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Agricultural Exporters in a Protectionist World: Review and Policy Implications of Barriers against Mercosur

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C O N T E N T S

AGRICULTURAL EXPORTERS IN A PROTECTIONIST WORLD: REVIEW AND POLICY IMPLICATIONS OF BARRIERS AGAINST MERCOSUR

Julio J. Nogués *

Contents

I. INTRODUCTION

Among the various regions of the world, the Americas is the most efficient agricultural producer; most other regions record an approximate trade balance or are in systematic deficit. Most Latin American countries are in serious crisis, and this study's underlying hypothesis is that part of the crisis is ascribable to agricultural protectionism. The highest costs attendant on the Uruguay Round's failure to liberalize agricultural trade fall on Latin America, an outcome that has robbed the Americas of opportunities to develop and reduce poverty. A selected review of the literature offers evidence of some of the trade and welfare costs associated with this failure in the multilateral trading system. There is less consensus that agricultural protectionism has also entailed financial costs, and that several unilateral and regional trade policies have also had negative repercussions for efficient agricultural exporters. This article seeks to contribute to the existing knowledge of the latter issues. Although the statistical analysis refers to the structure and impact of developed countries' barriers on Mercosur, and particularly on Argentina and Brazil, the general conclusions apply to other efficient producer countries in Latin America. The analysis gives rise to policy suggestions on external trade strategies, but the article does not discuss the subregion's common external tariff.

The study is arranged as follows. Section II presents aggregate and sectoral statistics on agricultural trade. Section III summarizes some of the literature on the failure of the Uruguay Round to liberalize agricultural trade. Section IV argues that regionalism has eroded exports from the Mercosur countries, as evidenced by several product-specific examples. Section V discusses the likely impact that unilateral policies, including preferential schemes, may have on efficient exporters. Section VI addresses regional trade policies and supports its conclusions with product-specific examples of how regionalism has reduced Mercosur's agricultural exports. Section VII discusses the reasons why the Doha Development Round is unlikely to result in significant improvements in market access for agricultural products, and examines the notion that Mercosur is losing ground in a world that promises to continue to be characterized by domino regionalism. For efficient agricultural exporters, the study's conclusion is somber: the world will continue to offer high protection to agriculture. What, then, should be done? Past liberalization and negotiating strategies have clearly failed, and something new has to be tried. The evidence gathered in this article is used in Section VIII to suggest that the Free Trade Area of the Americas (FTAA) is

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currently the salient option that holds some promise of eliminating some agricultural trade barriers but the costs that could be paid for expanding the regional market is not yet clear. The study ends with an overview section on other policy suggestions.

II. MERCOSUR'S AGRICULTURAL TRADE

This section presents a broad picture of Mercosur member countries' agricultural trade, highlighting its central importance in determining the subregion's growth opportunities. Note that in the 1990s, world agricultural and non-agricultural exports grew at markedly different rates: by 34% and 89% respectively. These different performances continue a trend of lagging agricultural trade that started several decades ago. Table II.1 shows that of the various world regions, Western Europe and the Americas (North America and Latin America) are the leading agricultural exporters. While the former is a net importer, however, the latter is a net exporter.[1] The table also shows that in the 1990s there was little variation in world regions' shares of agricultural exports. The slight decline in Western Europe's share has been offset by the increased shares of Latin America, Africa and Asia.[2]

TABLE II.1
WORLD AGRICULTURAL EXPORTS

Origin	1990	1995	2000
World Agricultural Exports (US$ billions)	414	577	558
Share (%)			
North America	20	19	19
Latin America	10	10	12
Western Europe	45	43	41
Eastern Europe *	3	4	4
Africa	1	4	3
Asia	17	19	19
Other	4	1	2
Memo: World Exports (US$ billions)	3,388	4,934	6,186

Note: * Includes Baltic and CIS countries.
Source: WTO.

Table II.2 shows the ratio of exports in 2000 relative to those in 1990. The swift growth of Eastern Europe's exports, starting from a relatively low base, is followed by Latin America. These two regions' improved export performance is mainly attributable to unilateral trade liberalization policies that might sometimes (see Section V) have been reinforced by regional trade agreements.[3] The table reveals that the most dynamic segment of agricultural trade consists of food exports, which grew at a substantially faster pace than agricultural raw materials in the 1990s. The sole exception is Latin America, where raw materials exports grew faster than food exports, although the reasons for this are unclear.

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[1] It is well known that most of the EU's agricultural exports require high subsidies.

[2] Not all Latin American countries are highly efficient agricultural producers. Mexico and some Andean Community countries, for example, produce several agricultural products behind high import barriers.

[3] Regional trade agreements (RTAs) usually create trade among members and divert trade against non-members. Some of these effects on Mercosur's agricultural exports are analyzed in Section V.

TABLE II.2
RATIO OF AGRICULTURAL EXPORTS BY EXPORTING REGION IN 2000 TO 1990

Origin	Ratio for Total Agriculture	Food	Raw Materials
North America	1.29	1.36	1.21
Latin America	1.65	1.66	2.00
Western Europe	1.23	1.29	1.00
Eastern Europe *	1.85	n.a.	n.a.
Africa	1.19	n.a.	n.a.
Asia	1.49	1.66	1.14
World	1.35	1.40	1.17

Note: * Includes Baltic and CIS countries.
Source: WTO.

Table II.3 presents the ratio of Latin America's agricultural exports in 2000 to those in 1990 by destination. Regional exports grew fastest. As noted below, this was also associated with liberalization and regional trade policies. As regards the fall in exports to Eastern Europe, it should be noted that in 1990, 25% of the latter's imports originated in Latin America, but that ten years later the share had declined to 7.5%. In contrast, during this same period, Eastern Europe's share of imports from Western Europe grew from 27% to 41%.

TABLE II.3
RATIO OF LATIN AMERICA'S AGRICULTURAL EXPORTS IN 2000 TO 1990 BY DESTINATION

Destination	Total Agriculture	Food	Raw Materials
North America	2.20	2.11	0.75
Latin America	3.00	2.50	1.57
Western Europe	1.38	1.33	1.50
Eastern Europe *	0.35	0.35	0.29
Africa	1.79	1.84	1.50
Asia	2.13	2.33	1.48
World	1.65	1.66	2.00
Memo: Exports in 2000 (US$ billions)	66.0	57.9	8.1

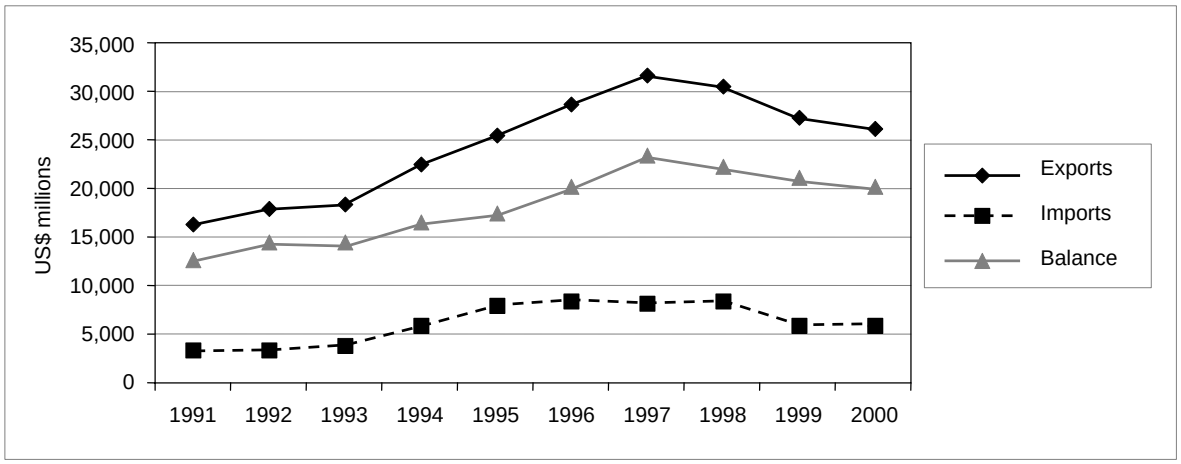
Note: * Includes Baltic and CIS countries.
Source: WTO.

Figure II.1 presents the Mercosur countries' agricultural trade flows in the 1990s. The most notable feature, as noted above, is the systematic net agricultural trade surplus. Table II.4 reveals the high share of agricultural exports in total exports.[4] Hence reduced access to foreign markets

[4] Except when otherwise stated, to facilitate computations the following tables and graphs identify agricultural exports with those of chapters 1 to 24 of the harmonized system (HS). In contrast, the WTO's definition of agriculture is that of Annex 1 of the Agreement on Agriculture (WTO [1994]). Essentially, this definition excludes Chapter 3 (fish and fish products) and includes a number of other products such as hides and skins, wool and animal hair, and raw cotton, among others. This article focuses more on broad trends than on individual products, and these differences do not alter its conclusions.

because of agricultural protectionism entails a serious blow to regional exports and to the member countries' growth prospects. As shown below, this is precisely the situation that these countries are facing in many markets.

FIGURE II.1
MERCOSUR AGRICULTURAL TRADE FLOWS



Source: IDB-INTAL.

TABLE II.4
SHARE OF FIVE, TEN, AND ALL AGRICULTURAL EXPORTS IN TOTAL EXPORTS
(Percentages)

Country	Numbers of Positions *	1991	2001
Argentina	Five	28.8	26.0
	Ten	40.0	30.7
	All	60.4	44.4
Brazil	Five	14.8	19.3
	Ten	18.3	25.3
	All	25.2	27.9
Paraguay	Five	45.5	65.0
	Ten	49.1	69.1
	All	52.5	69.5
Uruguay	Five	16.0	34.9
	Ten	22.0	42.6
	All	40.0	45.1

Note: * Six digits of the Mercosur Trade Nomenclature.
Source: IDB-INTAL [1991] and Comtrade - United Nations [2001].

The agricultural exports of Argentina, Brazil and Mercosur, by destination, are presented in Table II.5. It is clear that Mercosur itself has been the most dynamic export market, followed by sales to other Latin American countries. For Argentina, sales to the EU have grown least; for Brazil, the United States has been the slowest-growing market, one in which Brazilian agricultural exports

actually declined. Together with other Latin American countries, the rest of the world (mainly comprising developing countries), has also been a dynamic destination for agricultural exports. This highlights the importance of negotiating RTAs with developing countries.

TABLE II.5
AGRICULTURAL EXPORTS BY DESTINATION: 1990 AND 2000
(US$ millions)

Country		Mercosur		Other LAC		US		EU		Rest of World		Total	
		1990	2000	1990	2000	1990	2000	1990	2000	1990	2000	1990	2000
Argentina	Primary	712.4	1,775.190	222.4	508.2	97.4	348.9	1,180.6	1,494.98	1,561.0	2,000.4	3,773.7	6,127.6
	Processed	130.0	475.675	350.8	458.1	345.1	337.5	1,079.0	1,783.20	1,324.4	2,353.3	3,229.3	5,407.7
	Total	842.4	2,250.860	573.2	966.3	442.5	686.3	2,259.6	3,278.20	2,885.4	4,353.7	7,003.0	11,535.3
Brazil	Primary	52.9	267.1	27.0	189.1	506.2	562.7	1,457.1	3,214.60	941.7	2,053.7	2,984.9	6,287.0
	Processed	66.1	465.5	151.8	223.2	1,216.5	632.3	2,792.0	2,628.70	1,559.3	2,740.6	5,785.7	6,690.2
	Total	119.0	732.5	178.9	412.2	1,722.7	1,194.9	4,249.1	5,843.30	2,501.0	4,794.2	8,770.6	12,977.2
Mercosur	Primary	1,089.2	2,633.3	288.7	860.0	658.3	967.0	2,956.1	4,953.70	2,831.2	4,359.8	7,823.5	13,773.7
	Processed	212.7	1,133.6	509.5	706.6	1,590.6	987.1	3,907.5	4,440.50	2,917.3	5,107.7	9,137.7	12,375.6
	Total	1,301.9	3,766.9	798.2	1,566.6	2,248.9	1,954.1	6,863.6	9,394.20	5,748.5	9,467.5	16,961.2	26,149.3

Source: Brazil: IPEA Argentina: INDEC and All Countries: IDB-INTAL.

Table II.6 presents net agricultural exports by region. The figures reveal that the Americas comprise the world's leading net agricultural exporting region, while Africa is in relative balance and other regions (the rest of world) are net importers. It is of note that Europe's agricultural trade deficit in 2000 was narrower than in 1990. As argued below, this is because of continued protectionist trends, including enlargements of the EU and regional trade agreements (RTAs), which have harmed Mercosur exports.

TABLE II.6
NET AGRICULTURAL EXPORTS BY REGIONS
(US$ billions)

Region	1990	2000
North America	36	21
Latin America	24	35
Western Europe	-22	-14
Eastern Europe	-8	-1
Africa	0	1
Asia	-18	-27

Source: WTO.

Finally, Table II.7 shows Argentine and Brazilian net agricultural exports by chapter of the harmonized system (HS). It confirms Argentina's generalized comparative advantage and reveals the same pattern for Brazil, although less broadly, since in several chapters the country is a net

importer: cereals (chapter 10), dairy products (4), and to a lesser extent mill products (11) and edible vegetables (7).[5] What is the extent of the damage inflicted by agricultural protectionism on the Mercosur countries? The next three sections address this question.

TABLE II.7
NET AGRICULTURAL EXPORTS BY ARGENTINA AND BRAZIL: 2000
(US$ millions)

Chapter	Argentina			Brazil		
	Exports	Imports	Balance	Exports	Imports	Balance
01	15.9	15.0	0.9	5.6	35.6	-29.9
02	621.2	158.8	462.4	1,605.6	126.9	1,478.6
03	822.9	26.6	796.3	227.1	274.2	-47.0
04	408.6	34.0	374.7	25.0	378.6	-353.6
05	15.9	17.3	-1.4	76.5	45.4	31.1
06	1.3	15.7	-14.4	11.9	6.4	5.5
07	211.6	35.6	176.0	21.9	171.1	-149.2
08	451.3	164.5	286.7	369.2	190.0	179.2
09	64.9	72.6	-7.7	1,681.1	20.9	1,660.2
10	2,419.1	23.1	2,396.0	16.4	1,237.6	-1,221.2
11	158.3	18.8	139.5	9.6	209.4	-199.8
12	1,016.8	115.1	901.7	2,212.9	181.1	2,031.8
13	1.4	30.0	-28.6	28.5	47.7	-19.2
14	0.7	1.3	-0.6	3.9	1.8	2.2
15	1,678.1	49.8	1,628.3	468.5	209.5	259.0
16	180.1	90.3	89.8	337.3	25.2	312.1
17	137.9	30.6	107.3	1,294.4	45.8	1,248.5
18	80.1	70.3	9.8	163.2	91.3	71.9
19	61.2	47.1	14.1	52.4	44.4	8.0
20	306.9	127.6	179.3	1,134.4	125.0	1,009.4
21	88.0	135.9	-47.9	571.8	111.1	460.7
22	215.1	64.4	150.7	105.1	149.4	-44.3
23	2,431.0	38.6	2,392.5	1,713.3	60.9	1,652.4
24	146.8	13.5	133.3	841.5	18.3	823.2
Total	11,535.3	1,396.6	10,138.7	12,977.2	3,807.7	9,169.5

Source: INDEC (Argentina). IPEA Data (Brazil). Name of chapters in Appendix Table A.1.

[5] For further comments on Mercosur's agricultural trade, see Piñeiro and Piñeiro [2001].

III. LOSING EXPORTS TO MULTILATERAL PROTECTIONISM

Because of its lack of transparency and the fact that it allowed increases in protection levels, the Uruguay Round Agreement on Agriculture (URAA) is probably one of the worst, if not the worst, accord in the history of the multilateral trading system under the General Agreement on Tariffs and Trade (GATT) and now the World Trade Organization (WTO). This conclusion is in contrast to other views, including those of the WTO, which asserts that the URAA has fostered agricultural output and trade by: "(i) making agricultural market access conditions more transparent, predictable and competitive; (ii) establishing or strengthening the link between national and international agricultural markets; and thus (iii) relying more prominently on the market for guiding scarce resources into their most productive uses…" (WTO [2001] p. 46). While some policy changes induced by the Agreement might have had such effects, others clearly have not and the net outcome is far from clear. This section starts by summarizing some salient features of the implementation of the Agreement, and then makes some comments on its trade and financial consequences.

A. Agriculture and Multilateralism: The Broken Promise of the Uruguay Round

The ministerial declaration that launched the Uruguay Round (UR) promised that agricultural protectionism would be reduced. More than seventeen years have elapsed since the declaration was signed by the trade ministers who convened in Punta del Este in 1986 but no significant liberalization is evident, and in some areas agricultural protection is now higher than it was before the UR. Below is a brief summary of some of the main developments in the three major areas covered by the URAA: market access, domestic support, and export subsidies. That is followed by some critical comments on the application of contingent protection rules -particularly those in the Antidumping (AD) Agreement (Agreement on Implementation of Article VI of the GATT 1994)- against agricultural products.

Market Access

Of the three pillars covered by the URAA (market access, export subsidies, and domestic support), barriers to market access have been estimated to have inflicted the greatest damage on efficient agricultural exporters (see, for example, Monteagudo and Watanuki [2002]; Hoekman, *et al.* [2002]; and Gilbert and Wahl [2002]). The 1986 ministerial declaration promised that negotiations would: "achieve greater liberalization of trade in agriculture (…) by improving market access through, *inter alia*, the reduction of import barriers" (GATT [1986]). The inclusion of agriculture, in fact, was a condition that many developing countries made in order to agree to the start of the negotiations.[6]

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[6] The grand exchange of concessions agreed in Punta del Este was that developing countries agreed to negotiate new areas (particularly services and intellectual property) only if there were a good prospect of liberalizing trade in agricultural, textiles and clothing products. The promise of liberalizing textiles and clothing is being met, but no similar result occurred in agriculture (Finger and Nogués [2002]).

