growth. China could become a major player in agricultural markets: the issue is under what conditions and rules will such trade take place.

The negotiations have dragged on for nearly a decade, with alternate periods of optimism and pessimism. However, they now seem to have reached the point where the terms of accession could be agreed sometime in 1998. Some transition period will no doubt follow before full application of all rules to China's trade, and the schedule of tariffs for China may also be phased in over time. The main issues are the degree of import protection and the activities of China's state-owned sector. The height of the agricultural tariffs that China binds will help determine the attractiveness of the import market and have an indirect impact on the pressure for import liberalization in other Asian countries. In particular, a China with a relatively open market for agricultural goods could lead the way towards a more liberal regime in a number of other countries in the region. The treatment of the state trading firms for agriculture, such as Cofco, will also be an important part of the overall arrangements for dealing with state trading in the WTO.

Russia has also requested to join the WTO, along with the Ukraine and several other parts of the former Soviet Union. The problems that will emerge when these negotiations get underway will have some of the same features. Other countries will be concerned with the role of the state and the extent to which exports can be subsidized or imports restricted by non-transparent state action. However, these countries have made major political reforms which make them "open" and less likely to cause fundamental conflict with WTO rules. One might anticipate somewhat more speedy negotiations than have been the case with China. By the time the next round of agricultural talks are coming to a conclusion, one might expect Russia and some other FSU countries to be members of the WTO.

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<sup>27</sup> Some of the major issues in the debate on China's entry are discussed in Morici, 1997.

#### 4.7 State Trading

State trading poses another set of issues for the members of the WTO as they prepare for the new round of negotiations on agriculture. The tariffication of non-tariff barriers has highlighted the difference between import systems based on private trade, where tariffs directly influence trade decisions, and parastatal import arrangements, where the decisions are made on other grounds.<sup>28</sup> On the export side, the specification of export subsidies has made more apparent the difference between private trading and government sponsored export monopolies. This has surfaced in recent months in particular with regard to the Canadian Wheat Board, a state controlled single-desk selling agency for much of Canada's grain, which is thought to have some commercial advantage over private traders in world markets. The entry of China, Russia and the Ukraine to the WTO brings with it the fear that these countries have state control of imports (and in some cases exports) which will frustrate attempts to reform the trade rules. The issue of state trading will therefore be high on the agenda at the multilateral level. There will clearly be an attempt to regulate the use of market power in trade by parastatals. The question is what can one do and how can one do it?

#### 4.8 Agricultural Trade and Biotechnology

Agricultural trade reform will have to proceed in the context of a set of other issues, related but not central to production agriculture. These include such topics as the differences between labor laws in different countries, divergences in environmental regulations and disparate standards and technical norms. Every now and then an issue emerges which cannot be so easily dismissed. The question of the public's acceptance of the products of biotechnology is one such issue. As more and more crops are planted which incorporate some form of genetic modification, the greater is the likelihood of a major confrontation between trading partners. The question seems at the moment to revolve around a simple but fundamental choice: should one take into account consumer sentiment (as opposed to hard scientific evidence) when setting import (and domestic) standards.

The two sides of the argument are clear. From the point of view of trade policy, any rule-based system has to guard against implementation which reacts to the headlines of the day and pressure from those groups looking to manipulate consumer opinion for other purposes. The SPS agreement appeared to put in place the principle that scientific evidence is required to justify a stricter standard than those in international use. From the point of view of politicians, however, consumer confidence and voter sentiment are not unconnected. It may not be wise to appear to be bowing to a ruling from a panel of trade policy experts (themselves possibly swayed by evidence from vested interests) in the face of adverse public opinion. Politicians are the servants of the public and not answerable to trade dispute panels. A third interest is the business firm in the exporting country, which on the one hand prefers not to have to hurdle different barriers to each market, based on inconsistent standards, but on the other hand is not averse to differentiating the product to gain a higher price from the more discriminating part of the market. A fourth participant in the debate is the domestic firm who stands to gain from the trade restriction.

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<sup>28</sup> The introduction of TRQs has also increased the scope for state trading, as the lucrative quota rents can be distributed to parastatal organizations.

How might this clash be resolved? The trade system needs to maintain credibility and support from politicians and even the public. To attempt to go against public sentiment would be to risk this support. But national politicians should also explain to the public the benefits of a rule based trade system where some degree of objectivity is a small price to pay to avoid the chaos of each country attempting to impose seemingly arbitrary regulations on others. They would after all have no trouble explaining the same concept if it were suggested that each city have its own trade rules.

