

**THE INTERNATIONAL POLICY
ENVIRONMENT FOR
AGRICULTURAL TRADE NEGOTIATIONS**

Economic and Policy Analysis Directorate
Policy Branch

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William M. Miner
Agricultural Trade Consultant and Senior Research Associate
Centre for Trade Policy and Law
Nepean, Ontario

Economic and Policy Analysis Directorate
Policy Branch

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To obtain additional copies, contact:

Information Production and Promotion Unit
Economic and Policy Analysis Directorate
Policy Branch
Agriculture and Agri-Food Canada
Ottawa, Ontario
K1A 0C5
Tel: (613) 759-7443
Fax: (613) 759-7034
E-mail: ipp@em.agr.ca

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Preface

This report is part of the Trade Research Series that Agriculture and Agri-Food Canada (AAFC) is undertaking to support discussions in connection with multilateral and bilateral trade negotiations. The purpose of the series is to create an inventory of research that will make it easier for stakeholders to identify concerns, issues and opportunities associated with such discussions. Any policy views, whether explicitly stated, inferred or interpreted from the contents of this report, should not be represented as reflecting the views of AAFC. The research is for the most part directed to areas in which little or no information has been circulated rather than to areas in which a broad base of literature already exists. More information on the Trade Research Series is available on the AAFC website at www.agr.ca/policy/epad, or by contacting Brian Paddock, Director, Policy Analysis Division, Policy Branch (e-mail: Paddobr@em.agr.ca, phone: (613) 759-7439).

In order to prepare for upcoming negotiations, an in-depth understanding is needed of the characteristics of the emerging trade policy environment, and how Canada's negotiating partners may establish their priorities and pursue them. This report is a qualitative analysis of several specific elements that influence the emerging trade policy environment. It is based on the experiences of past negotiations, recent developments, published papers, public commentary and discussions with policy analysts. The time horizon for the review is the next decade.

The report is a joint undertaking by the Policy Branch and the Market and Industry Services Branch of AAFC. Mr. Bill Miner of W.M. Miner Trade Consultants Inc. was engaged to do the analysis. Earlier drafts of the report were presented at meetings in Chicago, Illinois (China in the World Trading System, Third Annual Conference of the Library of International Relations, Chicago-Kent College of Law, November 6-7, 1997) and in San Diego, California (Annual Meeting of the International Agricultural Trade Research Consortium, December 14-16, 1997).

Summary

The emerging policy environment for agricultural trade negotiations is markedly different from the situation over a decade ago when the Uruguay Round was launched. The trends toward regional and global market integration and the restructuring of economies and industries that were taking hold during the negotiations have deepened and accelerated in the 1990s. The fundamental reforms of agricultural policies, begun in a few countries in the early 1980s, are now common to all regions, driven by the flow of technology and information, growing consumer influence, and improved production methods. These powerful trends influenced the rules and commitments embodied in the Uruguay Round and encouraged governments to move further toward free trade on a regional basis. Through the Agreement on Agriculture, members of the World Trade Organization (WTO) committed themselves to continue its policy directions and reforms through renewed negotiations to begin in 1999.

Within these broad influences that are helping to shape the environment for trade negotiations, several more specific factors have a particular bearing on agriculture. This report examines the following set of determinants to assess their likely impacts on the trade agenda:

- the dynamics of WTO implementation,
- the influence of WTO accession negotiations, and the role of new members,
- the on-going reforms of national and agricultural policies,
- the effects of regional economic integration,
- the role of new groupings and coalitions, and
- the emergence of new trade-related issues.

The analysis assumes that the underlying global trends now shaping the trade environment will continue. While new issues and unexpected developments may influence the assessment, it is improbable that these basic trends will be fundamentally altered, or overcome, by other events. It is now widely recognized that the agriculture and food industries of all countries must be able to operate and compete in the more open markets of the future. A policy retreat from market integration, corporate restructuring, and the freer flow of goods, services and investment, is extremely unlikely.