One of this section's conclusions is that this promise has been unmet.[7] The comments that follow refer to industrial countries' agricultural protectionism but it should be noted that, according to some estimates, the gains that efficient agricultural exporters could make from the liberalization of agricultural protectionism in developing countries is higher than that from industrial country liberalization.[8]

It is helpful to order the comments that follow according to specific market access commitments included in the URAA: tariffication and base period, tariff reduction and averaging, specific tariffs and other forms of tariff protection, tariff escalation, tariff-quotas, and special agricultural safeguards.[9]

Tariffication and base period. A brief review serves to recall some disturbing factors in the UR negotiations. First, the most significant obligations that countries undertook under the URAA was the tariffication of their non-tariff-barriers (NTBs), which had proliferated during the 1980s (Nogués, *et al.* [1987]). During the negotiations it was also agreed that the period for estimating the equivalent *ad valorem* tariffs of NTBs would be 1986-1988. These were years of low international agricultural prices and, since agricultural protection in industrial countries seeks to target farmers' income levels, the selection of these years gave an upward bias to the base tariffs. This was bad enough, but for efficient exporters the situation would worsen markedly.

The tariffs that emerged from the tariffication exercise, and that were notified to the WTO, were higher (sometimes much higher) than the true tariff equivalents of NTBs prevailing in the base period. These inflated tariffs have been called "dirty tariffs" and, as Table III.1 shows that tariffs notified and bound in the WTO exceed the tariff equivalent by 50%, and in some cases by 100%.[10] It is remarkable that many observers base their support for the UR negotiations on the increased transparency -associated with the tariffication exercise- that it produced. In reality, the emergence

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[7] According to Messerlin [2002, p. 3], there is a widespread view in Europe that the URAA liberalized agricultural trade, which makes agreement on effective liberalization in the Doha Round all the more difficult: "The URAA did not deliver the liberalization dynamics it was supposed to generate. It may even have put the Doha negotiators in a situation worse than the one faced by the Uruguay Round negotiators a decade ago. This is because today many farmers and a noticeable share of public opinion in protectionist OECD countries are convinced that agriculture was liberalized by the Uruguay Round, and that this liberalization has been the cause of all their difficulties since 1995".

[8] For example, the World Bank estimates that agricultural liberalization by industrial countries alone would provide worldwide gains equivalent to US$124 billion a year, while if only developing countries liberalize the gains rise to US$239 billion a year (World Bank [2002], Table 6.1).

[9] State trading by several countries, such as Canada, is another source of distortions not considered in this section.

[10] How this came to be is a question that has apparently not been researched carefully. Here are two hypothesis. First, according to informal comments made by some trade negotiators, the notification of tariff equivalents to the WTO was made at the last minute before the UR concluded. After many years of frustrating talks, negotiators were tired and wanted to end the round, despite the fact that they sensed an outcome that was unbalanced for developing countries (Ricupero [1999]). Second, dirty tariffication was practiced not only by industrial countries but by several developing countries (Hathaway and Ingco [1996]). It should also be noted that the document "Modalities for the Establishment of Specific Binding Commitments Under the Reform Program" (GATT [1993]) provided the guidelines for the tariffication exercise. Since the modalities document was not binding, however, countries were not bound to use the guidelines and formulas it indicated. Furthermore, because this document is not part of the WTO agreements, efficient agricultural exporters were left without legal recourse against the negative export effects of dirty tariffs (Finger and Nogués [2002]).

of dirty tariffs is probably one of the most obscure episodes in the 50-plus years of the multilateral trade negotiations. For some products the situation is so bad that even if there is significant trade liberalization in the Doha Round, the resulting protection levels could be higher than before the UR. If this happens, two multilateral negotiations will have failed completely to lower agricultural protectionism in many of the most protected sectors. Such a failure has significant costs for efficient exporters and casts doubt on the benefits of the multilateral trading system for these economies. This runs counter to the WTO's view that the Agreement on Agriculture has strengthened the links between domestic and international markets. If anything, dirty tariffs have delinked and insulated the markets of the protectionist countries more than before the UR.

TABLE III.1
TARIFFICATION OF NTBS BY THE EU AND THE US

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

Source: Ingco [1995].

Tariff reduction and averaging. Industrial countries pledged to reduce agricultural tariffs by 36% on a simple average basis, and committed themselves to a minimum reduction of 15% at the product level. These commitments on reductions were based on the levels of the dirty tariffs. Many countries, moreover, used the degrees of freedom implied by simple averaging to minimize liberalization. They did this by applying proportionally higher reductions to the lowest tariffs. To what extent was this freedom used? Roberts [1999] has estimated that on a trade-weighted basis, the proportional reduction was 15% instead of 36%, which means that very little liberalization took place in highly protected products such as sugar and dairy goods which are major exports of the Mercosur countries.

Specific tariffs and other convoluted forms of protection. The tariffication exercise also produced many specific tariffs and more convoluted forms of tariff protection. By making the level of protection contingent on the level of international prices, specific tariffs distort the pattern of production and trade more than *ad valorem* tariffs. Additionally, since international prices are highly volatile, specific tariffs add another element of uncertainty to international trade flows. Even worse is the fact that for some seasonal products, specific tariffs vary by time of year and

entry (CIF) price. The closer the month to harvest time, and the lower the import price, the higher the specific tariffs. This, for example, is how the EU protects vegetables and fruits (WTO [1999]). Among the Quad countries, only Japan has a proportion of non-*ad valorem* tariff bindings in agricultural products below 20%. The proportion for the other three members (Canada, the EU and the United States), lies between 20% and 50% (WTO [2001]), and thus a high share of agricultural trade is affected by distortionary specific tariffs.[11]

Tariff escalation and dispersion. Tariff escalation remains a salient feature of agricultural protectionism, one with serious repercussions for efficient exporters. Pronounced escalation eliminates industrialization (and therefore employment) opportunities for efficient developing country agricultural producers. Although tariff escalation must be analyzed at the product level, it is interesting to note that for some countries and some agro-industrial products, the effects seem to be very detrimental. In 1996, for example, Canada applied an average tariff on fully processed food products of 45%, and of only 2.2% on primary products (OECD [2001]; Lindland [1997]).

Tariff escalation and tariff peaks increase the variability of protection structures, with negative consequences for the countries imposing them and for exporting countries. It is impossible to measure this dispersion with precision because of the incidence of specific tariffs, but it is estimated to be much higher for agricultural tariffs than for industrial tariffs. For the EU, the WTO has estimated a standard deviation of 3.6% and 22.1% for bound manufactured and agricultural products, respectively (WTO [2001], Table III.3).

Tariff quotas. Tariff quotas is another instrument to bloom from the UR obligation to provide minimum market access. Usually, such access is equivalent to around 5% of domestic consumption in the base period.[12] Importing countries concluded that tariff quotas provided an appropriate instrument for implementing this obligation; presumably low in-quota tariffs would facilitate imports up to a threshold level above which the tariff usually rises very steeply. Table III.2 shows the distribution of tariff quota items for the Quad countries by product categories. Clearly, the bulk of quota items correspond to dairy products, meat, and fruits and vegetables which are important export products of the Mercosur countries.

A few comments illustrate the significant distortions that tariff quotas have on international trade. First, as mentioned, out-of-quota tariffs are usually so high as to preclude imports. The simple average in-quota and out-of-quota tariff rates are: Canada, 8% and 203%; the EU, 8% and 45%, Japan, 20% and 274%; and the United States, 10% and 29% (OECD [2001]). Second, the most recent estimates indicate that the fill rate of quotas has been declining and is well below 100%: the simple average fill rate for OECD countries declined from 67% in 1995 to 63% in 1998.

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[11] More convoluted forms of protection than those for seasonal products can also be found. Finding the protection for chocolates, for example, involves two steps. The first involves defining the input contents and a multiple entry table indicates code numbers corresponding to different input mixes. Then, in another table, that code number defines the level of protection. Thus the code number for chocolates having 1% starch, 2% fat, 20% milk protein and 25% sugar is 7161. For this code, the second table defines a specific tariff that has to be added to the corresponding *ad valorem* tariff. This is a good example of made-to-measure protection.

[12] According to the WTO, the "size of the quotas were to increase from 3% of the 1986-1988 base period domestic consumption in 1995 to 5% at the end of the implementation period" (WTO [2001] p. 51).

Third, although low levels of fill rates could be explained by demand factors or lack of product availability in exporting countries, many observers suspect that the explanation should be sought in the different ways of administering the quotas. For example, some quotas are allocated to specific countries in such a discriminatory way that they clearly run counter to multilateral disciplines. Some 34 tariff quotas in the United States and 19 in the EU are allocated on a country-specific basis, the latter mainly to the African, Caribbean and Pacific (ACP) group of countries and to Central and Eastern European countries. In the case of butter and milk, New Zealand benefits from specific quota allocations by the EU and Canada. Obviously, this goes some way to explaining why New Zealand is one of the most successful agricultural exporters. More generally, allocations to specific countries is most prevalent for dairy products, sugar and beef, some of Latin America's leading export products. Other forms of quota allocations include first-come, first-served; auctioning; historical importers; licenses on demand; producers' associations; state enterprises; and allocations by exporting countries. Except perhaps for auctioning, each of the other forms of allocation can be administered in ways that ensure quota fill rates are under 100% (see, for example, OECD [2001] and Josling, *et al.* [1996]). When this is the case, two things happen. First the links between domestic and international markets are weakened or eliminated. Second, these ways of administering quota allocations negate the spirit of the URAA, wherein negotiators accepted in good faith that minimum access commitments would be met.[13]

TABLE III.2
NUMBER OF TARIFF QUOTAS OF THE QUAD COUNTRIES

Product Category	Canada	EU	Japan	US
Cereals	4	15	4	1
Oilseeds	1	0	1	2
Sugar	0	3	0	6
Dairy	11	12	12	24
Meat	4	28	0	1
Eggs	1	3	0	0
Beverages	0	1	0	0
Fuits & Vegetables	0	25	1	5
Tobacco	0	0	0	1
Fibers	0	0	1	7
Coffee, etc.	0	0	0	7
Other	0	0	1	0
Total	21	87	20	54

Source: WTO [(2001) Table III.3].

Special agricultural safeguards. Despite all the above-mentioned trade instruments, which offer any industrial country that so desires the freedom to maintain and in some cases increase protection levels, URAA negotiators developed an additional instrument: special agricultural safeguards

[13] Research on the economic effects of the quota-administration has been scant, and more work is necessary.

(SSGs). The products eligible for protection under this instrument are those that underwent a tariffication of NTBs, and the protection can only be invoked after the quotas are filled. The most clear protectionist loophole of these safeguards is that they can be implemented without the injury test; they are triggered by certain negotiated threshold levels on import prices and quantities.[14] It is an aberration of the multilateral system to have allowed the application of special safeguards to products for which dirty tariffs are in place.

In the URAA, eight OECD countries retained the right to use SSGs on their tariffied products. The following numbers of product categories, for example, are eligible to receive SSGs: Canada, 150; the EU, 539; Japan, 121; and the United States, 189. The percentage of these tariff lines provided with SSGs are: Canada, 10%; the EU, 31%; Japan, 12%; and the United States, 9% (OECD [2001]). The actual use of SSGs is far less than the potential use but this does not make them innocuous, for at least two reasons. First, the SSG implies that the tariffication process retains a high degree of uncertainty. Second, some countries using SSGs seem to have abused the spirit of the URAA by establishing trigger prices that are well above those indicated in the Agreement. Article 5 (1b) indicates that SSGs can be implemented when import prices fall below the trigger price, which is "equal to the average 1986 to 1988 reference price for the product concerned". Nevertheless, a footnote allows higher prices and thus removes much of the value of this rule, asserting that "the reference price used to invoke the provisions of this subparagraph shall, in general, be the average CIF unit value of the product concerned, or otherwise shall be an appropriate price in terms of the quality of the product and its stage of processing…" (WTO [1995], p. 43). Since the rate of protection provided by an SSG is an inverse function of the proportion by which import prices fall below the reference or trigger price, biasing this price upwards also biases the level of protection upwards. For example, the external reference price that the EU should use for beef is €1,526 per ton but instead it has used €2,310 euros per tonne -a difference of 51%-. There are many other examples of this kind of obscure protectionism, which is allowed by the establishment of reference prices for the purpose of administering SSGs (OECD [2001], Annex Table 1.8).

Export Subsidies

GATT Article XVI banned export subsidies for industrial products but not those for agricultural goods. Increasing protection in the most important OECD countries led to the overproduction of many goods that, in view of their high cost, could only be disposed of in international markets if they were subsidized. This led to a proliferation of subsidies that further worsened already very distorted world agricultural markets. The URAA sought to limit this worrisome trend, and the promise of the Punta del Este ministerial declaration was that negotiations would discipline: "the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade" (GATT [1986]). The comments that follow question the extent to which this promise has been met.

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[14] To give an idea of the protectionist effect of eliminating the injury test, recall that between 1980 and 1992 the International Trade Commission found injury in 66% of cases, while in the same period the DOC found a positive margin of dumping in 93% of cases (Irwin [2002] pp. 115-117). When injury is absent, the products involved in these antidumping petitions do not receive protection.

Article 9 of the URAA lists six categories of subsidies, contingent on export performance, that would be subject to reduction obligations.[15] The Agreement obliges industrial countries to reduce the base (1986-1990) period volume of subsidized exports by 21%, and the budgetary outlays by 36% over six years. By the end of this period, the budgetary limits for the Quad countries were: Canada, US$308 million; the EU, US$8,896 million; and the United States, US$594 million.[16] Total subsidies permitted to these three countries is equivalent to 77% of the total allowed to all WTO members that reported using export subsidies during the base period.[17] Clearly, the EU is by far the world's leading subsidizer, accounting for the bulk of the damage inflicted on the multilateral trading system in general and on efficient producers in particular.[18]

For 1998, Table III.3 shows the commitment levels and notified subsidized exports (both in metric tonnes), as well as the relation of commitment to world exports in 1995. Although in general the notified volume of subsidized exports is below the commitment levels, several products receive subsidies for more than 50% of commitment levels, including coarse grains, skim milk powder, cheese, other milk products, bovine meat, pigmeat, poultry meat and eggs. The threat to the trading system, and in particular the inhibiting effects on efficient producers and exporters, is better represented by the commitment levels than by the notified levels, for two reasons. First, given that these producers cannot know in advance what the levels of effective or notified exports will be, safe investment and production decisions must take account of the commitment levels. Second, what they do know is that notified subsidies granted by the most important OECD countries tend to increase and come closer to the commitment levels when international prices are falling.[19] In any case, the last column of Table III.3 offers an estimate of the proportion of world exports that can be subsidized under existing commitment levels. The figures show several products (wheat and wheat flour, butter and butter oil, skim milk powder, cheese, pigmeat, tobacco and cotton) for which over 30% of world exports could be subsidized.

Table III.4 presents estimates of the rates of export subsidies provided by the EU and the United States. It is important to note that, unlike barriers to market access, especially tariffs, in the case of export subsidies there are no bound rates. Export subsidy rates, moreover, can vary from year to year, compounding uncertainty and distortions in the trading system.[20] The economic principle that guides the setting of import tariffs are no different from that guiding export subsidies: low and uniform rates lead to a better allocation of resources than high and variable rates. The figures for the EU reveal a sharp contrast to this principle. While the lowest export subsidy rates during the 1995-1997 period were for wheat and eggs, products like sugar and pigmeat received astronomically high rates of over 150%.

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[15] These include direct payments by governments to firms, industries or producers contingent on export performance; subsidized stock exports; producer-financed export subsidies; export marketing cost subsidies; export-specific transportation subsidies, and subsidies on goods incorporated into exports.

[16] Japan does not use export subsidies.

[17] Countries that did not use export subsidies in the base period were not allowed to introduce them.

[18] Including the EU; among WTO members, only 25 agreed to reduction commitments under the URAA.

[19] In 1998, international agricultural prices had begun to decline and this trend continued for a number of years. It might also be said that in some cases the levels of notified subsidies varies quite substantially from year to year. For example, in 1997 the notified level of subsidies granted to coarse grains were 8,826 thousand metric tonnes; in 1998 this level rose by 73% to 15,311 thousand metric tonnes.

[20] For example, in 1996 the export subsidy rate granted by the EU to pigmeat was 127%; in 1997 the figure rose to 337% (OECD [2001] Table 4.7).

TABLE III.3
COMMITMENT AND NOTIFICATION VOLUMES OF SUBSIDIZED EXPORTS IN 1998 (METRIC TONS) UNDER THE URAA FOR DIFFERENT PRODUCT CATEGORIES

	1	2	3	4	5
Products	**Commitment**	**Notified**	**(2)/(1)**	**World Exports** *	**(1)/(4)**
Wheat & Wheat Flour	48,277	14,023	29.0	116,000	41.6
Coarse Grains	21,129	15,311	72.5	90,000	23.5
Rice	628	144	22.9	21,000	3.0
Oilseeds	2,491	0	0,00	46,000	5.4
Vegetable Oils	1,529	10	0.7	32,000	4.8
Oil Cakes	308	0	0,00	n.a.	n.a.
Sugar	4,243	1,884	44.4	34,000	12.5
Butter and Butter Oil	529	167	31.6	800	66.1
Skim Milk Powder	646	380	58.8	1,000	64.6
Cheese	460	253	55.0	1,000	46.0
Other Milk Products	1,342	1,06	79.0	60,000	2.2
Bovine Meat	1,258	729	57.9	5,000	25.2
Pig meat	605	748	123.6	2,000	30.3
Poultry Meat	644	370	61.2	4,000	16.1
Sheep Meat	26	1	3.8	900	2.9
Live Animals	123	5	4.1	694,000	0
Eggs	114	116	101.8	1,000	11.4
Wine	485	7	1.4	5,000	9.7
Fruits & Vegetables	6,904	2,407	34.9	101,000	6.8
Tobacco	222	7	3.2	3	7,400.0
Cotton	89	0	0.0	69	129.0

Notes: * Figures correspond to 1995.
Source: WTO [(2001) Table III. 11].

TABLE III.4
EXPORT SUBSIDY RATES: AVERAGE 1995-1997

Country and Product	**Subsidy Rate** (%)
European Union	
Wheat and wheat flour	15
Coarse grains (barley)	32
Rice	145
Sugar	154
Butter and butter oil	118
Skim milk powder	39
Cheese	43
Beef meat	57
Pig meat	173
Poultry meat	20
Eggs	15
United States	
Butter and butter oil	58
Skim milk powder	44
Cheese	39

Source: WTO [2001, Table 4.7].