The circle can be squared in the case of the products of biotechnology by ensuring that each national regulatory body has the confidence of consumers and the public and is neither under the influence of self-interested local producers nor captured by political movements that have agendas broader than public safety and information. These national bodies should themselves be involved in the dissemination of information reflecting scientific consensus. They should also assist in the construction of international standards that they can recommend to governments to accept. They should work with the industry to devise appropriate labeling systems which would give consumers the choice when controversy surrounds the properties and consequences of particular foods. In other words, if the national regulatory agencies adopted a science-based approach, the problem would not show up as a trade friction. This is only likely to happen if those bodies themselves are free of direct influence from vested interests (on both sides of the issue) and have their independence guaranteed by governments.<sup>29</sup>

## 5. IMPLICATIONS OF OUTCOMES FOR CARICOM COUNTRIES

The paper has discussed various types of trade agreement: global, preferential, regional and supra-regional. Each has had and will continue to have an impact on agricultural trade. However the importance of each varies with the country and the commodity. The global agreement, as embodied in the Uruguay Round and the establishment of the WTO, has had limited direct impact on the access for exports from the region and the terms under which imports can enter. But the next round could be more important. However, trade liberalization within the FTAA may have overtaken the WTO process as regards CARICOM economies. One has to take each set of trade talks as providing a piece of the external environment.

As is true for most regions, the impact of the outcome of trade negotiations on the economies of individual countries depends on their trade patterns and the modalities of the negotiated outcome. The CARICOM countries have significant differences in trade patterns. However, certain generalities can be made with respect to each of the types of negotiations that will be underway in the next few years.

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<sup>29</sup> Of course how the participants in these national "FDA-type" agencies are chosen will be important in determining whether they will really solve the dilemma.

### 5.1 Implications of Next WTO Agricultural Negotiation Outcomes

Improvements in market access will in general have a beneficial impact on export sectors in the countries of CARICOM. Markets will open up, in Asia and Latin America as well as in Europe and North America, as tariffs come down. As was pointed out with respect to the Uruguay Round outcome, a better use of the world's resources and a higher level of income will be of benefit to all countries. However, in certain areas the impact is less obviously positive. If the major countries decide to reduce the level of protection for sugar the value of preferences in the EU and the US markets will decline. It will become more difficult to avoid such liberalization on this occasion. However, even in this case there will be a general expansion of the world market and a move to source from the cheapest supplier. There are countries within the CARICOM region that can produce sugar efficiently. These countries could benefit from the possibility of expansion. For those with higher costs the challenge would be to increase productivity or move to producing other crops.

Of course there will also be an impact from the corresponding reduction of protection in CARICOM itself. It is likely that the CET will need to be reduced by the percentage agreed with other countries. This forces competitiveness on import-competing industries and may cause hardship. On the other hand the current level of 40 percent for agricultural goods should probably be reduced even without the stimulus of trade negotiations. If credit can be assured, say by the use of the same base as for the Uruguay Round, it would be possible to move to a level of, say, 25 percent in advance of the completion of negotiations.

Expansion of TRQs poses problems for those countries which rely on commodity preferences enshrined in the WTO in this way. The main aspect of the TRQ of interest to the WTO process is that it forces open markets which would otherwise be closed. The logic then is to expand these quotas. The key to the quotas under the preferential agreements is to restrict access to particular countries and quantities, which would then benefit from a higher price. If the US and the EU expand their TRQs, say for sugar, then they are in effect allowing others to share in the benefits previously reserved for the ACP and CBI countries. The distribution of such quotas will be presumably on an MFN basis, to avoid the "banana license" problem. Thus TRQ expansion will be detrimental to the interests of those currently with preferences. On the other hand it may be better in the long run to negotiate for compensation for loss of preference rather than seek to block what appears to be in the longer term interest of the trade system.

Further reduction in export subsidies should be welcomed by the region. Import policies are easier to run in the absence of subsidized goods depressing the domestic market. The CARICOM countries have suffered from disruption in dairy markets in particular, and sugar sales to non-preferential markets are depressed by the use of export subsidies by the EU, though in the case of wheat the countries in the region have generally gained from the lower world prices. A constraint on the use of export taxes is also in the general interest of the CARICOM region, though it is unlikely that much damage has been done in the past by these policies.