The terms and implementation of the Agreement on Agriculture, reinforced in several aspects by other WTO Agreements, provide a strong positive influence on the environment for further agricultural trade negotiations that did not exist when the Uruguay Round began in 1986. The Agreement itself, accompanied by the Sanitary and Phytosanitary Agreement (SPS Agreement) and other WTO Agreements, particularly the Dispute Settlement provisions, significantly advance the negotiating agenda compared to the last Round. The WTO Committee on Agriculture, which was established under the Agreement to review its implementation, is charged with a work program for the next Round. This is a further important step in preparing the ground for further negotiations. These institutional arrangements, and the commitments to continue negotiations, are a strong positive influence on the trade environment for agriculture.

WTO membership has increased considerably since the Uruguay Round began and accession negotiations are underway for a number of countries with significant interests in trade in foodstuffs. This alters the balance among member countries and may influence upcoming negotiations. However, apart from China and the Former Soviet Union (FSU) countries, the broader membership is not expected to affect the Round significantly.

China is emerging as a major player in world trade, and its economic strength and influence will increase. Accession by China could affect the negotiating process and possibly the rules themselves. Agriculture and agricultural trade plays a key role in China's development, and the country is expected to retain its capability to intervene in its food markets to achieve its national security objectives. China needs access to foreign markets for its labor-intensive products and for commodity imports to ensure its food and industrial goals. China's posture is likely to make the negotiation of improved access, disciplines on subsidies, safeguards and state trading, more complex and difficult. However, it is not in China's interests to seek to slow down the process of trade liberalization in agriculture, or to turn to regionalism at the expense of an effective multilateral trading system. China can be expected to play a constructive role in agricultural trade discussions.

The WTO accession negotiations for most of the FSU countries are at an earlier stage than for China. Given their agricultural interests, the accession of these countries could nonetheless have important implications for future trade negotiations. The process of opening their economies and establishing a market-oriented agriculture has moved slowly, and there is little evidence that the FSU countries are in a position to influence the trade policy agenda in the shorter term. The economic transition of the Baltic States is generally more advanced, and prospects for their accession to the WTO are better. However, these countries are preparing for integration with the European Union, and this is a priority objective for them. The Baltic countries should not oppose further trade liberalization, and they may even be moderately supportive. Their influence is expected to complement the EU approach to agricultural negotiations.

In contrast to the agricultural policy environment of the mid-1980s, there is now widespread consensus that the fundamental reform of basic agriculture and trade policies and systems is an essential component of any successful response to global economic integration and open, competitive markets. This new awareness, and the widespread policy shift that is taking place, is the most significant change in the trade environment since the early days of the Uruguay Round. It is well demonstrated by a review of policy developments in key trading countries and most regions of the world.

As in previous negotiations, the US position will again be a key determinant of how a new Round will unfold. The 1996 Federal Agriculture Improvement and Reform Act (FAIR) was a major step in the evolution of US legislation toward increasing reliance on markets and exports for producer income. The main commodity support programs have been decoupled and there is less program management of supplies. Direct transfers to offset the withdrawal of commodity supports will decline by about one third over the period of the Act. While the FAIR Act does not end income transfers for US agriculture or fundamentally alter the programs for the more protected sectors of sugar, dairy and peanuts, the substance and direction of US farm policy appear to be well established. The substance and direction is expected to continue when a new Farm Bill is due in 2003. This will place US agriculture in a position to pursue aggressively the total removal of trade-distorting farm policies and trade barriers in a new Round.

There is resistance among some US groups to freer trade, associated primarily with NAFTA experiences. Concerns over competition from cheaper labor, the migration of jobs and investment, and environment and labor standards, have frustrated the efforts of the US Administration to obtain fast-track negotiating authority. Nonetheless, US agriculture depends increasingly on exports for its expansion and prosperity. A proposal to move to free trade in agriculture over a negotiated time frame could again form the thrust of what is expected to be aggressive US support for a further WTO Round in agriculture.

Developments in the European Union, particularly when viewed in the context of eastward enlargement, are much more supportive of multilateral trade liberalization in agriculture than was the case during the Uruguay Round. The European Commission proposals in Agenda 2000 point to another significant tranche of agriculture policy reforms. Since agriculture constitutes only one part of the far-reaching EU strategy for further economic integration and market reform, the agriculture proposals are driven by broader policy and political imperatives. There is a growing recognition in the EU agricultural community that world trends and the capacity of EU agriculture to over-produce obliges EU farm and food sectors to rely on exports for further expansion and become internationally competitive. The proposals for agriculture would provide the Commission with substantial latitude to negotiate further trade reforms in agriculture. EU policy developments have not moved to the point of assuring a leadership role in the agricultural negotiations, in contrast to what tends to be the case more generally.