Other problems are attendant on the export subsidies granted by the major industrial countries. First, just as low international prices in the base year facilitated the binding of tariff rates at high levels, those same prices also facilitated the binding of high levels of export subsidies. Some observers have gone so far as to assert that: "the provisions of the URAA (on the base period for export subsidies), even allow leeway for an increase in trade distortions…" (OECD [2001] p. 82). Second, in the EU the "extensive use of the roll-over flexibility provision, export subsidy budgetary outlays in the first four years of the implementation were above the final bound levels in 2000-2001 for a number of commodities …" (OECD [2001] p. 83).[21] Other countries used this facility, but the EU has used it the most by far. In every year for which data is available, the EU has overshot its annual export subsidy commitments in a number of products, including rice, olive oil, bovine meat, wine, sugar, and poultry meat (WTO [2001] Table 4.5). Third, the Peace Clause (URAA Article 13), severely limited the application of countervailing measures against export subsidies that conform to the Agreement. This Clause expired on December 31, 2003 and the Mercosur countries should use this opportunity to open disputes against all countries whose subsidies damage their exports. Fourth, in addition to the list of export subsidies stipulated explicitly in Article 9 of the URAA there are others that, while not included and therefore not subject to reduction commitments, also have the potential to distort trade. These include, among others, officially-supported export credits and credit guarantees. The available data indicate that the volume of these credits is increasing fast: for a sample of countries they have gone from a stock of US$5.5 billion in 1995 to US$7.9 billion in 1998 -an increase of 44%-. This can be taken as an indication that the absence of multilateral disciplines in this area is being used to substitute for the liberalizing effects of the policies covered by the URAA.[22]

Fifth, food aid allowed by the URAA can have effects similar to export subsidies when such aid is tied to commercial exports. Sixth, by subsidizing crucial inputs, some countries have covered a higher subsidized volume than agreed in the URAA. Exports of cheese by the EU is one example; other trading partners (Australia, Canada, New Zealand and the United States), have held consultations on the extent to which subsidies for inputs violate the rules on anti-circumvention of the URAA (OECD [2001] pp. 87-88). Finally, a number of serious deficiencies in the data have also been uncovered (OECD [2001] p. 88). In the URAA, for example, export subsidy limits are defined by commodity categories, but some of these are so broad that many degrees of freedom are left to switch subsidies among products within categories. As some authors argue: "Export subsidy limits on both expenditures and physical quantities are also negated somewhat by aggregation across products and over time" (Ruiz and de Gorter [2002] p. 228). Finally, there have also been serious reporting problems during the implementation years of the URAA (OECD [2001]).

Domestic Assistance

There are also serious doubts that the policies agreed under the URAA have done much to discipline domestic assistance measures. Negotiators attempted to separate domestic policies having no effect on trade (like government supported research) from those that do have clear trade-

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[21] The rules on roll-over permissiveness are established in Article 9 (b) of the URAA.

[22] The United States is the biggest user of export credits, accounting for 46% of total (OECD [2001] p. 85). The URAA called for a separate agreement on the use of these instruments (Article 10), but as of the time of writing some members continue to voice strong disagreement and there is no such accord.

and production-distorting effects (like the government fixing a minimum purchase price). The former were included under what is called the "green box" and the latter under the "amber box". Policies in the amber box are subject to reduction commitments; those in the green box are not, and the assistance may even be increased.

In addition to the green box, three other forms of assistance are unaffected by the reduction commitments (all three are listed in Article 6 of the URAA). They correspond to: (i) developmental objectives in developing countries; (ii) *de minimis* levels, according to which 5% (10% in the case of developing countries) of the contributions in the amber box are exempted; and (iii) direct payments for production-limiting programs or the "blue box", which is used mainly by the EU.

Policies under the green box are listed in Annex 2 of the URAA. It is noteworthy that direct payments can be put in the green box provided that they are "decoupled" from production, including decoupled income support, income insurance, and safety nets. Given the freedom to increase domestic assistance levels under the green box, it is unsurprising that there has been such an increase in several developed countries. Between the base period (1986-1988) and 1997, for example, the following increases in green box subsidies were recorded: the EU, from US$10.1 billion to US$20.6 billion; Japan, from US$15.0 billion to US$21.9 billion; and the United States, from US$24.1 billion to US$51.2 billion.

Under the URAA, industrial countries undertook to reduce the value of domestic assistance granted by amber box policies (aggregate measure of support, AMS) in the base period by 20% over a six-year period. The following figures, which show the reduction of AMS from the base period to 1997, indicate that this obligation has been met: the EU, from US$80.7 billion to US$56.9 billion; Japan, from US$33.8 billion to US$26.2 billion; and the United States, from US$23.9 billion to US$6.2 billion.[23] As indicated below, the economic impact of this compliance is diluted not only by the massive increase in green box subsidies but also by several other considerations.

It is important to note that some of the increased assistance provided by policies under the green box might in fact not be as decoupled as argued by those WTO members that defend them. Other observers have raised serious doubts as to whether policies under the green box are in fact decoupled, and some have gone so far as to argue that: "it is doubtful if there are any policies that really do not affect production decisions" (OECD [2001] p. 64). These kind of conclusions cast a large shadow of doubt on the effectiveness of the URAA to discipline domestic assistance policies (see also World Bank and IMF [2002]).

In addition to the serious criticisms of the notion of decoupled subsidies and the effects of green box policies, several other considerations raise further doubts as to the effectiveness of the URAA. First, because of low international prices in the base period, domestic policies afforded very high levels of assistance. Reducing these levels by 20%, as industrial countries agreed, might involve no effective movement towards market-based decisions if more recent years have witnessed higher international prices. Second, the levels of AMS in the base period proved to be inflated by policies that more recently were transferred to the blue box, which is free from reduction commitments. Thus it is possible for a country to have complied with the URAA simply by making and notifying this

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[23] In the base period, these three countries provided 83% of the total AMS notified to the WTO (OECD [2001]).

switch to the WTO. Third, the commitment to reduce the AMS at the aggregate and not the product level means that assistance to specific commodities can be increased. Fourth, the AMS excludes support provided by protection. Fifth, there is a presumption that blue box policies are more distortionary than green box policies, although they are also excluded from the URAA obligations.[24] Sixth, there are also suspicions that deductions from the AMS on account of taxed products have not always been well administered, and that levels of production affected by price support policies are being under-reported. Finally, it is important to stress that there is relatively little transparency in the way that notifications to the WTO are being made (OECD [2001]).

Antidumping

On December 10, 2001 the US Department of Commerce (DOC) announced the imposition of steep antidumping duties against honey imports from Argentina and China (ranging from 33% to 184%), and countervailing duties against Argentina (5.9%). These are the latest measures taken by the United States in a history of support to its honey industry spanning more than 50 years. Despite this assistance, production has continued to lag behind consumption and the US import ratio has been increasing. Argentina's honey exports, by contrast, increased from 40,000 tonnes in 1990, to 88,000 tonnes in 2000. Clearly, the claims against Argentina and China had more to do with a declining industry than with any wrongdoing on the part of honey producers in developing countries.

Several DOC decisions reflect some of the things that are wrong with current multilateral trade rules. The antidumping investigation is used as an illustration here but similar lessons can be learned from the subsidy investigation (Nogués [2002]). As is well known, "normal value" can be estimated in a number of ways, one of which is based on the actual cost of production. In order to follow this line of enquiry, a random sample of Argentine beekeepers were sent a 40-page questionnaire in English. In Argentina, as in many other countries, most beekeepers are very poor people and it comes as no surprise that they could not answer the lengthy and sophisticated questionnaire. Thus the first lesson from this investigation is that under current multilateral rules, there are some producers who cannot meet the high standards enforced by industrial countries. These rules assume that a beekeeper has the same capacity as Coca Cola to meet high standards. This assumption is not reality; it is a parody of reality.

Given the lack of response to the questionnaire, the second example of why these rules are wanting relates to the DOC decision to use the "best available information", which happened to be that provided by US beekeepers. There is strong evidence that this information severely overestimated the cost of production, and therefore the dumping margin of honey imports from Argentina. It is paradoxical that the second-best alternative to high quality standards implicit in the questionnaire that beekeepers could not answer was the use of "trash" numbers. The lesson from this experience is that multilateral rules should indicate that antidumping measures cannot be imposed unless the standards of the statistical analysis are high enough (*Ibidem*).[25]

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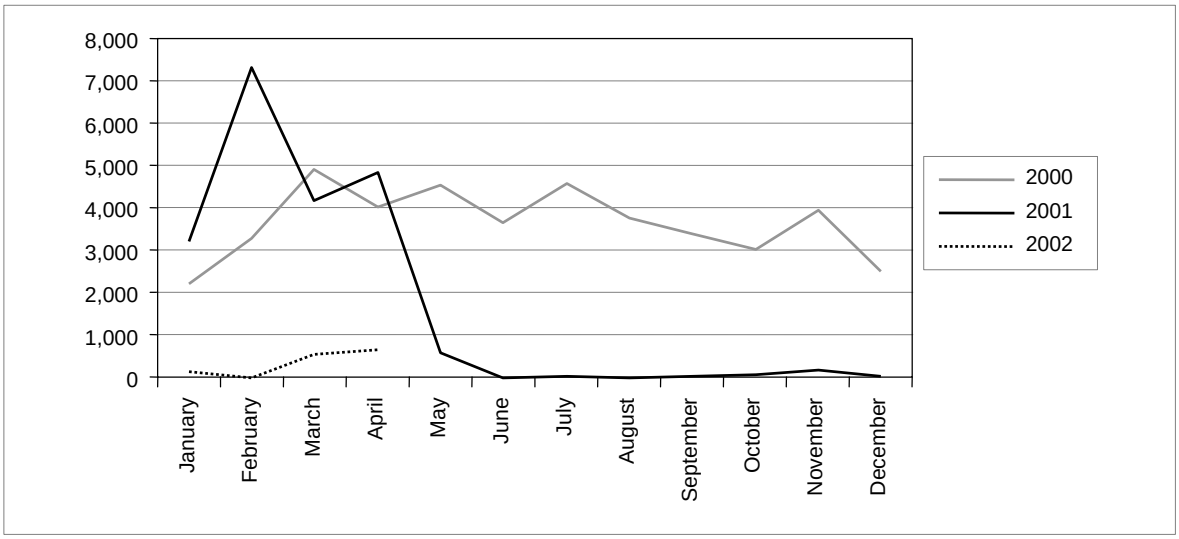
[24] Measures to limit production can be ineffective when farmers set aside their least productive land.

[25] Lindsey [2000] shows that of all the methods of estimating normal value, on average the DOC has found the highest margin of dumping using "facts or best information available".

The final issue refers to the longstanding criticisms of US antidumping regulations, according to which duties are assessed retroactively. This regulation essentially increases the importers' risks in continuing to import from a country under investigation. The US system is quite unique in this respect and, as the honey case showed, has been found to have strong import-inhibiting effects (Staiger and Wolak [1996]). Figure III.1 shows the chilling effect that this investigation had on US honey imports in 2001, when most of the work was completed by the DOC. Between May 2001, when the preliminary positive finding was issued, and December 2001, when the final antidumping duty order was announced, US honey imports from Argentina were in the order of 900 tonnes. During the same months of 2000, these imports reached 29,400 tonnes; on an annualized basis, this implies an import contraction of 97%.

FIGURE III.1
US MONTHLY HONEY IMPORTS FROM ARGENTINA, 2000-2002
(Tons)



Source: USITC.

Other observers have expressed serious criticisms of how existing antidumping regulations do not offer agricultural producers a fair opportunity to defend themselves from accusations of being unfair traders (Palmeter [1989]). This topic is gaining prominence as the share of agricultural products covered by antidumping investigations continues to increase (Regmi [2002]). One conclusion from these brief comments is that if leaders want the Doha negotiations to reduce poverty effectively, the multilateral rules on contingent protection have to be modified.

B. Trade and Financial Consequences of Agricultural Protectionism

The picture that emerges from the above analysis points to a substantial failure of the URAA to liberalize agricultural markets. Estimates of nominal protection coefficients, calculated as the price gap between domestic and world prices as a percentage of world prices (see Table III.5) provide an idea of the seriousness of agricultural protection in industrial countries. Moreover, in

each and every convolution of this Agreement (special safeguards, administration of tariff-quotas, specific tariffs, export subsidies and so on) has significant economic effects that can stem from bureaucratic decisions that facilitate rent-seeking activities on the part of agricultural lobbies. The evidence suggests that these rent-seeking activities can be extremely costly, not only to the trading system but also to the countries that practice discretionary protectionism (Krueger [1974]). All of this suggests that, despite the URAA, world agricultural markets remain in disarray.

TABLE III.5
NOMINAL PROTECTION COEFFICIENTS IN OECD COUNTRIES, 1995-1999

Product	Average (%)	Std. Deviation (%)
Wheat	22	12
Maize	5	3
Other grains	31	14
Oil seeds	9	3
Refined sugar	100	42
Rice	411	102
Milk	120	22
Beef and veal	39	10
Pig meat	22	9
Sheep meat	16	14
Poultry meat	13	4
Eggs	20	5
All	78	18

Source: OECD [2001].

It is doubtful whether the trade effects of the URAA can be wholly disentangled because: (i) the time that has elapsed since the start of the implementation period is too short; (ii) in conjunction with the implementation of the URAA other trade policies -including most prominently an increasing number of trade agreements- continue to change the international structure of incentives for agricultural production; and (iii) there are also difficulties in extricating the effects of trade policies from those of other cyclical policies, and from swings in economic activities. Given these difficulties, what follows is a summary of some of the findings presented in the literature. Thereafter are some brief comments on price instability, and on the financial effects of agricultural protectionism on efficient agricultural producers.

Trade Effects

Using import to domestic consumption ratios, Diakosavvas [2001] has carried out statistical analysis to test whether there are differences between the situations prevailing before and after the URAA came into effect. For this purpose he divided the series of import-penetration ratios into two groups, 1990-1994 and 1995-1999. The results, presented in Table III.6, confirm that with the exception of wheat there are no statistically significant differences between the pre-UR and the post-UR averages. On these grounds, and taking into account the limitations mentioned

earlier, the present author agrees with the conclusions of a number of other writers and organizations that the URAA has done little or nothing to improve the access of agricultural products to the markets of the highly protected OECD countries.[26]

TABLE III.6
PRE- AND POST-UR AGRICULTURAL IMPORT RATIOS IN OECD COUNTRIES

Product	Import Ratios		
	Pre-UR (1)	Post-UR (2)	(2)-(1)
Wheat *	0,10	0,11	0,01
Coarse grains	0,11	0,11	0,00
Oilseeds	0,31	0,32	0,01
Refined sugar	0,25	0,23	-0,02
Butter	0,05	0,05	0,01
Cheese	0,05	0,05	0,01
Milk powder	0,10	0,08	-0,02
Beef	0,13	0,14	0,01
Poultry meat	0,03	0,04	0,01

Note: * Post-UR is statistically different from pre-UR.
Source: Diakosavvas [2001].

Price Level and Price Instability

By opening markets, trade liberalization increases the volume of world trade and stabilizes international prices. Furthermore, an effective liberalization of agricultural trade would reduce world supplies, which in turn would raise world prices. As mentioned, however, there is no hard evidence to support the conclusion that the URAA has given rise to effective liberalization.

It is worth noting that one study has concluded that "dirty tariffication" led not to an increase but a decline in agricultural prices. These findings are presented in an economy-wide model that measured the impact of the URAA on the ratio of agricultural to manufactured prices. The UR also liberalized manufactures and, since liberalization of agriculture starts from a much higher level of protection than that of manufactures, Goldin and Mensbrugghe [1996] sought to capture the impact of the Round on this relative price. Their findings are presented in Table III.7. It is unsurprising that effective liberalization would have raised the relative prices of the most protected agricultural products (dairy goods, sugar, wheat and beef) quite substantially. Because of dirty tariffication, however, the relative price of most agricultural products declined. Clearly, this is further confirmation of the negative effects of the URAA on world agricultural markets.

Second, there is also a link between protectionism and price instability. Those countries that set the instruments of agricultural protectionism by targeting farm-gate prices insulate domestic producers from international market signals, which increases the instability of international prices

[26] Other recent analyses casting serious doubts on the trade liberalization consequences of the URAA include the recent joint document by the World Bank and IMF [2002].

(Sampson and Snape [1980]). This has negative effects on agricultural producers in efficient countries, which at most protect agriculture with generally low *ad valorem* tariffs rates, as do the Mercosur countries.

TABLE III.7
IMPACT OF TARIFFICATION ON INTERNATIONAL AGRICULTURAL PRICES RELATIVE TO MANUFACTURED PRICES
(Percentages)

Products	Tariffication	
	Clean	Dirty
Wheat	10	1
Rice	4	-1
Coarse grains	5	0
Sugar	11	-1
Beef and veal	6	0
Other meat	2	-1
Dairy products	12	-1
Vegetable oils	5	-1
Coffee	-1	-2
Cocoa	0	-1
Tea	1	-2
Other foods	-1	-1
Cotton	1	-1
Other agriculture	3	-1

Source: Anderson [(1996) Table 5.4].

Financial Consequences

The traditional models for assessing the effects of agricultural protectionism, such as those discussed above, underestimate its economic effects to a greater or lesser degree. The reason for this is that the lower level of exports that can be attributed to the quantitative and price effects of the protectionism worsens the solvency indicators of efficient developing country exporters. In indebted countries, such as many of those in Latin America, this deterioration raises bond spreads and therefore domestic interest rates. Table III.8, for example, shows that if the elasticity of bond spreads (or country risk), relative to a solvency indicator like the debt service to export ratio, lies between 0.5 and 1, then interest rates could increase between 10% and 20% if export losses caused by agricultural protectionism amount to 25%, a figure that is within the range of possible effects of agricultural trade liberalization. This impact increases financial costs (particularly for small firms) and slows the growth rate (Nogués [2003]). The issue is particularly important to many Latin America countries that are heavily indebted but are also efficient agricultural producers.

In this regard it is worth recalling that the negotiating agendas in both the FTAA and the WTO talks do not include the links between trade and debt. It is paradoxical, and perhaps an indication of the weakness of heavily indebted countries, that the issue of trade and finance is not a negotiating issue. In the WTO, for example, this matter is addressed in a Working Group. Trade and debt are two

issues that are more closely linked than, say, trade and competition, or trade and the environment. Yet while these latter matters of particular interest to industrial countries are included in several negotiating agendas, the issue of trade and debt remains on the sidelines.

TABLE III.8
EXPORTS AND COUNTRY RISK, ARGENTINA 2000

Elasticity (2) \ *Loss* (1)	25%	50%
0.5	10%	17%
1.0	20%	33%

Notes: (1) Export losses from protectionism as a percent of base exports.

(2) Elasticity of country risk with respect to debt-service ratio.