Any decision to reduce further the level of domestic support will tend to benefit the countries of the region, as they themselves will not be faced with many changes to their own domestic programs. Developed countries will need to reduce “coupled” subsidies, leaving more of the market to cheaper suppliers overseas. Once again the issue arises as to whether pressure will be put on the sugar regimes of the US and the EU through this constraint. If so, preference margins will be reduced along with the producer incentives. On the other hand there is no reason why farmers in the CARICOM region should not be the beneficiaries of “compensation” through green box payments just as the farmers in the EU and the US might be compensated.

The new issues of China and Russia in the WTO, state trading, and biotech licensing each has some significance for the region. The large potential markets of China and Russia will be open to all once those countries join the WTO and adapt their import policies. There is no reason to think that Caribbean entrepreneurs will have trouble accessing these markets. The Russian market is an obvious target for tropical fruits, though the constraints may still be the lack of consumer income for some time to come. State trading is not unknown in the CARICOM countries, in particular on the export side. But as most of these trading boards are becoming deregulated and their operations privatized, it is unlikely that any constraints that the WTO are likely to impose on the behavior of these boards will go against the trend in government policy. The issue of regulation of biotech products could have a significant impact in the future, but for now the role of such products in the agriculture of CARICOM countries is very limited. The smooth functioning of the SPS regime, which imposes the test of science on national trade restrictions more strict than international norms, is probably of more direct value to producers in the CARICOM region.

## **5.2 Commodity Preferences for Developing Countries**

More significant than the outcome of the next WTO round is likely to be the resolution to the issue of the legality of Lomé, CARIBCAN and the CBI. If non-reciprocal trade regimes were to be discouraged the impact would be direct. The change from the present preferential system to one where the countries concerned grant and receive no preferences could be particularly painful to the agricultural sector, but also have macroeconomic impacts. The preferential quotas certainly have a value to the producing country which they can hardly pass up. But on the other hand full access into the EU (and the US) markets without quota limitations could be even more lucrative, where domestic prices are kept high through protection at the border. And compensation for loss of preference in the form of diversification payments or investment guarantees could be in the medium run be beneficial to the overseas banana and sugar supplier as price supports are cut back.

What would help is a generally acceptable approach within the WTO to allow the winding-down of these preference schemes as a part of the general process of trade liberalization. To put it another way, one may need to devise rules similar to the concept of the “green box” for payments that would substitute for the transfers currently generated by preference schemes without the trade distortions. A solution to the “banana problem” and a long term reform of the world sugar market may both depend on such a scheme. This issue may not come up in the new round, but it will be under discussion at the same time and could influence the trade environment for some countries more than the multilateral talks themselves.

## 6. RECOMMENDATIONS FOR CARICOM COUNTRIES

The way forward for agriculture in the CARICOM region is conceptually clear and widely acknowledged. It involves improving productivity and harnessing the skills of the people of the region so that both domestic and export agriculture can become competitive in an increasingly global market. However the path will require careful navigation and absorb the energies of all concerned for the next few years. This navigation in turn would be assisted by studies of key issues and by the widespread dissemination of information needed by farmers and others to understand the process.

Among the key issues which need to be studied one would include micro-level investigations as to the cost of production of crops in the region using various technologies, to try to establish the extent to which investment will boost competitiveness. These studies would be conducted at the country level, and could be collected and interpreted by regional bodies such as CARDI, IICA or UWI. The information from such studies will help policy-makers assess the extent to which agriculture would be able to survive particular trade policy changes, such as a reduction in the CET or duty free access to EU goods. At the market level, studies are urgently needed to look at the likely future demand for goods within the various markets to which access is likely to improve. The demand studies would include the degree of preference over competitors in various markets and the premium for quality which could be earned. This type of study can best be done at the regional level, and indeed could be undertaken in conjunction with agencies such as FAO and USDA which have both the data and the research capacity. More general macroeconomic studies of the adjustments which might be caused by changes in export earnings and import competition would also be useful. Unfortunately, neither the data nor the modeling resources are likely to be available for the more elaborate computable general equilibrium models (CGE) to be constructed for each of the CARICOM countries. It is doubtful whether an aggregate CGE model for the region would be constructive. Such models may have their best use in identifying the impact of trade liberalization on the large and complex economies of the world as an indication of the overall change in the economic environment in which the smaller economies operate.

### 6.1 A Strategy for the Next Round of the WTO negotiations.

The CARICOM countries need to formulate a consistent and coherent strategy for the upcoming talks. As was indicated earlier, the WTO essentially sets the ground-rules for countries to follow when deciding on trade policy. Once rules are set they may appear to constrain domestic action, for the sake of having a predictable and open international system. But the Rounds give an opportunity for countries and groups of countries to influence those rules. The issues of compensation for loss of preferences for developing countries and of safeguards against trade disruptions from reciprocity, for instance, might warrant full discussion within the WTO in advance of the next Round. Caribbean countries could take the lead in such a debate.