Source: Prepared by the author on the basis of Nogués and Grandes [2001].

This state of affairs should not continue. One possibility is that Latin America could gather support for putting the issue on the table for substantive negotiations in the Doha Round. Agricultural protectionism in the EU and Japan can persist, in part because they face no international costs. The strength of the world economy could be increased if they incurred some costs for their actions. Including trade and debt in the multilateral negotiations, and creating multilateral disciplines, would change the structure of incentives in a direction that would add impetus to agricultural trade liberalization.

C. Conclusions

The 1986 ministerial declaration that launched the UR promised to liberalize world agricultural trade. This has not happened. It is true that today we know more about the different dimensions of agricultural protectionism but this knowledge, which some regard as an indication of increased transparency, has come at a high price. That price includes: (i) protection levels for many products that are higher today than before the UR; (ii) for those products whose tariffication might have been correct, other forms of protection -including special safeguards and export subsidies- can easily provide increased levels of protection; (iii) frustration with the promise that tariff quotas would be managed transparently, and would give rise to greater market access; (iv) the creation of a regime to regulate domestic assistance policies that is highly opaque, and about which there are serious doubts as to whether it has entailed any liberalization; (v) multilateral rules on contingent protection that makes it very difficult, if not impossible, for agricultural producers to defend themselves from accusations of being "unfair traders"; and (vi) the creation of protection instruments that leave too many decisions to be taken by bureaucrats and that therefore facilitate rent-seeking.

Because of continued high protection in OECD countries, the URAA has had no clear trade effects. In particular, non-fulfillment of the promise that protection would be reduced means that the biggest players among OECD countries have not improved access to their markets: in quantitative terms, imports to consumption ratios have remained stable. Second, dirty tariffication is most likely to have reduced the level of world agricultural prices. Finally, the targeting by industrial countries of farmers' income levels means that in order to avoid excess supplies from depressing domestic prices, the resulting excess production has benefited from export subsidies (subsidies that until recently remained protected by the Peace Clause). This widens the price variability to producers who take decisions in countries such as the Mercosur member states, whose trade policies are generally characterized by stable *ad valorem* tariffs. World agricultural markets remain in disarray, and the URAA has been costly to efficient agricultural producers.[27]

[27] It is interesting to note that against the goal of targeting the income level of farmers, agricultural protectionism by industrial countries is also costly and ineffective. One study concludes that up to 80% of agricultural transfers may not translate into higher incomes for farmers (OECD [1996a]), and a more recent analysis concludes that in the case of market price support, the most important category of agricultural policies, only 10% reach the farmer. The rest of the transfer is divided as follows: (i) 36% goes to input suppliers; (ii) 13% goes to non-farm landowners; (iii) 13% goes to increase the price of farm household land; and (iv) 28% is pure resource cost (OECD [2002]).

IV. LOSING EXPORTS TO REGIONALISM

Regional trade agreements are more likely to have negative effects on non-members according to how large and protected they are. This section is concerned solely with highlighting the negative effects of such accords on Mercosur agricultural exports, and the two obvious places to look for these effects are the North American Free Trade Agreement (NAFTA) and the EU. In general, the literature has concluded that NAFTA has created more trade than it has diverted, for two main reasons (Krueger [1999]): first, the member countries have open economies; and second, the agreement hastened growth, which is partly a result of differences in the members' countries patterns of comparative advantage. In spite of this broad favorable picture of NAFTA, in this section I provide evidence of diversion effects against Argentina.

The literature's views on the broad effects of the EU are in marked contrast to those on NAFTA, since there is clear evidence that in the former case the trade diversion effects have been particularly significant (Soloaga and Winters [undated]; Bayoumi and Eichengreen [1997]). This is particularly true for agricultural products (Diao, *et al.* [2001]). Finally, although NAFTA and the EU are by far the largest trade agreements, smaller regional agreements can also have negative effects on Mercosur's exports. Some comments on this are made below.

A. Impact of Successive Enlargements of the EU

With the creation of the European Community (EC) and its subsequent deepening and enlargement, Western Europe has been the region that has gone furthest with regional trade strategies. Of note here are some of the trade effects that successive enlargements have had on Mercosur's agricultural exports. The enlargements are as follows: (i) Denmark, Ireland and the United Kingdom in 1973; (ii) Greece in 1981; (iii) Spain and Portugal in 1986; and (iv) Austria, Finland and Sweden in 1995. More recently, the EU announced that it will be accepting ten new members, most of them Central and Eastern European countries (CEECs). There follows a review of some of the literature on the impact of successive enlargements on diversion in agricultural trade when Greece, Spain and Portugal joined the EC.[28] Additionally, for the accession of Austria, Finland and Sweden the study offers several product-specific examples of negative export effects on Argentina and Brazil. The conclusion is that the imminent enlargement of the EU to the CEECs is also likely to have additional trade diversion effects, to the detriment of the Mercosur countries.

Greece, Spain and Portugal

Goto [1996] analyzed the accession of Greece, Spain and Portugal to determine whether patterns of agricultural and manufactures trade flows changed after enlargement. He found that in all three cases there was a significant increase in regional agricultural trade but at best minor changes in the patterns of trade in manufactures, and concluded that these differences should be attributed to

[28] Apparently, there is no analysis of the possible trade diversion effects on agricultural trade of the first EC enlargement, but some researchers have found overall trade diversion effects when Denmark, Ireland and the UK acceded (see, for example, Bayoumi and Eichengreen [1997]).

the EU's structure of protection, which is heavily biased towards agriculture. The main findings are shown in Table IV.1 In the case of Greece, for example, the EC-9 share of agricultural imports from Greece in total agricultural imports increased from 0.627% before enlargement to 1% after the country's accession. On the other hand, the EC-9 share of Greece's agricultural imports increased very steeply, from 28% before enlargement to 64% afterwards. The same effects are evident when Portugal and Spain joined the EC.[29] The share of these countries' imports from the EC-10, for example, increased from 17% before enlargement to 28% afterwards.

TABLE IV.1
AGRICULTURAL TRADE SHARES BEFORE AND AFTER SUCCESSIVE ENLARGEMENT OF THE EU

Joining Country	Bilateral Import Shares (%) (1)					
	EC			Acceding Countries		
	B	A	D (4)	B	A	D (4)
Greece (2)	0.627	1.000	0.373	28.020	63.500	35.480
Spain and Portugal (3)	2.730	3.513	0.783	16.872	27.568	10.670

Notes: (1) B, A, and D stand for: before, after and difference.
(2) Average share before and after a are for the years 1971-1980 and 1981-1990.
(3) Average share before and after are for 1976-1985 and 1986-1995 respectively.
(4) Difference between before and after.
Source: Goto [1997].

Note that the increased import shares in the new EC members were not concentrated in a few products but extended over many agricultural sectors. Who lost agricultural market shares in the EC and in the three acceding countries? The answer is that nearly all other geographical regions lost shares in both groups of countries, including NAFTA and Latin America (Goto [1997]).

To offer additional insights into the effects of enlargement on Mercosur's trade, Table IV.2 shows EU agricultural imports from Argentina, Portugal and Spain for 1990 and 2000, by chapter of the HS.[30] Although these years post-date the enlargement, researchers have found that regional agreements have anticipatory effects, and also that their trade effects extend many years after the agreement has been signed. According to one estimate, the latter effect lasts on average for 12 years (Freund and McLaren [1999]).[31] In line with these findings, it is unsurprising to note in Table IV.2 that Argentina continued to lose share in EU agricultural imports, while Portugal and Spain continued to gain.[32] What happened to Argentina is all the more alarming in a decade when its agricultural output grew rapidly and when agricultural exports doubled.

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[29] Goto [1997] also tests for differences in average imports shares and finds that those reported in Table IV.1 for Greece, Portugal and Spain, are statistically significant at the 1% confidence level.

[30] Ideally the analysis should also cover the years before enlargement, but the author lacked access to the statistics covering this period.

[31] This happens because investment decisions react with a time lag relative to the creation of new trade incentives.

[32] Obviously, Argentina's loss can also be attributed to other factors associated with EU policies, including: (i) more recent enlargements as discussed below, including their anticipatory effects; and (ii) continued EU deepening, leading to the introduction of the single currency. Part of this could also be related to the trade creation effects of Mercosur. On the basis of previous findings, however, the direct effects of enlargement seem to be the main reason.

TABLE IV.2
AGRICULTURAL IMPORTS INTO THE EU FROM ARGENTINA. PORTUGAL AND SPAIN (US$ MILLIONS) AND SHARES IN TOTAL EU AGRICULTURAL IMPORTS 1990 AND 2000

Chapter	Argentina		Portugal		Spain		Shares in Total EU Agric. Imp.			
							Argentina		Spain and Portugal	
	1990	2000	1990	2000	1990	2000	1990	2000	1990	2000
1	5.4	5.0	16.2	18.6	36.5	261.3	0.6%	0.4%	4.9%	24.3%
2	445.3	337.5	1.9	10.1	261.0	945.7	16.2%	8.5%	7.9%	24.2%
3	195.7	428.8	150.5	180.8	361.8	820.4	3.2%	4.1%	7.0%	9.5%
4	17.6	43.4	43.5	144.0	143.3	419.4	1.7%	2.5%	14.5%	33.1%
5	27.2	16.1	20.4	23.9	33.9	52.5	3.6%	1.6%	5.9%	7.6%
6	0.1	1.0	3.9	15.4	79.4	162.8	0.0%	0.1%	11.2%	12.8%
7	77.5	74.4	24.9	56.0	1,056.0	2625.9	2.2%	1.4%	25.1%	49.8%
8	220.2	260.2	31.7	59.8	2,211.5	2884.2	2.8%	2.4%	23.4%	26.7%
9	11.1	5.5	6.9	17.9	41.5	67.0	0.3%	0.1%	1.1%	1.5%
10	73.2	278.1	10.6	21.7	219.4	208.3	5.2%	14.6%	13.5%	12.1%
11	0.0	0.4	0.2	5.1	10.1	53.3	0.0%	0.3%	10.4%	43.3%
12	598.8	246.6	5.9	20.1	91.3	79.1	14.1%	4.4%	1.9%	1.8%
13	0.1	0.0	7.7	7.6	34.4	53.5	0.0%	0.0%	12.4%	11.6%
14	0.1	0.3	0.2	0.2	3.2	4.5	0.1%	0.2%	2.0%	3.4%
15	115.3	76.1	23.7	30.8	628.6	683.2	4.9%	2.5%	22.9%	23.2%
16	121.9	59.6	86.7	64.4	79.6	345.1	6.2%	1.9%	6.9%	12.8%
17	2.9	3.3	2.5	28.9	46.5	224.2	0.2%	0.2%	3.0%	15.3%
18	0.1	2.7	0.5	3.6	34.6	113.1	0.0%	0.1%	1.8%	5.8%
19	0.1	3.4	2.9	38.3	34.1	272.9	0.0%	0.4%	8.7%	35.7%
20	37.7	23.8	41.3	104.4	490.2	639.5	1.4%	0.6%	16.4%	18.0%
21	0.6	0.3	7.7	47.1	70.2	257.3	0.1%	0.0%	12.8%	20.8%
22	11.1	72.3	342.2	340.0	553.2	1161.2	0.7%	1.6%	48.1%	32.5%
23	718.4	1,629.2	19.8	11.7	42.1	132.7	15.0%	29.2%	1.1%	2.6%
24	51.9	56.6	2.7	32.7	4.6	111.9	2.5%	2.1%	0.3%	5.3%
Total	2,732.3	3,624.7	854.5	1,283.1	6,566.9	12,579.1	5.2%	4.6%	11.6%	17.5%

Source: Eurostat (names of chapters in Appendix Table A.1).

Austria, Finland and Sweden

These countries became members of the EU in January 1995. Table IV.3 shows the growth rates of their imports from the EU and from Argentina before and after enlargement. The figures reveal striking differences in all cases, with significantly lower rates for imports from Argentina relative to those from the EU. The extreme case is Finland, where agricultural imports from the EU grew by 147% while its purchases from Argentina declined by 41%.

Table IV.4 show variations in EU agricultural import shares from Argentina and Brazil before and after the accession of Austria, Finland and Sweden. The decline in Argentina's share was more than double that for Brazil, but several product-specific examples illustrate substantial losses for both countries.

TABLE IV.3
IMPORT GROWTH RATES BETWEEN 1990 AND 2000 BY AUSTRIA, SWEDEN AND FINLAND FROM ARGENTINA AND THE EU (%)

	Supplier	
Importing Country	EU	Argentina
Austria	106	25
Sweden	69	3
Finland	147	-41

Source: Eurostat.

TABLE IV.4
EU AGRICULTURAL IMPORT SHARE FROM ARGENTINA AND BRAZIL (1)

Joining Country	Argentina			Brazil			Total		
	B	A	D (2)	B	A	D (2)	B	A	D (2)
Austria, Finland and Sweden	0.01890	0.01610	-14.8%	0.02913	0.02739	-6.0%	0.04803	0.04351	-9.4%

Notes: (1) The average before and after the enlargement to Austria, Finland and Sweden are for 1990-1994 and 1995-1999 respectively.
(2) D= (A-B)/B

Source: Prepared by the author on the basis of Eurostat and UN statistics.

To begin with Argentina, Table IV.5 shows that Sweden's imports of apples from Argentina fell by 67% between 1991 and 2000 while imports from the EU increased more than eleven times. The second example shows that Austria's imports of tobacco from Argentina has disappeared in recent years while imports from the EU simultaneously grew strongly. The example of apples is particularly interesting, since it illustrates the trade losses for non-members of EU enlargement and their adoption of the protectionist common agricultural policy (CAP) rules on fruits.[33]

TABLE IV.5
SWEDEN'S IMPORTS OF APPLES AND AUSTRIA'S IMPORTS OF TOBACCO FROM ARGENTINA AND THE EU, 1991-2000

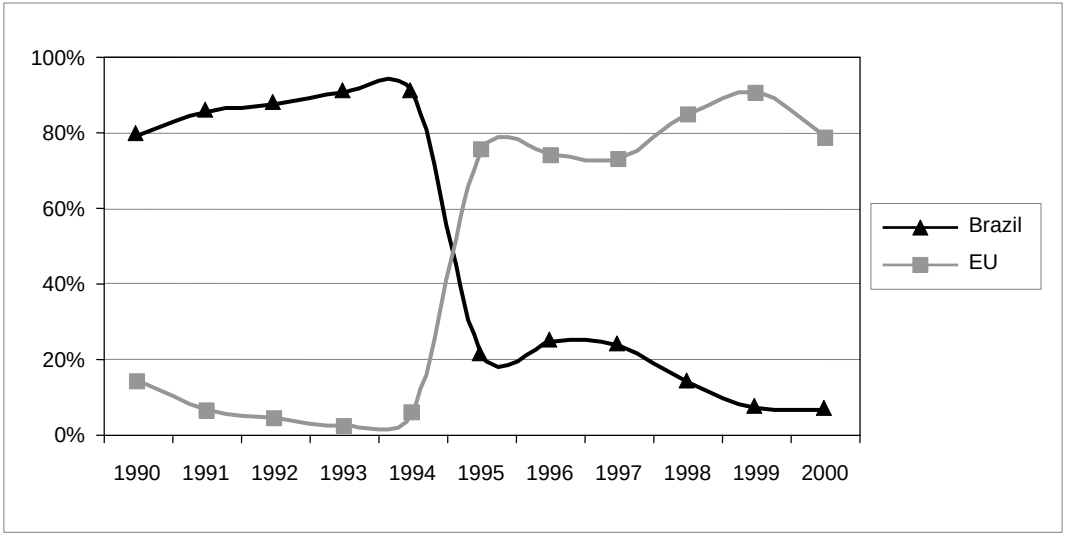
Year	**Apples** (US$ millions)			**Tobacco** (US$ thousands)		
	Argentina	EU	Total	Argentina	EU	Total
1991	10.1	3.6	46.3	1,670	5,833	25,869
1992	14.5	1.9	56.2	332	1,922	17,931
1993	5.1	0.0	50.9	437	2,648	18,926
1994	2.8	0.0	46.9	171	2,455	20,326
1995	5.3	23.5	63.5	0	3,489	24,615
1996	3.9	29.8	72.6	0	4,423	17,858
1997	3.8	38.4	66.2	0	7,030	20,532
1998	3.0	37.7	60.7	254	6,917	22,182
1999	2.9	34.6	55.7	0	7,443	24,600
2000	2.1	40.9	50.1	0	9,202	45,659

Source: Eurostat.

[33] Protection of fruits in the EU is granted mainly through specific tariffs that vary by time of year and import price; the closer to harvest time and the lower the import price, the higher the equivalent *ad valorem* tariffs. This means that fruits and vegetables in the EU are protected by dozens of equivalent *ad valorem* tariffs (WTO [1999]).

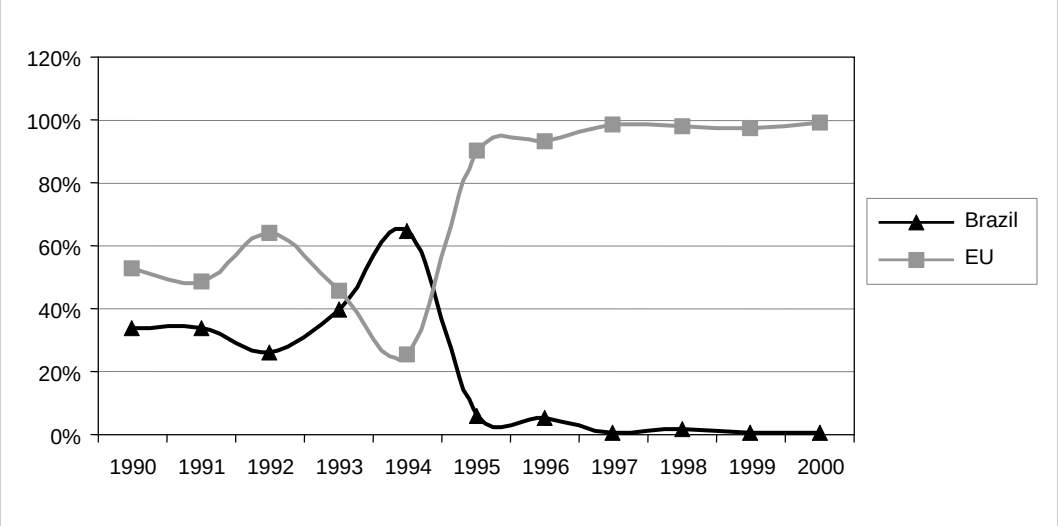
For a sample of cases, Figures IV.1, IV.2 and IV.3 reveal clear negative effects on Brazil's exports following these countries' accession. The first two examples illustrate dramatic substitution effects away from Brazil and towards the EU in the case of Finnish and Swedish imports of horse meat. In 1990, for example, 80% of Finland's imports came from Brazil, but by 2000 the share had declined to just 7%. In the same period, the corresponding share of the EU rose from 15% to 79%. In the case of Sweden's imports of frozen orange juice, Brazil's share was 42% in 1990 but by 2000 it had declined to 16%. In the same period, the EU's share increased from zero to 83%.

FIGURE IV.1
SHARE OF BRAZIL AND EU IN FINLAND'S IMPORTS OF HORSE MEAT



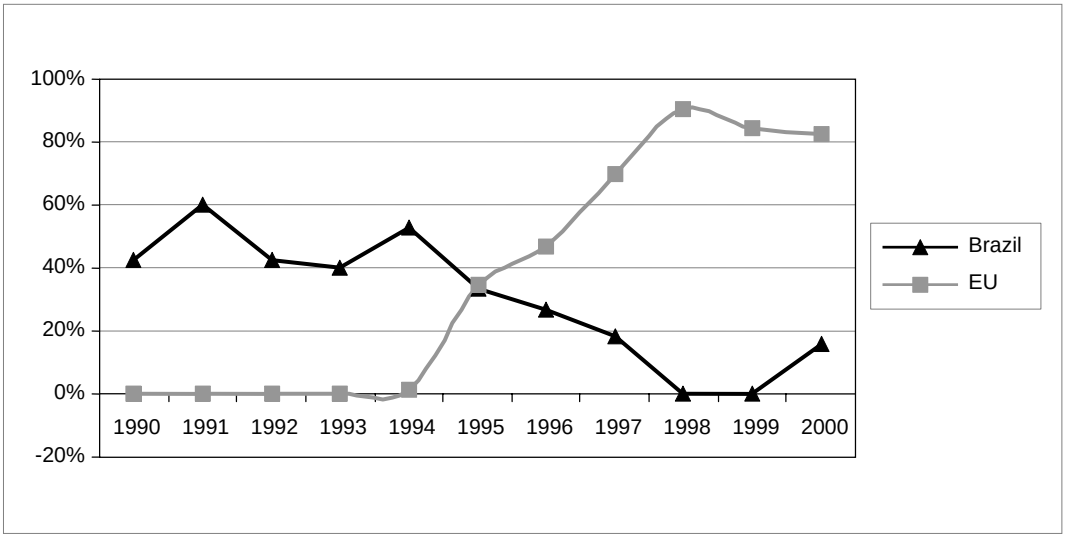
Source: Appendix Table A.2.

FIGURE IV.2
SHARE OF BRAZIL AND EU IN SWEDEN'S IMPORTS OF HORSE MEAT



Source: Appendix Table A.3.

FIGURE IV.3
SHARE OF BRAZIL AND EU IN SWEDEN'S IMPORTS OF FROZEN ORANGE JUICE



Source: Appendix Table A.4.

Central and Eastern European Countries (CEECs)

The next step in the enlargement of the EU includes most of the following countries: Hungary, Poland, the Czech Republic, Rumania, Bulgaria, the Slovak Republic, Estonia, Latvia, Lithuania and Slovenia. What effects will this enlargement have on Mercosur's exports? Some findings have been advanced but the question merits further analysis since the existing evidence is mixed. One study concludes that this enlargement will have minor negative effects on Latin America because, in most of the region's exports to the EU that overlap with those from the CEECs, Latin America has comparative advantage. More specifically: "for 78% of Latin American agricultural exports to the EU, there is no competitive threat from the CEEC countries" (IRELA [1997]). The same study found that in 42 products both regions have revealed comparative advantage. Some of these products include poultry meat, live plants, some vegetables, some fruits and fruit juices, sunflower oil, and malt beer. Because these products are not significant exports from the CEECs, the study concludes that Latin America will not be negatively affected by the CEECs' accession to the EU.[34]

There are two reasons to suggest that, at least for some products, this conclusion might be erroneous. First, to a far greater extent than Western Europe, these are agricultural countries that are undergoing major economic transformations from planned to market-based economies. In these circumstances it is risky to predict -on the basis that the CEECs did not have comparative advantage in the 1990s- that this situation will continue to prevail in the future. The experience of the Mercosur countries in the 1990s, which was one of rapidly expanding agricultural output and trade following structural reforms, suggests that the same could happen in the CEECs.

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[34] This conclusion contrasts with studies carried out on other countries. The study by Leetma, *et al.* [1998] on the United States concludes that this enlargement will have negative effects on some agricultural exports.

Second, one methodological problem with the IRELA study is that it does not account for the shift in the structure of relative prices that will occur when the new countries adopt the EU's common external tariff for manufactured products, and the CAP for agricultural goods. Traditionally, the CEECs have provided high protection to manufacturing, and thus their accession to the EU will entail a significant improvement in the relative domestic price of agricultural products, which in turn should give rise to an expansion of agricultural output. This relative price shift will be particularly pronounced in view of the fact that these countries will also be adopting the CAP's protectionist agricultural prices. According to one study, in fact, adoption of CAP prices means that for many products the CEECs will become competitive agricultural producers.

Table IV.6 present estimates of domestic resource costs for a group of goods produced by Bulgaria, the Czech Republic and Hungary,[35] using EU prices as shadow prices. These estimates confirm that Bulgaria and the Czech Republic enjoy comparative advantage in several agricultural products. The picture is less clear for Hungary, but for this country the authors of the study note that if "direct payments were available" (so if not only price alignment but also policy harmonization between the CEECs and the EU is assumed), then the lack of private profitability reported for Hungarian sunflower, wheat and barley production in 1996 would had been reversed (Gorton and Davidova [2001] p. 198).

TABLE IV.6
DRCS OF AGRICULTURAL PRODUCTS IN BULGARIA, THE CZECH REPUBLIC AND HUNGARY, 1996

Commodity	Bulgaria	Czech Republic	Hungary
Wheat	0.25	0.66	1.06
Maize	n.a.	n.a.	0.69
Barley	0.39	0.68	1.16
Sunflower	n.a.	n.a.	1.73
Milk	0.89	0.87	1.07
Beef	0.34	1.18	1.50
Pork	0.64	n.a.	0.94

Source: Gorton and Davidova [(2001) Table 4].

These estimates, coupled to previous experiences with EU enlargements as discussed above, suggest that Latin America's agricultural exports, particularly those of Mercosur, will suffer another blow from the accession of the CEECs. How soon this damage will be apparent depends on how fast these countries advance with their structural transformation towards market-based economies. Given that this process will probably be hastened by their new status as EU members, the damage is likely to occur sooner rather than later. In any case, further research is needed to offer new insights into how the accession of the CEECs will affect Latin America.

[35] The domestic resource cost indicator is estimated as the ratio of the resource costs of productive factors, measured at shadow prices, to the value-added estimated at border prices (Gorton and Davidova [2001]).

In sum, given the EU's irrationally high levels of agricultural protectionism, each of its enlargements has had substantial trade diversion effects and future enlargements will be no exception. Non-members have lost significant export opportunities in the process, and in such cases, Mercosur should seek compensation.

B. NAFTA

NAFTA came into effect in January 1994, a date that provides the pivot for analysis of trade diversion effects before and after. The focus here is on what happened to Argentine and Brazilian exports to Mexico, which is generally acknowledged to be an uncompetitive agricultural producer. In the case of Argentina, the first thing to note is that between 1990 and 2001 Mexico's agricultural imports from the country declined by 36.7%, while its purchases from Canada and the United States increased by 216.2% and 169.7% respectively. These substantial differences suggest trade diversions effects.

The timeframe of the combined effects on Argentina and Brazil is presented in Table IV.7, whose figures confirm these countries' clear loss of market share and the gains for Canada and the United States. Table IV.8 presents more disaggregated figures, revealing changes in market shares at the chapter level of the HS. For Argentina and Brazil, the figures indicate substantial losses in chapters 7 (vegetables), 15 (prepared edible fats), 16 (invertebrates), 17 (sugar), and 19 (preparations of cereals).

TABLE IV.7
SHARE OF ARGENTINA PLUS BRAZIL AND US PLUS CANADA IN MEXICO'S AGRICULTURAL IMPORTS FOR 1988-2001
(Percentages)

Year	Argentina + Brazil	US + Canada
1990	5.3	64.8
1991	1.5	78.3
1992	1.1	78.0
1993	1.7	77.8
1994	4.0	76.9
1995	2.8	80.7
1996	3.0	81.4
1997	2.2	79.8
1998	2.4	82.7
1999	1.6	81.6
2000	1.8	80.7

Source: IDB-INTAL.

One case of loss to Mercosur from the creation of NAFTA is that of sunflower oil exports from Argentina to Mexico. Table IV.9 shows Mexico's imports from Argentina and the United States for the period 1991-2000. By 1995, rapidly increasing imports from Argentina came to an end and

thereafter declined rapidly, from US$82.4 million to just US$3.6 million in 2000. The figures also show Mexico's imports from the United States growing fast, to more than double the 1991 value.

TABLE IV.8
SHARE IN MEXICO'S AGRICULTURAL IMPORTS OF ARGENTINA PLUS BRAZIL AND CANADA PLUS US
(Percentages)

Chapter	Argentina and Brazil		Canada and US	
	1990	2000	1990	2000
1	0.0	0.0	97	83.7
2	0.0	0.0	89	93.8
3	0.4	4.5	47	35.5
4	0.0	3.6	23	36.7
5	0.0	0.1	95	87.8
6	0.0	0.5	50	74.7
7	19.3	0.2	63	91.5
8	2.5	0.9	74	74.5
9	8.8	10.3	20	20.5
10	0.0	0.0	98	99.4
11	0.4	0.1	83	88.7
12	5.8	3.4	80	88.0
13	0.6	0.7	67	43.5
14	0.0	0.0	66	5.0
15	10.0	1.4	69	72.4
16	4.0	0.5	65	86.4
17	15.3	0.8	29	86.2
18	3.1	11.7	86	61.4
19	0.5	4.1	82	48.5
20	14.9	0.6	68	74.0
21	0.3	0.7	82	89.5
22	2.8	3.6	28	47.3
23	1.2	0.8	86	89.0
24	23.9	57.2	35	12.9
Total	5.3	1.8	64.8	80.7

Source: IDB-INTAL.

TABLE IV.9
IMPORTS OF SUNFLOWER OIL BY MEXICO
(US$ millions)

Year	Argentina	US	Total
1991	13.0	42.6	55.6
1992	9.0	58.7	67.7
1993	27.5	69.9	97.4
1994	78.2	55.5	133.7
1995	82.4	98.6	181.0
1996	80.0	59.4	139.5
1997	48.4	73.5	121.9
1998	13.9	97.4	111.3
1999	6.8	98.3	105.2
2000	3.6	78.9	82.6

Source: IDB-INTAL.

Mexico's entry into NAFTA was accompanied by a regional discussion of how the country should provide compensation in line with Article 44 of the Montevideo Treaty, which establishes that trade preferences given by any signatory to other countries should be extended on an "unconditional" basis to all the other signatories.[36] This discussion ended with the 1994 signing of the *Protocolo Interpretativo del Artículo 44 del Tratado de Montevideo 1980*. Argentina and Mexico negotiated compensation for the loss of sunflower oil exports, which took the form of a country-specific import quota. The figures in Table V.9 clearly indicate that this compensation did not become effective.[37]

In short, NAFTA has had trade diversion effects against the Mercosur countries. These negative effects are likely to worsen in the next few years because sensitive agricultural products have been given long phasing-in periods for the attainment of regional free trade. One important example is maize, which Mexico has protected for decades and is soon to be liberalized under NAFTA (Cerro and Velez [2000]). When this happens, Canada and the United States will export more maize but the Mercosur countries most probably will not. Another source of trade diversion against Mercosur comes from the new trade agreements such as the FTA recently signed between Central America and the US.

C. Other Examples

Even small integration agreements have also damaged Mercosur exports. Gupta and Schiff [1997] examined how Argentine exports declined as a consequence of the formation of the Andean Pact (AP). When the latter group was created in 1969, the member countries included Bolivia, Chile, Colombia, Ecuador and Peru. Venezuela joined in 1973 and Chile withdrew in 1976. As was the case with several other Latin American integration schemes, in its early years the AP was very protectionist (Nogués and Quintanilla [1993]). More recently, however, the member countries have implemented significant liberalization policies and are now in the process of applying a common external tariff with reduced levels of protection (Devlin and Esteveadeordal [2001]). For a relatively large number of agricultural products, however, protection remains very high and is effected mainly through a system of price bands.[38] This high protection has probably spurred trade diversion and is therefore a matter of concern for the Mercosur countries.

Gupta and Schiff ([1997] p. 7) analyzed the effects on Argentina's cattle exports to Peru in the early years of the AP; Table IV.10 summarizes their findings. In the few years following the creation of the AP, Argentine cattle sales to Peru declined dramatically, being displaced by sales from Colombia. The authors also document price falls: "In terms of unit export values, Argentina obtained

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[36] Article 44 of the Montevideo Treaty states: *"Las ventajas, favores, franquicias, inmunidades y privilegios que los países miembros apliquen a productos originarios de o destinados a cualquier otro país miembro o no miembro, por decisiones o acuerdos que no estén previstos en el presente Tratado o en el Acuerdo de Cartagena, serán inmediata e incondicionalmente extendidos a los restantes países miembros".*

[37] The reason lies in the fact that Mexico retained the administration of the quota.

[38] An idea of just how protectionist these price bands are, can be assessed from the 1995 accession of Ecuador to the WTO when the following maximum *ad valorem* equivalents were notified and bound: poultry meat, 85%; skim milk powder, 72%; wheat, 45%; sugar, 45% (Ecuador [1995]).

a higher unit value on exports to Peru than on its total cattle exports, though the premium on its exports to Peru fell from 7% to 4% after the formation of the bloc".

TABLE IV.10
CATTLE EXPORTS OF ARGENTINA AND COLOMBIA
(US$ millions)

Period	Argentina				Colombia			
	World	Peru	Other LAC	ROW	World	Peru	Other LAC	ROW
66-68	31.90	10.40	21.20	0.30	3.05	2.40	0.20	0.50
70-72	16.70	0.40	16.20	0.06	15.80	13.00	0.60	2.20
% Change	-48%	-96%	-23%	-79%	417%	444%	302%	328%

Source: Gupta and Schiff [1997].

D. Conclusions

Since the signing of the Treaty of Asunción in 1991, Mercosur has reached associate membership agreements with Bolivia, Chile and Peru. In the meantime, many other countries have continued to conclude new agreements and/or expand others. This section's main finding is that as a result of many if not all of these new RTAs the Mercosur countries are losing agricultural exports.

V. LOSING EXPORTS TO PREFERENTIAL AND UNILATERAL POLICIES

Strictly speaking, preferential programs are not on the negotiating table but, as discussed below, they do have negative effects on efficient agricultural producers. On the other hand, unilateral reforms such as those implemented by means of the US Farm Bill and the EU's decoupling program are implemented under the rules of the URAA. Other unilateral policies such as the EU import ban on genetically modified organisms can also be included under unilateral policies having serious negative effects on Mercosur's exports. Nevertheless, here I only address the US Farm Bill as an example of unilateral policies.

A. The GSP

Table V.1 illustrates how important developing country markets are for Argentina's exports, corroborating for all trade what was said in Section II. Policies like the GSP are likely to hurt middle-income countries in two ways. First, by granting trade preferences to some developing countries and not others, industrial countries' unilateral preferential arrangements divert imports from more efficient to less efficient producers. Furthermore, recent research indicates that preferences lessen the incentives to undertake unilateral reforms; countries that receive the most benefits from GSP are precisely those that have the lowest trade to output ratios (Olarreaga and Ozden [2003]). Although the numbers are not large, unilateral preferences are more likely to harm efficient agricultural producers than benefit them.

TABLE V.1
ARGENTINA MERCHANDISE EXPORTS 1990-2001
(US$ millions)

Destination	1990	1995	2001	Variation (%) 1990-2001
World	12,353	20,363	28,646	131.9
Industrial Countries	6,144	6,632	8,375	36.3
Developing Countries	6,043	13,660	19,807	227.8

Source: Bannister [2002].

The oldest of such schemes is the GSP, and the following now provide unilateral benefits: Australia, Belarus, Canada, the Czech Republic, the EU, Hungary, Japan, New Zealand, Norway, Poland, Russia, the Slovak Republic, Switzerland, and the United States. Since these are unilateral preferences, the countries offering them decide on the rules that guide their allocation. Because each country sets its own rules, which change from time to time, for recipient countries the stability of the benefits is not assured.[39] This is one reason why the actual use of preferences remains well below potential use (see, for example, Mattoo and Subramanian [2002]).

[39] In addition to rules on eligibility and graduation, there is also discretion in setting the preference margins and the rules of origin, all of which diminishes the value of the preferences.

In 1999 the Quad countries' GSP imports were: Canada, US$4.16 billion (2% of the total); the EU, US$38.2 billion (5%); Japan, US$39.9 billion (15%); and the United States, US$16.7 billion (2%). Table V.2 simulates the welfare or income effects of removing GSP benefits. In relative terms these are small numbers, reflecting the unimportance of unilateral preferences. It is particularly interesting to note that, among beneficiary regions, Latin America is the one that would lose least with the removal of GSP, which indicates that the region has not gained significant unilateral benefits. The beneficiaries with the highest income gains from unilateral preferences are the Asian newly industrialized countries (NICs), Africa and China.

TABLE V.2
WELFARE EFFECTS OF REMOVING GSP PREFERENCES

Region	Total	Change
Asian NICs	-2,317	-0,230
China	-1,855	-0,150
South Asia	-964	-0,190
Western Europe	3,719	0,050
North America	2,252	0,020
Transition Economies	-1,297	-0,170
Sub-Saharan Africa	-701	-0,220
Oceania	-11	-0,003
North Africa and Middle East	-1,816	-0,230
Latin America	-1,043	-0,050
Japan	1,189	0,033
ROW	-446	-0,170
Total	-3,293	n.a.

Source: Laird and Safadi [2002].