In general, tariff levels are low within the region relative to other parts of the world, and exports are not subsidized. This suggests that the CARICOM countries could take part in the Cairns Group and push for the ending of export subsidies and the improvement of market access. As the problems with the banana exports are in large part the result of the allocation of quotas, the issue of TRQ administration is one that is important to the region. What would be the reaction of the governments of the region to the suggestion that such quotas be auctioned? And the outcome of the debate over the linkage between regional and multilateral trade agreements will directly impact the Caribbean region. The rules under which MERCOSUR expands (e.g. whether or not it is submitted to the Article XXIV disciplines, and whether they are strictly interpreted) will have a clear impact on the regional market for agricultural products - for instance by changing the nature of the competition for markets in Venezuela and Colombia.

### **6.2 Coming to Terms with NAFTA membership.**

The creation of NAFTA posed a fundamental dilemma for the trade policies of the region. The agreement allows for the membership of countries without regard to their geographical location, thus avoiding the issue of whether countries are "north americans" or not. At one time it was thought that NAFTA expansion would be a rapid affair, with Chile leading the way followed by several countries in Central America and the Caribbean and even by Argentina. Despite the minimal impact of NAFTA so far on the CARICOM countries, there has been an interest in certain countries of the region in eventual membership of NAFTA. This enthusiasm has largely been confined to Jamaica and Trinidad, which both possess some manufacturing base and feel that they might thrive in such an environment. The smaller countries in the region have not so far shown the same willingness to expose their economies to duty free entry for US, Canadian and Mexican goods. NAFTA entry could thus split the CARICOM arrangement if not handled carefully.

There are two reasons for contemplating NAFTA membership. The first is to take advantage of assured access into the US (and Canadian and Mexican) market with the benefit of NAFTA dispute settlement procedures and somewhat stronger rules than in the WTO against arbitrary denial of access. The second reason is to protect against the reduction of preferences as others join NAFTA and get free access. This second reason is however not entirely convincing. First, as was discussed above, the spill-over effect from NAFTA has not so far been great, and can be offset where it exists in other ways. The NAFTA-Parity Bill which has been floundering in the US Congress would have taken a more direct approach to some of these issues. More recently the US President indicated that he would introduce a NAFTA-Enhancement Act, which would also grant a measure of parity to the countries with whom the US has existing access obligations. Such "enhancements" could eventually lead to essentially free access to the US market. Under these conditions membership of NAFTA would not be necessary to secure access. Coupled with the continued dislike of NAFTA in the US Congress, it may be best to abandon the notion of joining NAFTA and focus on other options.

### **6.3 Deepening Relations with MERCOSUR.**

The apparent success of MERCOSUR is having repercussions on trade policy as far north as the Caribbean region. Two CARICOM members have a border with the largest MERCOSUR member, Brazil, even if the huge Amazon Basin cuts off the region from the more prosperous center and south of the country. Joint ventures to exploit the natural resources of the area are being set up. And if Venezuela both completes its economic transformation and moves closer to MERCOSUR then trade with that country will become increasingly important.

For this reason it is crucial that agriculture not be left out of the evolving trading relations between CARICOM and Latin America. Though some sectors will come under increased pressure from imports from that region if reciprocity is built in to the agreements, the only way that a competitive sector can be developed is to allow access to the agricultural exports of other countries. The CARICOM countries need to become fully competitive with the major economies in Latin America, in agriculture as in other sectors.

#### **6.4 Preparing CARICOM for the FTAA.**

If present plans materialize, all these trade agreements with groups of countries in the hemisphere could become just stepping stones toward the goal of a Free Trade Area for the Americas (FTAA) launched at the Miami Summit two years ago. The FTAA would represent a culmination of the process initiated with the Enterprise for the Americas Initiative and NAFTA and given a boost by MERCOSUR and the potential expansion of that trade bloc. Indeed it is quite possible that MERCOSUR will expand much more quickly than NAFTA, given the view in the US Congress of the latter agreement. A MERCOSUR which included Chile and Bolivia (already associate members with a timetable for free trade though not adopting the CET), Peru (apparently interested in a similar arrangement), Colombia, Ecuador and Venezuela (thus in effect merging the Andean Pact with MERCOSUR) would send a challenge to NAFTA. Trade diplomats would have to find ways to merge the two or risk a split between north and south.