B. Other Preferential Programs

The net effects of the GSP and other similar schemes on Latin America's agricultural exports, and particularly those of the Mercosur countries, is unclear. These countries receive GSP benefits but their exports are diverted by the preferences given to non-member countries, and therefore the net effects remain to be studied. Nevertheless, the recent trend among industrial countries of focusing their preferences on least developed countries (LDCs) makes it increasingly likely that their net effects for Mercosur will be negative. Four considerations support this premise. First, unlike the old GSP scheme, which excluded many sensitive items (such as several agricultural products), new schemes such as the EU's "Everything But Arms", and the United States' African Growth and Opportunity Act (AGOA) are very comprehensive. Second, unlike the old schemes, the new ones have longer time-spans that stabilize rules and thereby reinforce the incentives for recipient countries to invest in specializing their production patterns. Third, because Latin American countries, including the Mercosur members, are generally middle-income, they are not eligible for preferences under the new schemes. Finally, to the extent that agriculture remains highly protected and the Doha Round negotiations fail to produce a far-reaching liberalization of agricultural protectionism in the countries granting the preferences, the trade diversion effects will become increasingly serious (see Section VI). As explained below, protecting the preferences from erosion in a new

multilateral agreement is another way in which some countries are proposing to retain protectionism with negative trade diversion effects against Mercosur.

C. The US Farm Bill [40]

With the passage of the Farm Bill (the Farm Security and Rural Investment Act of 2002), there is a strong sense that the United States is engaging in double-talk. In its international policy discourse, the country shows clear signs of seeking agricultural liberalization -in the FTAA talks, for example, and in the Doha negotiations, where it has tabled a very ambitious proposal-. Domestically, however, the United States takes the opposite path. Congressional approval of the Farm Bill indicates that the US government has bowed to the demands of its concentrated and powerful agricultural lobby (more than 80% of the total assistance provided to agriculture by the US Government, is allocated to the top 25% of farms classified by size). The bill not only locks in high levels of agricultural support but also increases them by around 21% (World Bank and IMF [2002]). Although most of the assistance will go to cereal producers, several other products (such as honey) have been added to the list, so there is a real potential for losses among efficient producers, as illustrated below.[41]

Program for Basic Products

The main elements of the program for basic products include direct and counter-cyclical payments. The following products have traditionally been considered basic in farm bills: wheat, maize, barley, sorghum, oat, cotton and rice. The 2002 Farm Bill makes two changes to the program of direct payments. First, it adds the following products: soya, peanuts and other oilseeds. Second, the old Farm Bill set limits on the maximum annual payments, while the new one does not. It is estimated that these direct payments provide income levels of 10%-20% above those corresponding to market prices.[42]

Counter-cyclical payments aim to ensure minimum prices to agricultural producers. Hence these payments isolate agricultural producers from international price fluctuations.

Conservation Programs

Conservation programs are another way of providing subsidies to agricultural production. These programs provide around US$17.1 billion to farmers working the land subject to conservation funds. The new Farm Bill includes new conservation programs, and increases the acreage that is eligible for receiving benefits.

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[40] A comprehensive analysis of unilateral changes to agricultural subsidy policies should also include a discussion of the recent reforms of EU subsidies, as well as the entrenched programs being implemented in Japan. The Farm Bill is singled out because in terms of magnitude it seems to be the most important.

[41] Unless otherwise stated, the other comments on the Farm Bill are taken from Basco, *et al.* [2002].

[42] Gardner [2002] estimates that the excess production of payments to basic products could reduce international cereal prices by 8%.

Export Promotion

The new Farm Bill extends the program of credit guarantees until 2007 and adds some new elements. First, it establishes a program of consultations with the Senate and the House on the negotiations on credit guarantees at the WTO. Such a political mechanism lessens the likelihood that an economically sensible agreement on dismantling export subsidies can be reached in the Doha Round.

Product-Specific Programs

In addition to traditional product-specific programs for dairy goods, peanuts and sugar, there are new programs for wool, honey, garbanzo and lentils. The new Farm Bill also includes funds for apple and vegetable producers.

In sum, in addition to the very negative signals sent by the bill, some analysts challenge the US position that the additional assistance is decoupled. They conclude that the extra aid will increase production by 4% and further lower international agricultural prices (World Bank and IMF [2002]; Freeman [2002] and Gardner [2002]).[43]

D. Conclusions

The Farm Bill is bad news for Latin America, and industrial countries' new preference schemes could also hurt exports from efficient middle-income agricultural producers. As indicated below, the Farm Bill is contrary to the positions tabled by the United States in the Doha Round. So could the "real United States please stand up"? For now the conclusion must be that the Congress is protectionist while the administration has taken a more liberalizing stance. Where, then, is the United States heading? There is both a pessimistic and an optimistic view. The pessimism stems from the fact that the Farm Bill was quite easily passed, being approved in the House by 280 to 141 votes, and in the Senate by 64 to 35. If this situation prevailed in 2002, why should it be different in a few years time? One possible optimistic view is that this strong protectionist bent can be modified if the outcome of the Doha Round and/or the FTAA involves export gains that are significant enough to counteract current protectionist agricultural lobbies in Congress.

Preference policies are a different matter. Traditionally, programs like the GSP have been unsuccessful in providing a significant boost to most countries that are subject to them. In part, this is because of convoluted administrative procedures involved in acquiring the right to export at reduced duties. Nevertheless, many developing countries' failure to increasing exports rapidly is also a result of their own policies. Trends in preference policies suggest that such policies will pay little if any attention to the importance of sound economic policies. Instead, the evidence indicates that poverty is the main criterion for deciding which countries do and do not have the right to a

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

tariff preference; a country can be granted preferences if it is poor. The above discussion offered a number of reasons why, in contrast to past experience, the new preference policies are more likely to induce investment, thereby threatening to displace middle-income developing countries' exports. This undermines the incentives for domestic reform which in turn adds another negative effect on Mercosur export prospects. The new preference schemes' goal of reducing poverty is so strong that some proposals tabled at the Doha Round call for a slower reduction of most favored nation (MFN) agricultural tariffs, so as to preserve preference margins for a longer period. If such proposals are implemented, multilateral liberalization will have been subordinated to unilateral policies. In the process, efficient agricultural developing countries will suffer twice: first from reduced market access to industrial countries, and second from the slower growth in developing countries that is attendant on probable delays in implementing economic transformation policies.

VI. ASSESSING THE PROSPECTS OF ALTERNATIVE EXTERNAL TRADE STRATEGIES

There is no doubt that the greatest gain that efficient agricultural exporters could attain would be in a far-reaching multilateral liberalization agreement. Some orders of magnitude for Argentina are presented in Table VI.1 The underlying exercise, based on a computable general equilibrium (CGE) model, compares the export gains of alternative liberalization programs, including: (i) the FTAA; (ii) a free trade agreement with NAFTA (FTNF); (iii) a free trade agreement with the EU (FTEU); and (iv) a multilateral free trade agreement. The numbers indicate that the FTAA has approximately the same effect on Argentina's exports as a free trade agreement (FTA) with the NAFTA countries. The impact of these agreements, moreover, is about one third that of an FTA with the EU or a global agreement.

TABLE VI.1
EFFECTS ON ARGENTINA'S EXPORTS OF TRADE AGREEMENTS
Change from base (US$ millions)

	FTAA	NAFTA	EU	Global
Brazil	-3,400	800	-1,700	-5,600
NAFTA	2,400	2,800	-800	900
Rest of LA	4,800	500	-1,200	2,800
EU	900	600	23,200	10,200
ROW	1,400	1,000	3,000	9,700
Total	6,200	5,800	16,300	18,000

Source: van der Mensbrugghe [2002],

A recent study of Brazil concludes that the best FTA would be a Mercosur-EU accord, but only on condition that there is free trade in agricultural products. In this regard the authors conclude that if "the EU excludes its highly protected agricultural products from the EU-Mercosur agreement, the gains to Brazil are reduced to only one ninth of the value of the gains with full preferential market access to the EU. If the United States employs antidumping to exclude market access to Brazil for most protected products in the United States, the gains to Brazil would be reduced to two thirds of the gains Brazil would obtain from full market access in the FTAA. If both agreements are implemented with excluded products, the FTAA will be more valuable to Brazil than the agreement with the EU" (Harrison, *et al.* [2002] p. 3).

In sum, and unsurprisingly, the picture to emerge indicates that agricultural liberalization in the FTAA would provide gains for most members, but that for some of the most efficient producers, like Argentina, such gains are only a fraction of those to be made in an FTA with the EU or an ambitious liberalization process in the Doha Round. As discussed below, however, unlike trade liberalization in the Western Hemisphere, which is an achievable proposition, neither the EU nor the global trade talks currently seem likely to lead to significant liberalization.[44]

[44] The FTAA will also diversify market destinations, which should help reduce Latin American countries' external vulnerability.

The discussion below assesses the prospects of multilateralism, regionalism and unilateralism.

A. Preliminary Assessment of the Doha Negotiations

The following discussion divides the Doha agricultural negotiations into two parts. It first concentrates on the proposals initially tabled by the Cairns Group (CG), the United States and the EU, and also includes the middle-of-the-road proposal put forward by Stuart Harbinson, then Chairman of the WTO Agricultural Committee. The discussion offers grounds for assessing the tensions that arose as the Cancún Ministerial Meeting approached. After that there is a brief discussion of the events leading up to the outcome of the Cancún meeting.

The Initial Stage

Although the various proposals tabled during the initial stage of the Doha negotiations have by now been superseded by recent events, it is nevertheless interesting to discuss them briefly in order to assess the extent to which the different positions have been changing. There follows a discussion of market access, export subsidies, and domestic assistance.

- Market Access -

Table VI.2 compares the CG, US and EU proposals on market access.[45] As is evident, the CG proposal was less ambitious on tariff reduction but it sought a wider expansion of the quota segments of the tariff quotas. Furthermore, it is clear that the CG proposal reflected a preoccupation with the importance of transforming non *ad valorem* tariffs (a central element of the proposal), while the United States proposal eschewed this point.

The EU proposal repeated the UR formula, namely an average tariff reduction of 36% with a 15% minimum reduction at the product level over six years. In line with the analysis in Section III, for many products with dirty tariffication a 36% reduction could lead to higher protection than that prevailing in the pre-UR years. Moreover, the proposal was silent on several other issues, including tariff peaks, specific tariffs, expansion of tariff quotas, and administration of quotas.

This proposal offered no substantive increase in market access, at least for the exports of middle-income countries such as the Mercosur members. Under the proposal, 50% of developed countries' agricultural imports from developing countries, and 100% of those from least developed countries, would enter duty-free (no tariffs or quotas). The impact of the former proposal has to be analyzed carefully but it seems unlikely that it adds much to existing market access conditions. The reason, as Section II shows, is that Mercosur's export potential is concentrated in a group of products that most probably will not be liberalized. The discussion in Section IV indicates that the EU's division of the developing world into LDCs and others is most likely to harm middle-income countries' export opportunities.

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[45] Information provided by a trade negotiator indicates that Canada, probably the most protectionist country in the CG, did not endorsed the proposal on market access.

TABLE VI.2
DOHA ROUND PROPOSALS ON MARKET ACCESS

Compromises	Cairns Group	US	EU
Tariff Reduction	DC: Swiss formula. First year down payment of 50% of total reduction. DVC: Reductions depending on the initial level of tariff.	Swiss formula with maximum of 25%.	Average reduction of 365 and minimum reduction of 15%.
Time Frame	DC: 5 years and DVC: 9 years.	5 years	DC: 6 years DVC: 10 years
Base	UR bound tariffs	Applied tariff in January 2000	UR bound tariffs
Minimum Access	DC: Increase to 20% of domestic consumption in 5 years. First year down payment of 50%. DVC: Expansion to 14% of domestic consumption in 9 years.	Increase by 20%. Part of this increase is to be allocated to non- traditional suppliers.	Silent
In-Quota Tariff	DC: Elimination DVC: Reduction	Linear elimination in 5 years.	Silent
Non *Ad Valorem* Tariff	Transform to *ad valorem* tariff with specific rules.	Does not specify methodology	Silent
Special Safeguards	DC: Elimination DVC: New mechanism to be negotiated.	Elimination	Maintain

Source: Argentina's Secretariat of Agriculture.

- Export Subsidies -

As Table VI.3 shows, the EU proposed reducing export subsidies by only 45%,[46] while the CG and the United States proposed their elimination. The reduction was to be applied to the bound values, not the applied values. Since for most countries the latter are well below the former, in most cases the reduction would have had no effect in reducing protection. Additionally, the proposal set no product-specific limits, and thus there was no assurance that international dumping would decline. This is obviously another significant issue for the Mercosur countries, which export products such as dairy goods and meat -sectors in which EU export subsidies have been very substantial-.

TABLE VI.3
DOHA ROUND PROPOSALS ON EXPORT SUBSIDIES

Compromises	Cairns Group	US	EU
Reduction	Progressive elimination	Progressive elimination	Substantial reduction
Time Frame	DC: 3 Years DVC: 6 Years	5 Years	DC: 6 Years DVC: 10 Years
Peace Clause	Presupposes termination	Silent	Continuation

Source: Argentina's Secretariat of Agriculture.

[46] The proposal also states that on the condition that other subsidizing countries follow, the EU is prepared to eliminate export subsidies for wheat, oilseeds, olive oil and tobacco. In assessing this proposal it should be recalled that the volumes of these products exported by the EU are not significant.

- Domestic Assistance -

Table VI.4 reveals significant differences in the proposals to lessen the negative effects of domestic assistance policies. In particular, the EU proposal to reduce the value of the amber box by 55%, and to do nothing with regard to the blue box (which it uses heavily), was in sharp contrast to the CG proposal to eliminate both.

TABLE VI.4
DOHA ROUND PROPOSALS ON DOMESTIC ASSISTANCE

Compromises	**Cairns Group**	**US**	**EU**
Amber Box	Elimination	Reduction to a maximum of 5% of agricultural production	Reduction by 55%
Time Frame	DC: 5 Years DVC: 9 Years	5 Years	DC: 6 Years DVC: 10 Years
Reduction by Product	Yes	Silent	Silent
Blue Box	Elimination	Add to amber	No modification
Green Box	Revise and cap it	Maintain *status quo*	Expand to include programs such as animal welfare

Source: Argentina's Secretariat of Agriculture.

- Harbinson Proposal -

In an attempt to bridge the gap between the different proposals, and to help to meet the March 31, 2003 deadline agreed for establishing the reform modalities for the agricultural negotiations, WTO Agricultural Committee Chairman Stuart Harbinson tabled an intermediate proposal. What follows is a summary of the proposals on market access, export subsidies, and domestic assistance included in the Harbinson text.

Market Access

Tariffs. Tariff cuts to be made from bound levels, which are generally higher (and sometimes much higher) than applied tariffs. Except for the in-quota tariffs, the cuts are as follows:

- For tariffs higher than 90% the average reduction is 60%, with a minimum cut of 45% per tariff line.
- For tariffs below or equal to 90% the average reduction is 50%, with a minimum cut of 35%.
- For tariffs below or equal to 15% the average cut is 40%, with a minimum cut of 25%.

Tariff-quotas. Final bound quotas that are less than 10% of the average consumption in 1999-2001 period would be expanded by 10%. *This was significantly lower than the CG proposal*.

Implementation period. Five years for industrial countries and ten years for developing countries.

Special and differential treatment. Developing countries' average tariff reduction and quota expansion are lower than the parameters proposed for industrial countries. For the highest tariffs, for example, the proposal includes an average reduction of 40% (instead of 60%), and a minimum cut of 30% (instead of 45%).

Other elements. These include: (i) converting all non-*ad valorem* tariffs such as variable levies into *ad valorem* tariffs; (ii) improving the rules for the administration of the quota allocation system; and (iii) for industrial countries, eliminating special and differential treatment.

Export Subsidies

Eliminate export subsidies: for 50% of products in five years and for the other 50% in ten years. The proposal also calls for limiting the terms and interest, so as to bring export credit closer to market conditions. Aid for food would be given in cash instead of in kind. Greater constraints would be imposed on state-trading enterprises in both industrial and developing countries, there would be a ban on export taxes, and other forms of export restrictions would be eliminated.

Domestic Support

On this issue, the Harbinson proposal included: (i) cap and bind blue box payments and reduce by 50% or include the blue box in aggregate measure of support (AMS) and reduce by 60%; (ii) reduce amber box by 60%; and (iii) reduce *de minimis* support.

In sum, the initial proposals tabled by the CG and United States sought a far-reaching liberalization of agricultural trade, while that of the EU sought (at most) minimum reforms. Harbinson's proposal was a middle-of-the-road attempt to steer the negotiations towards a successful outcome but, as indicated below, this also came to naught, mainly because the EU did not want to change its position. No such inflexibility was displayed by either the United States or the CG, but the history of recent decades suggests that on agricultural matters the EU has prevailed.

The Cancún Meeting

The Doha agricultural negotiations are again revealing the EU's resistance (and that of Japan and South Korea) to significant liberalization of agricultural trade. A brief review of what happened in the final days before the Cancún Meeting illustrates how the different players acted. On August 13, less than a month before the meeting, the United States and the EU tabled a joint text (JT) at the Doha agricultural negotiations. The substance of the proposal indicates that the United States had abandoned its initially ambitious position and, although the JT on the three pillars of agricultural protectionism offers no specific numbers, it is clear that the United States has come much closer to the EU position than *vice versa*. Some of the weak points of the JT include:

- Average reduction of domestic support instead of a product-specific obligation.
- Unlike the CG proposal, the JT does not propose elimination of the amber box.
- The JT is silent on the blue box, in contrast to the CG proposal for its elimination.
- The JT says nothing about capping the green box and strengthening disciplines.

- The blended formula for improved market access leaves room for a great deal of negotiation that might eventually entail minimal liberalization.
- The special agricultural safeguard for industrial countries is to be negotiated instead of abolished.
- On special and differential treatment, the JT proposed establishing a special safeguard for developing countries. There is as yet practically no assessment of the likely costs and benefits, but under some scenarios this instrument could inflict serious damage on South-South trade. In contrast, the Harbinson proposal said that special safeguards would not be imposed on imports from other developing countries.
- The JT is silent on quota expansion and administration procedures.
- The JT is ambiguous on the extent to which export subsidies will be eliminated. This is inconsistent with the mandate of the Doha Ministerial Declaration.

On August 20, a group of developing countries presented a counter-proposal to the EU-US joint text in an effort to redress several of its protectionist elements. Consequently, only few days before the Cancún meeting, there was a serious divergence in the positions of the different groups. On August 24, Carlos Perez del Castillo, Chairman of the WTO General Council, released a draft ministerial proposal that was opposed by the G-20, a group formed to strengthen negotiating capacities at the Cancún meeting. In addition to most of the Cairns Group countries, the G-20 includes China and India, whose export interests clearly differ from those of Latin America. The group was brought together by a profound dissatisfaction with existing multilateral rules, as well with the continued mercantilist positions of several industrial countries that offered very little in agriculture and that additionally wanted negotiations in the new areas of the Singapore agenda.

On the first day of the Cancún meeting the discussions sought to bridge the gap between the G-20 and the joint text; this effort failed. It is paradoxical that, in the end, it was the Singapore issues and not agriculture that brought about the failure in Cancún. Nevertheless it is unlikely that anyone could fail to believe that if the Singapore issues had not brought the meeting to an end, agriculture would have done so.[47]

The failure of the Cancún meeting does not mean the failure of the Doha Round, but it is too early to speculate as to where the negotiations are heading. At the present juncture (early 2004), in spite of important efforts, the Doha Round remains stalled mainly because of disagreements on agricultural policies.

B. Prospects of Regionalism: Mercosur's Labyrinth in a World of Domino Regionalism

Figure VI.1 indicates that the number of regional trade agreements notified to the WTO continues to grow. In this dynamic regional process, Mercosur has lost momentum to an extent that is likely

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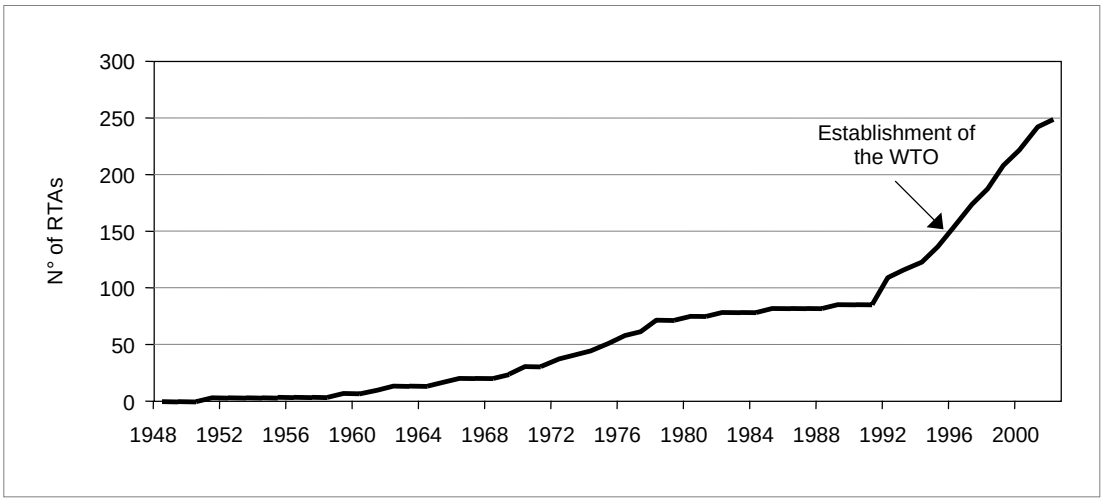
[47] For Sunday, September 14, the closing day, Luis Derbez, Chairman of the Cancún meeting, put the Singapore issues at the top of the agenda, to be followed later by agriculture. Nevertheless, the Meeting ended abruptly during discussion of the Singapore issues, which separated the EU from the "no Singapore topics" position of several African countries.

to entail increasing costs for the member countries. Since its creation in 1991, Mercosur has signed FTAs only with Bolivia, Chile and Peru, while other countries have moved faster. As Section IV indicates, some of the new agreements have had significant negative export consequences for the Mercosur countries. In addition to the negative effects of NAFTA, and of the successive enlargements of the EU, other important trading partners have signed FTAs that will probably entail further losses.[48] Important Mercosur trading partners that have continued to sign FTAs include Canada, Chile,[49] the United States, and the EU among others (Salazar-Xirinachs [2001]).

FIGURE VI.1
NUMBER OF REGIONAL TRADE AGREEMENTS NOTIFIED TO THE WTO



There are two reasons why the Mercosur should be seriously concerned with this trend. The first refers to the trade diversion effects that each additional regional agreement has on the Mercosur countries' agricultural exports; Section V provides many examples of how this is happening.[50] The second concerns the additional protectionist effects of rules of origin, which could be hidden in the regional agreements to the benefit of powerful domestic lobbies in the member countries and to the detriment of their consumers and non-member countries. There are many rules of origin, not all of which have the same protectionist effect, but as Krueger [1997] points out: "all of these rules give rise to problems of bureaucratic implementation and interpretation", and "they provide an opportunity for representatives of individual interest groups to lobby to avoid competition from imports" (p. 15). Since each expansion of existing trade agreements opens up opportunities for lobbying by the industries of the member countries, it is likely that the price of entering an

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[48] It is sometimes argued that FTAs also have positive dynamic effects on non-member countries. It is an open question whether the increasing number of overlapping FTAs has created positive dynamic effects that offset the negative effects of trade diversion on Mercosur. In any case, in the presence of trade diversion, members of FTAs benefit more than non-members; this is what is to be highlighted here.

[49] Chile's regional policies are analyzed in Harrison, *et al.* [2001].

[50] Several observers have concluded that trade diversion effects comprise one of the main reasons for the proliferation of regional trade agreements (Baldwin [1997]).

agreement rises for each new entrant. The precise protectionist effects that rules of origin might have had on the exports of efficient agricultural exporters remains to be studied.

This dynamic process of regionalism is expected to continue unabated for the foreseeable future. Even Asian countries, which until recently had maintained a strong multilateral stance, are starting to advance projects for strengthened regional agreements. This process seems to have gained momentum since the United States began discussions on an FTA with Singapore. The countries of the Association of Southeast Asian Nations (ASEAN) have started discussions for an FTA with China, which in turn is likely to enter into further negotiations with other countries. If the trend begun by the US-Singapore negotiations continues to gather strength in Asia, the WTO is likely to suffer as Asian support for the multilateral system weakens.[51]

What explains Mercosur's slow progress in reaching regional agreements with new prospective members? Consider three hypothesis: (i) its strong comparative advantage in agriculture; (ii) the resources and energy devoted to deepening the agreement while relegating business-oriented policies; and (iii) the serious macroeconomic disequilibria among the Mercosur member countries. A few comments serve to illustrate some of the forces at work. First, Mercosur offered to conclude an FTAbut this position was never acceptable to the EU. The negotiations with the EU are at an impasse, in part because of the crisis in Mercosur but mostly because the EU is willing to negotiate only a very mercantilist agreement, whereby it seeks free trade in all goods in exchange for what is essentially free trade only in manufactured products (Nogués [2003]).[52]

Other issues fall within the set of what can be called deepening goals and institutional constraints. The list of actions and policies to deepen Mercosur is certainly not short, ranging from the elimination of a substantial number of NTBs (such as antidumping measures and trade constraints arising from technical barriers and sanitary measures) to the introduction of a common currency. Bouzas and Soltz [2001] discuss Mercosur's institutional shortcomings, including inadequate dispute-settlement mechanism and the declining credibility of decisions made at the negotiating table, which are never transposed into the members' domestic legislation. The time and energy that government officials devote to resolving these problems has been very substantial but quite unproductive, the main reason being the serious macroeconomic disequilibria in the member countries, particularly Argentina and Brazil. These disequilibria reached a point of maximum tension in 2001, when the overvaluation of the Argentine currency peaked just before the devaluation of early 2002. These serious exchange rate misalignments created severe tensions when Argentina had to negotiate a waiver from the other Mercosur members in order to increase the common external tariff on consumer goods (Nogués [2002]). In the absence of sustainable macroeconomic conditions, the Mercosur members will continue to suffer instability and trade policy will continue to be used as an instrument to offset exchange rate misalignments.

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[51] East Asian economies are very open and for them, the best trading arrangement is one of multilateral trade liberalization.

[52] Note that Mercosur protects its agriculture through *ad valorem* tariffs, so the EU already has far greater access to Mercosur than the latter has to the EU. The latter has never offered free trade in agricultural products to any of the partners with which it has signed FTAs, including the CEECs. This has prompted one author to conclude that signing an FTA with the EU has many elements of wishful thinking (McQueen [2002]). In this sense, the Mercosur countries made a mistake if they ever thought that the EU will actually sign a real FTA.

C. The Fourth Pillar

Since around the time that the Uruguay Round concluded, the EU has been offering arguments and analysis on a number of issues for which it seeks new multilateral rules as part of the Doha Round. In essence, all of these arguments imply the construction of what has been called the fourth pillar of the EU's protectionist policies. Table VI.5 presents a list of this pillar's elements. First, the EU seeks to enhance product safety rules that would allow a much more discretionary use of the precautionary principle than is the case under the existing rules. In initiatives such as banning genetically modified organisms, the EU is already at fault since it has failed to offer strong scientific evidence that they are harmful to human or animal health. A second aim is to extend the Agreement on Technical Barriers to Trade so as to include rules on labeling and traceability, which will increase the costs of exports to efficient agricultural producers. Finally, the EU seeks to include the concepts of rural development, the environment and animal welfare in the Doha Round's new Agreement on Agriculture.

TABLE VI. 5
NON- TRADE CONCERNS

Concern	Cairns Group	US	EU
Food Safety	Silent	Silent	Clarify article 5.7 of the SPS Agreement
Labeling	Silent	Silent	Clarify article 2 of the TBT Agreement
Rural Development	Silent	Silent	Include under the coverage of the Agreement on Agriculture
Environment	Silent	Silent	Include under the coverage of the Agreement on Agriculture
Animal Welfare	Silent	Silent	Include in green box

Source: Argentina's Secretariat of Agriculture.

D. Prospects from Preferential Policies

Section V offered several reasons why new preference policies such as "Everything But Arms" and the AGAO are more likely to damage exports from middle-income agricultural producers than was the case with past policies. Practically all proposals at the Doha negotiations, including those of the Cairns Group and the United States, support special and differential treatment for poor developing countries. The first modalities draft of the Doha agricultural negotiations, which presumably takes a middle position among all agricultural proposals, recommends a number of policies that would harm middle-income exporters. Most notable is an exception to the tariff reduction scheme for industrial countries: "tariff reduction affecting long-standing preferences in respect of products which are of vital export importance for developing country beneficiaries of such schemes may be implemented in equal annual installments over a period of (eight) instead of (five) years by the preference granting participants" (WTO [2003]). This might be the first time in the history of the GATT-WTO trading system that multilateral liberalization policies are subordinated to unilateral preference policies. If this proposal is adopted, the blow to middle-income agricultural producers will be twofold: reduced exports to poor countries, and reduced

exports to rich countries. The modalities draft also proposes special and differential policies that help poor countries to attain food self-sufficiency. These include an open-ended list of products to be excluded from the tariff reduction commitments and a special agricultural safeguard.

E. Conclusions

For the Mercosur countries, the conclusions to be drawn from the above analysis are discouraging. On the one hand they face little if any chance of leaving the Doha Round with a balanced exchange of concessions, one that includes a significant liberalization of world agricultural trade flows. There is some likelihood that precisely the opposite might happen -namely, that the fourth pillar of the CAP being erected by the EU will raise additional barriers to the region's exports as is occurring with the ban on GMOs-.

Similarly, the Mercosur countries have shown little capacity to adapt to a world in which regional trade agreements continue to flourish. Each new agreement signed by a NAFTA member, each new enlargement of the EU, each new deepening of existing agreements, erodes the Mercosur countries' agricultural competitiveness. This is particularly true inasmuch as the protection of agriculture remains very high in most countries.

What can these countries do in these circumstances? As mentioned earlier, the Mercosur countries have to maintain a strong stance in the Doha negotiations. What precisely can be done is discussed in the final section. At the same time, Mercosur is beset by an incapacity to expand its export opportunities by means of new regional agreements. In this situation the active negotiation of the FTAA -with the goal of reaching agreement by 2005- seems to be one opportunity that merits careful attention.

VII. THE COSTS AND BENEFITS OF THE FTAA FOR AGRICULTURAL TRADE

The proposal to establish the FTAA currently stands as the salient opportunity to open up regional agricultural markets of some products. This section addresses two main issues: what is at stake for agricultural products in the FTAA, and at what costs would enhanced market access be achieved.

A. Agriculture in the FTAA

The few studies to have estimated the income and trade effects of agricultural liberalization under the FTAA are based on CGE models. Such models provide an indication of potential impacts but should not be used as substitutes for detailed, in-country analysis of what might be the economic effects of the FTAA's agricultural negotiations. These latter analyses, not the numbers spawned by general equilibrium models, should be used in Latin America's internal debates about the benefits and costs of the FTAA. Only governments working closely with their dairy industries, for example, can come to know with precision the range of trade barriers and other current or potential threats the industry faces in export markets, as well as the constraints on expanding investment in the sector and on supporting the employment of workers from industries that will contract. Such studies raise questions and provide tentative answers that cannot be addressed in CGE models. Unfortunately, Latin American countries have still not undertaken these exercises, which poses a serious problem.[53]

With this clarification, note some of the main insights provided by Monteagudo and Watanuki [2002]. Their study assumes that only trade in agriculture is liberalized. It includes 16 sectors: wheat, cereal grains, vegetables and fruits, oilseeds and soybeans, sugar, plant-based fibers, coffee and tea, bovine cattle, other animal products, bovine meat, poultry meat, vegetable oils, dairy products, beverages and tobaccos, and other food products. The estimates include the elimination of the three main policy distortions: barriers to market access; domestic support; and export subsidies. The results show that the main impact of the FTAA stems from the removal of barriers to market access, while the removal of the other distortions have only minor effects. To provide a broad picture, the focus here is on the elimination of barriers to market access.[54]

Table VII.1 shows *ad valorem* tariffs, which include the equivalent effects of specific, mixed tariffs and tariff rate quotas levied mainly by Canada, the United States and Mexico. Looking first at the weighted averages, Argentina has the lowest protection while Mexico and Central America have the highest. Chile and the Andean Community also use price bands to protect many agricultural products, but these have apparently not been included in the estimates;[55] to this extent the figures for these countries are underestimated. The figures also indicate sectors protected with high

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[53] An indication of what countries could be doing is provided by the kind of estimates and analysis being prepared by the United States Department of Agriculture (USDA), which looks at the potential gains of the FTAA for an extensive list of agricultural products. Without a detailed assessment on a product-by-product basis, it is risky to estimate the adjustment costs of the FTAA for each country (Burfisher and Jones [1998]).

[54] Other research indicates that the salient agricultural policies with the greatest costs are those that limit market access. See, for example, Casaburi and Sanchez [2000].

[55] Chile, for instance, has a uniform tariff of 11% but it has price bands for cereal products that increase protection well above this level.

equivalent *ad valorem* tariffs, particularly in Canada and the United States. In sum, while the Americas has clear comparative advantage in agricultural products and a systematic net trade surplus (Section II), sectors in several countries are protected with high tariffs and thus trade liberalization holds the promise of delivering significant income and trade gains.

TABLE VII.1
EQUIVALENT *AD VALOREM* TARIFFS (%) OF THE RESPECTIVE COUNTRIES AND REGIONS (1997) (1)

Commodities	Canada	US	Mexico	Central America	Andean Community	Argentina	Brazil	Chile
Rice	0.4	4.7	15	28.6	16.4	12.1	13.9	11
Wheat	34.8	3.9	67	1.2	11.6	6.5	6.5	11
Cereal Grains	8.6	0.8	38.4	9.7	12	6.6	6.6	11
Vegetables and Fruits	4.2	5.7	17.9	18.1	15	11.1	11.1	11
Oilseeds and Soybeans	0	19.3	3.1	4.7	10.6	5.9	5.9	11
Sugar	6.9	10.4	89.8	29.8	14.4	19	17.2	11
Plant-based Fibers	0.9	2.1	10.8	6.9	9.6	8.5	8.2	11
Coffee and Tea	2.7	14.9	10.3	9.7	9.8	9.3	9.4	11
Bovine Cattle	0.3	1.5	8.3	7.9	8.8	2.6	2.6	11
Other Animal Products	13.7	0.6	13	12.5	11.6	9.2	9.3	11
Primary (weighted)	*4.3*	*8.2*	*9.4*	*12.4*	*11.9*	*7.1*	*8.2*	*11*
Bovine Meat	15.6	5.6	34.7	17.5	16.5	12	12	11
Poultry Meat	66.2	3.7	68.3	34.3	17.3	13.9	13.9	11
Vegetable Oils	11.1	4.7	19.2	12.9	14.9	12.2	11.9	11
Dairy Products	133.4	22.2	41.5	37.3	17.9	18.2	19.9	11
Beverage and Tobaccos	13.6	17.6	32.3	22.6	17.3	21	21.1	11
Other Food Products	15.8	10.1	19.9	16.2	16.2	15.2	15.3	11
Processed (weighted)	*22.4*	*12.3*	*32.9*	*21.9*	*16.5*	*14.4*	*16.9*	*11*
Average (weighted)	*16.0*	*11.1*	*26.4*	*18.2*	*14.5*	*10.9*	*12.7*	*11*

Note: (1) The sectoral ad valorem protection rates are estimated as the simple average of the corresponding tariff line schedules. For countries and regions in the Western Hemisphere, data include ad valorem, and equivalents of specific, mixed and TRQs.
Source: Monteagudo and Watanuki [2002].

Table VII.2 shows the impact of tariff elimination on exports by country, measured as the percentage change from the base year (1997). The results indicate that while the highest export increases are recorded for Argentina and Chile in both processed and agricultural products, all countries in the region -including Canada and the United States- would gain.[56]

In short, agricultural liberalization in the FTAA would offer gains to most members, although for some of the most efficient producers (such as Argentina) these are only a fraction of the gains they

[56] It is interesting to note that the gains from the FTAA reported in Burfisher and Jones [1998] for agricultural trade are less than those presented here. This study illustrates what was said earlier about the importance of Latin American countries carrying out their own analysis.

could achieve in an FTA with the EU or an ambitious liberalization in the Doha Round. Unlike trade liberalization in the Western Hemisphere, however, which is an achievable proposition, neither the negotiations with EU nor the global trade talks currently seem likely to produce significant liberalization.