In this latter case the situation of CARICOM and the Central American Common Market would be increasingly delicate. It seems likely that the region would find it advantageous to keep access to the northern markets, even if that meant giving access to US, Canadian and Mexican goods earlier than would otherwise be thought desirable. In other words, CARICOM could become one of the first of the building blocs of the Americas, rather than waiting until reluctantly having to join later in the process to avoid being left outside.

#### **6.5 Developing Relations with ACS and the larger Caribbean zone.**

There is a general feeling that the strengthening of CARICOM is desirable whether or not the ACS becomes a significant forum for trade policy, on the principle that it helps to increase the competitiveness of CARICOM industries. A similar argument would suggest that CARICOM should be strengthened even if NAFTA membership is likely. However, as a practical matter, the opening up of CARICOM markets to free trade from the US (and Mexico) under the NAFTA option would be so much more of a challenge than CARICOM itself. The limited development of regional specialization under a stronger CARICOM would be of little use in preparing for this eventuality. It might be better to move toward unilateral liberalization, as Mexico did prior to NAFTA membership. By the same token, membership of NAFTA means so much more in terms of market opportunities than a deeper CARICOM that the latter step would help relatively little as a preparation.

The ACS, by contrast would represent a much more substantial step toward eventual membership of the FTAA. Moreover, the ACS could be considered a viable alternative to NAFTA if membership of that bloc proved impossible or undesirable. The ACS represents a real challenge for CARICOM in that it implies reciprocity, but it also represents an opportunity as it opens up the markets of the northern part of South America, Central America and the Spanish-speaking Caribbean. However the full development of the ACS may itself be on hold if NAFTA membership is thought to be imminent. Moreover the decision of the Miami Summit to negotiate the FTAA takes away some of the incentive to put effort (and expend political capital) in the building of the ACS.



Does the ACS, or any similar wider grouping offer any significant alternative to the relations with Europe discussed above and the US mentioned below? If these relationships were static one might be tempted to see the ACS in this light. As an alternative to accepting a degree of reciprocity in the trade relationships with the developed countries a free trade area with a wider group of developing countries could have some attractions. The markets would not be so affluent but they would be more geographically coherent. It is more likely however that the ACS will sink or swim in the context of evolving trade relations with Europe and the Americas. In this regard the signals are mixed. The existence of the ACS confuses the issue of European relations. It contains countries with no recent colonial links with Europe and those with no historical trade dependency. CARIFORUM is the best and most natural group for EU negotiations. For discussions with the US it has the major advantage of combining a group of countries which together make up almost the entire southern flank. For political and security discussions with the US, as well as on such issues as the control of narcotics, the ACS seems a useful construct. Its economic manifestation could be allowed to develop into a regional forum for considering the process of docking of the regional trade agreements. It could also serve to assist the incorporation of those countries that have for various reasons not been included in any of these trade blocs. The ACS does not under this interpretation weaken the case for CARICOM activity in forging integration in the region. It becomes the way in which countries sandwiched between NAFTA and MERCOSUR can ensure that they are cohesive enough in trade policy to avoid being marginalized in the coming decade of negotiations in the Western Hemisphere.

#### **6.6 The Advantage of Collective Action.**

The founders of CARICOM realized the potential benefits of collective negotiation with third countries. In addition to the trade and economic provisions of CARICOM there is an explicit mandate to carry out common negotiations with other countries. In some cases this process is far advanced. In relations with the EU over the Lomé Convention, the Caribbean countries have two bodies to represent their interests. The Convention itself set up a Council on which officials from each signatory serve. In addition there is a body called CARIFORUM which represents all the ACP members from the Caribbean region, including the Dominican Republic and Haiti. But by contrast the member states developed independent positions during the Uruguay Round of GATT talks, and have bound different tariff schedules even though ostensibly a common market with a common external tariff.

The need to coordinate positions in the whole range of trade negotiations has now been recognized. At a recent meeting of CARICOM Heads of Government it was agreed to establish a negotiating group under the leadership of Sir Shridath Ramphal. This group would take the lead for instance on the issues of relations with the US and NAFTA, as well as with Colombia and Venezuela and in conjunction with the next WTO round. To be fully effective this common negotiating machinery needs to be well-supported by staff and resources. It should also be able to consult and coordinate outside the immediate CARICOM area. Whether coordination could go so far as to include the countries of Latin America is an interesting issue which should be explored.

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