TABLE VII.2
IMPACT OF AGRICULTURAL TARIFF REFORM ON TOTAL EXPORTS
(Percentage change from base)

Commodities	Canada	US	Mexico	Central America	Andean Community	Argentina	Brazil	Chile
Rice	0.00	17.13	76.77	8.13	13.82	7.35	-0.02	0.00
Wheat	2.67	0.75	1.08	4.74	17.92	-0.83	-0.43	0.00
Cereal Grains	1.22	2.64	6.72	-0.04	14.92	1.66	5.16	2.75
Vegetables and Fruits	6.83	3.55	1.47	4.02	4.96	1.66	8.72	8.31
Oilseeds and Soybeans	5.00	0.92	37.13	18.50	5.92	4.67	2.15	44.51
Sugar	23.72	31.13	12.23	15.66	14.31	23.37	4.38	0.85
Plant-based Fibers	2.55	2.00	3.98	4.62	4.81	1.56	3.9	-0.50
Coffee and Tea	2.33	2.69	2.94	5.67	5.20	12.34	1.97	14.66
Bovine Cattle	1.00	0.79	0.84	7.52	8.12	12.93	17.57	23.08
Other Animal Products	0.46	2.76	0.51	7.66	5.81	1.14	2.14	3.28
Primary	*2.86*	*2.51*	*2.48*	*7.76*	*6.47*	*2.28*	*2.81*	*7.40*
Bovine Meat	6.89	4.25	0.29	12.49	10.94	4.65	0.76	9.56
Poultry Meat	3.86	7.81	3.46	16.45	11.15	10.72	3.55	24.93
Vegetable Oils	-0.17	7.60	5.32	17.04	6.95	3.57	0.95	22.44
Dairy Products	17.46	22.79	46.13	40.39	23.49	14.90	9.69	42.07
Beverage and Tobaccos	4.28	3.36	5.16	22.74	23.16	21.36	42.49	30.62
Other Food Products	8.19	4.97	10.25	12.85	7.26	14.34	21.14	13.85
Processed	*6.47*	*5.63*	*8.42*	*16.20*	*8.79*	*7.48*	*9.24*	*17.21*
Agriculture	*4.49*	*3.93*	*5.01*	*10.21*	*7.42*	*5.32*	*5.62*	*13.55*

Source: Monteagudo and Watanuki [2002].

B. Other Possible Benefits and Costs of the FTAA

For Latin America, the benefits and costs of the FTAA for agricultural trade can be grouped into two categories: expanded market access opportunities and greater bargaining leverage.[57] Finally, it is interesting to note that the FTAA will redirect exports and in this sense will help diversify markets, thus lessening the external vulnerability of many Latin American countries. The potential costs of the FTAA include the continued agricultural protectionism of Canada and the United States in the form of export subsidies and domestic assistance policies. Costs may also arise from other items included in the agenda such as intellectual property and government procurement.

[57] There will also be gains from stronger institutional links among countries with different levels of development (Devlin and Estevadeordal [2002]). Berg and Krueger [2002] survey the potential gains of institutional strengthening effects.

Benefits

Table VII.2 presents estimates of possible FTAA-induced export gains. Three comments should be added. First, in bilateral negotiations with Latin American countries, the United States has displayed a capacity to reduce agricultural protection; Mercosur has not been successful, as evidenced by the successive delays in FTA negotiations with the Andean Community. The United States lowered trade barriers in NAFTA to dismantle Mexican agricultural protection of important products, including wheat (Cerro and Velez [2000]). In the recently completed negotiations between the United States and Chile, the United States announced that it had dismantled the price bands for regional trade in several agricultural products (*http://www.ustr.gov*). Likewise in the FTA with Central America.

Second, there are gains to be made in market access from more predictable sanitary and phytosanitary regulations. As discussed in Section VI, while the EU insists on introducing the precautionary principle into multilateral rules, the United States is opposed not only to the principle but to other protectionist proposals in the new areas. As net agricultural exporters, Latin American countries have much to gain from standing by the US position. As part of the FTA, moreover, the United States has agreed to help Chile and Central America in the area of sanitary measures; such assistance could be expanded as part of the FTAA.

Third, the Americas already features an increasingly complex web of regional trade agreements and there is every indication that, in the absence of the FTAA, this process will continue. Each of these agreements has the potential to expand agricultural protection to the detriment of non-member countries. The existing agreements include hundreds of rules of origin that have posed problems of interpretation, with protectionist effects (Estevadeordal [2002]).

Finally, as regards negotiating strengths, recall that to date the outcomes of multilateral trade negotiations have been closer to the EU position than to those of the United States or the Cairns Group. This was the case in the Uruguay Round (Finger and Nogués [2002]) and, as mentioned earlier, is likely to be the case in the Doha Round. The FTAA promises to unite a whole continent against agricultural protectionism of the type practiced by the EU and Japan. It is unclear whether this coalition will be successful in convincing these countries that they must apply more rational agricultural trade policies, but it certainly has a greater prospect of succeeding than do the FTAA members negotiating in isolation.

Costs

On agricultural policies, the costs of the FTAA concern the continued use of export subsidies by the United States and Canada, and the domestic assistance policies that they can also finance and implement. On export subsidies, there appears to be a quite unanimous agreement among the FTAA countries that they should be dismantled.[58] The questions appear to center more on when

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

and how fast than on whether. Nevertheless, there are a few issues on which there seem to be some differences. The first relates to the question of which policies should and should not be considered export subsidies in hemispheric trade. In particular, the negotiations have uncovered differences as to whether export credits and export credit guarantees and insurance programs are subsidies. One group of countries argues that these policies do not provide subsidies, simply because they are not banned by the WTO; others believe the contrary. This discussion should not be driven by rule-making lawyers but by sound economics, and in this sense it should be relatively straightforward to clarify the role played by credit guarantees. The draft FTAA Agreement on Agriculture already includes an annex with a long list of regulations that presumably prevent such policies from granting subsidies. Even if this is the case, Latin America is a cash-poor region with little if any capacity for financing subsidies. Furthermore, most countries in the region have a weak capacity to monitor compliance with the application of the rules. Hence the use of policies like export credit guarantees and insurance programs in the FTAA is more likely to harm Latin America than the United States and Canada. They should therefore be dismantled for hemispheric trade flows.

At the end of the UR's implementation period, the following are the amounts of export subsidies (and share in total) allowed by the WTO Agreement on Agriculture: EU, US$8,496 million (61.9%); the United States, US$929 million (4.4%); Mexico, US$748 million (3.5%); Canada, US$567 million (2.7%); rest of the world, US$10,593 million (27.5%).[59] These sizable amounts of legalized subsidies have posed two additional problems in the FTAA negotiations: (i) how to treat hemispheric imports that are subsidized by third countries; and (ii) how to treat exports to third markets that compete with subsidized exports from third countries. Among the bracketed proposals on the first point, the present author sympathizes with the one whereby FTAA countries agree to apply countervailing duties to subsidized imports. There is also a proposal that if this does not happen, FTAA countries could subsidize their exports to the importing member country. Latin America has little capacity to match rich countries' subsidies; there is a risk that while the United States and Canada could do this, such an endeavor would displace exports from other FTAA countries to the importing member country. To sum up, the best FTAA would entail no export subsidies in hemispheric trade and an agreement to apply countervailing measures to subsidized imports from third countries in the most expeditious way allowed by the WTO countervailing duties agreement.

The second problem, exports to third markets that compete with subsidized exports from third countries, is more difficult to tackle. Among the proposals made so far, the call for consultations before member countries decide to match subsidies is reasonable. Obviously, progress in the negotiations on dismantling export subsidies in the Doha Round would lessen the problems of unfair trade in the formation of the FTAA. As discussed below, however, the EU remains opposed to this, despite agreement by the United States and the Cairns Group that export subsidies must be dismantled. FTAA countries should therefore be prepared for the EU (in particular) to continue to grant export subsidies in third markets, but probably ever less so.[60]

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[59] Data from Argentina's Secretariat of Agriculture.

[60] At the end of the peace clause (Article 13 of the Agreement on Agriculture) in December 2003, the FTAA countries will be better placed to initiate cases in the WTO dispute-settlement body. In this regard, the EU should not succeed in its attempt to extend the deadline of this clause.

Although the FTAA talks include domestic assistance policies, the United States and Canada are pushing for their reduction in the Doha Round. If little or no progress is made in the WTO talks, some Latin American exports will be at risk. Take, for example, the case of honey, of which Argentina is a major exporter. Through non-recourse loans, the recent US Farm Bill has assured beekeepers (and other producers of selected commodities) a minimum purchase price; as has happened in the past, this could become heavily subsidized (Alberta [2001]). This might happen for many other products that could become subject to subsidies, and these effects must be carefully assessed.[61]

Finally, costs are also likely to arise if agreement in other agenda items is reached in line with the positions proposed by the US. The salient example is intellectual property but several countries such as Argentina and Brazil, worry that costs may also have to be paid if concessions are given in areas such as government procurement and investment as required by the US (Nogués [2003a]).

To sum up, if the FTAA succeeds in dismantling the region's barriers to market access of agricultural products, there will be important gains to be reaped but the costs that will have to be paid for this remain unclear. At the recent Miami Summit, Argentina and Brazil raised serious doubts about the benefits of some FTAA agenda topics and as a consequence, the final format of the FTAA is currently under review. In the meantime, the US has completed FTAs with Chile and Central America in line with its demands. Clearly, it is US agricultural producers who will be benefiting from these agreements in many instances, at the expense of Mercosur's exports. Clearly, the tradeoffs are rapidly changing and Mercosur has to factor this changing environment when deciding on its strategic next steps.

[61] The FTAA negotiations should include the effects of the Farm Bill and Latin America should demand compensation. This proposal is independent of the fact that the Farm Bill is within the range of policies acquired by the United States in the UR. If the true spirit of the FTAA is embraced through integration, then a bad WTO agreement such as the AA should not become an obstacle to the vision in the Western Hemisphere.

VIII. POLICY SUGGESTIONS

The single-undertaking rule of the Uruguay Round, take it or leave the GATT-WTO multilateral system, was a kiss of death to agricultural exporters particularly of temperate zones like the Mercosur countries. To some extent, the Agreement on Agriculture improved transparency and this is put prominently by observers that remain positive with the outcome of this Round. Nevertheless, many other policies green-lighted by this Agreement opened the door to highly distortionary policies that have allowed agricultural protectionism to increase particularly in industrial countries after this round was completed. In my view, the URAA is the worst in the history of the GATT-WTO.

Once burned, twice wise and the Mercosur countries are now negotiating with far greater determination than in the Uruguay Round. This is great news which unfortunately may come too late. For example, in the Doha Round Brazil and Argentina have joined the G-20 and stand firm in demand for a more open multilateral system. Essentially, their position is that no agreement is far better than another unbalanced outcome. Also, under the pressure of the Mercosur countries, in the FTAA negotiations, the single-undertaking rule has been abandoned. The first policy suggestion is for the Mercosur countries to maintain the firm stance that they have taken as defined in the G-20 position. Accepting anything less will probably involve more costs than benefits. No agreement is better than another unbalanced outcome like the UR but if this is the final outcome, then the Mercosur countries will have to live with the URAA probably for decades to come.

A second suggestion is to strengthen the demands of the Mercosur countries in negotiations with industrial countries with further empirical analysis of the costs inflicted by their protectionist policies. Two effects for which there is practically no evidence are in the area of social impacts (poverty and distribution), and the solvency implications. Important trade policies like the GSP, AGOA and Everything but Arms are implemented with a clear poverty-reduction focus. At the same time, industrial countries' agricultural policies have impoverished the Mercosur countries but this is nowhere demonstrated with professionalism. This knowledge-vacuum should end.

A third suggestion is for the Mercosur countries to demand that debt and trade be included as a negotiating topic. The line of reasoning that links these two issues is simple. Rich countries' trade barriers reduce exports and worsens the solvency indicators of efficient producers thus raising domestic interest rates which in turn lowers growth. Clearly trade and debt are more closely linked than other areas that are currently being negotiated like trade and intellectual property, and trade and environment which are two areas of interest to industrial countries. Bringing trade and debt into the negotiations would also tilt the political-economy in favor of liberalization. Creditors in industrial countries would become a force against powerful agricultural lobbies and would argue that if the barriers that protect these groups are not lowered, they would likely not cash all of their loans.

A fourth policy suggestion is to use the opportunity opened by the expiration of the Peace Clause to initiate cases under the Dispute Settlement Body of the WTO against subsidy policies with clear negative effects on Mercosur's exports. The media has reported that cases are being analyzed and initiating these cases would begin to document just how costly these industrial country policies are. In this regard, countries in the region should not feel weakened by the political clout of industrial countries' negotiators.

A fifth suggestion is for Mercosur to remain alert of the negative consequences of RTAs to which it is not a party. Based on sound evidence, compensation should be sought for actions such as the forthcoming expansion of the EU. It is recognized that RTAs generally have negative consequences on non-members and the evidence presented above indicates that this is all the more likely, the higher the protection afforded by the member countries. This is precisely the case in temperate agricultural products in most RTAs to which Mercosur is not a member.

As said, regionalism could produce results that are superior to the very poor outcomes of the multilateral negotiations. Nevertheless so far, the regional policies of the Mercosur countries have not been successful in knocking down agricultural trade barriers. On the contrary, the analysis shows several examples of how regional policies by many non-member countries have had clear negative effects on agricultural exports of member countries. The failure of Mercosur in expanding its regional outreach suggests that it is becoming an agreement that has ceased to create business and growth opportunities to the member countries. Two policy suggestions stem from here.

The first is based on the fact that in recent years, the dynamic markets for agricultural exports have been the developing countries. This apparently contrasts with the allocation of resources of Latin America's Governments which have been mainly allocated to negotiations with industrial countries. The highly mercantilistic stance of these countries is another reason why more attention has to be paid to integration with other developing countries. The recent announcement of a trade agreement between Mercosur and some of the Andean countries apparently represents a good example. Ongoing efforts to cement closer ties with China, India and other developing countries with weak comparative advantage in temperate agriculture, could become promising negotiations.

Second, as discussed in the previous section, in the forthcoming months the focus of attention will be the FTAA. Several elements in the agenda look promising, but others may entail costs. Two sources of gains come from the fact that the FTAA will knock down regional agricultural barriers to market access which among the three pillars of agricultural protectionism, inflict the greatest losses to Mercosur. Also, one agreement covering the whole hemisphere should streamline the criss-crossing of an increasing number of protectionist rules of origin that continue to erect barriers. On the negative side, informed criticisms have been raised to the refusal of the US to negotiate agricultural subsidies and antidumping regulations. In this regard, Mercosur countries must remain firm but flexible to positions of being compensated for reforms that remain politically difficult for the US. Other agenda topics where Argentina and Brazil have raised concerns and objections include intellectual property and government procurement. As a consequence, and from the standpoint of these countries, the overall balance of the FTAA is being reassessed. In this analysis, account must be taken of the fact that the US continues to sign FTAs with Chile, Central America and is concluding negotiations with the Andean countries. All of these agreements continue to raise the costs to Mercosur of remaining in the borderline of the FTAA. In this dynamic shift of trade-offs, maintaining inflexible positions may end up being more costly than beneficial.

Contents

APPENDIX

TABLE A.1
AGRICULTURAL CHAPTERS OF THE HARMONIZED SYSTEM

1	Live animals
2	Meat and edible meat offal
3	Fish and crustaceans, molluscs and other aquatic invertebrates
4	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included
5	Products of animal origin not elsewhere specified or included
6	Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage
7	Edible vegetables and certain roots and tubers
8	Edible fruit and nuts; peel of citrus fruits or melons
9	Coffee, tea, mate and spices
10	Cereals
11	Products of the milling industry; malt; starches; inulin; wheat gluten
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medical plants; straw and fodder
13	Lacs; gums, resins and other vegetable saps and extracts
14	Vegetable plaiting materials; vegetable products not elsewhere specified or included
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal or vegetable waxes
16	Preparations of meat, fish or crustaceans, molluscs or other aquatic invertebrates
17	Sugars and sugar confectionery
18	Cocoa and cocoa preparations
19	Preparations of cereals, flour, starch or milk; pastrycooks' products
20	Preparations of vegetables, fruit, nuts or other parts of plants
21	Miscellaneous edible preparations
22	Beverages, spirits and vinegar
23	Residues and waste from the food industries; prepared animal fodder
24	Tobacco and manufactured tobacco substitutes

TABLE A.2
FINLAND'S IMPORTS OF HORSE MEAT FROM BRAZIL, EU AND THE WORLD
(US$ thousands)

Year	Brazil	EU	World
1990	3,838.1	701.3	4,826.1
1991	3,169.2	239.5	3,706.5
1992	4,024.9	221.1	4,584.9
1993	4,348.2	132.4	4,780.7
1994	7,852.0	549.9	8,653.4
1995	2,212.4	8,003.4	10,541.7
1996	3,980.9	12,009.7	16,171.8
1997	2,733.5	8,444.6	11,497.7
1998	1,545.7	9,334.7	11,000.6
1999	743.8	9,227.6	10,177.1
2000	738.7	8,397.0	10,624.0

Source: Eurostat and UN statistics.

TABLE A.3
SWEDEN'S IMPORTS OF HORSE MEAT FROM BRAZIL, EU AND THE WORLD
(US$ thousands)

Year	Brazil	EU	World
1990	3,221.0	5,050.7	9,500.9
1991	2,856.0	4,086.0	8,382.2
1992	2,504.7	6,060.9	9,478.0
1993	2,034.1	2,355.8	5,131.5
1994	5,150.3	2,028.6	7,921.7
1995	1,081.1	15,961.3	17,638.9
1996	1,043.7	19,028.3	20,423.4
1997	86.1	20,540.7	20,839.8
1998	244.9	15,340.3	15,675.1
1999	133.0	18,361.665	18,809.4
2000	144.0	28,832.0	29,145.0

Source: Eurostat and UN statistics.

TABLE A.4
SWEDEN'S IMPORTS OF FROZEN ORANGE JUICE FROM BRAZIL, EU AND THE WORLD
(US$ thousands)

Year	Brazil	EU	World
1990	384.1	0.0	905.8
1991	1,302.9	0.0	2,167.9
1992	656.8	0.0	1,541.7
1993	648.5	0.0	1,613.3
1994	584.5	15.1	1,110.4
1995	881.6	905.4	2,630.0
1996	718.7	1,239.4	2,667.2
1997	447.4	1,692.1	2,429.0
1998	0.0	1,732.7	1,917.9
1999	0.0	1,827.5	2,177.0
2000	360.0	1,911.0	2,316.0

Source: Eurostat and UN statistics.

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