Latin American countries place great emphasis on the WTO as the preferred vehicle for pursuit of their trade objectives. These countries are among the strongest advocates of a further Round of trade liberalization in agriculture. Several Latin American countries are members of the Cairns Group. Their impact on the negotiations will be greater than in the Uruguay Round, given their progress in creating relatively open, trade-oriented economies and their need for access to markets in North America, Europe and the Asia-Pacific region.

The resistance from Japan and Korea in the Uruguay Round to opening their agricultural sectors to international competition is expected to continue. However, both countries have begun to reform and restructure their farm sectors and may be somewhat more amenable to gradual trade liberalization in agriculture. Nonetheless, given their conservative approach to basic reforms and the prevailing economic uncertainties, their impact on the trade environment is likely to remain negative, although not sufficiently so to block progress in a new Round.

A mixed but somewhat more positive assessment of the prospects for agricultural trade reform is possible from other countries in the Asia Pacific region. Australia and New Zealand are positive and transparent advocates for the removal of all trade-distorting policies affecting the sector. The countries of South East Asia have implemented economic reforms and generally opened their markets with impressive results. But most retain import barriers and controls with respect to agriculture given their concerns over destabilizing their food sectors. Several countries are members of the Cairns Group, reflecting their export interests and need for access to markets. But their support for freer trade in agriculture is muted, and may have been set back by the economic and currency instability that has emerged in the region.

In South Asia there is also a liberalizing trend in economic and trade policy but with a more cautious approach to opening the economy to foreign investment and trade. India, which rivals China in terms of population and production volumes of many basic foods, has a policy of seeking to meet most of its food needs. These countries, which protected their economies from competition for balance-of-payments reasons, are opening their trade regimes to imports. However, food imports remain controlled and are generally treated as a residual. On balance, the policies of the South Asian countries are relatively neutral in relation to trade negotiations, subject to their programs to improve food security.

An almost universal change in the international policy environment since the early days of the Uruguay Round is the embracing on all continents of regional trade agreements. Increasingly agriculture figures prominently in these initiatives, which seek to go beyond the WTO provisions into the realm of free trade. These regional free trade agreements are generally consistent with WTO rules and may act as catalysts in the global trade liberalization process. The outstanding example of regional economic integration is progressive EU enlargement. Negotiations are to begin in 1998 with five countries from Central and Eastern Europe, in each of which agriculture is an important component of the economy. The European Union needs further reform of the CAP to integrate these countries into the single market, and as part of the process it also needs multilateral trade negotiations covering agriculture. These enlargement negotiations represent an important and positive influence on the environment for a new WTO Round.

The proliferation of regional trade agreements in the Western Hemisphere is further evidence of the profound changes taking place in the trade environment. The countries of the Americas are committed to conclude negotiations for free trade among themselves no later than 2005. This reflects a major shift toward integrated markets in North and South America, as well in Central America and the Caribbean region. As companies and business patterns adjust on a regional basis, border regimes and trade rules have to keep up. There are related pressures for harmonization of domestic policies and technical standards. While there is a lack of consensus at this time on the speed, process and content of the proposed Free Trade Area of the Americas (FTAA), the negotiations are likely to move forward as planned. As some of the trade issues that divide countries in the Western Hemisphere will require multilateral solutions, progress in the WTO is likely to take strategic priority throughout the region. This creates an opportunity for the leading countries in the Hemisphere to move more quickly toward freer trade in some sectors and for some issues, adding a positive influence and urgency to the WTO negotiating environment.

Economic integration in the Pacific region also accelerated in the last decade as trade within the area and with other countries increased rapidly. APEC members have agreed to achieve free trade by 2010 for the more advanced economies and by 2020 for the remainder. They have also agreed to work to reduce tariffs sooner in some sectors on a voluntary basis although, to date, agricultural products are not included for accelerated treatment. There is some concern that open trade will lose its momentum in the wake of the Asian financial crisis. Since trade agreements respond to longer term policy trends, and trade is an essential component of strategies to improve the economies of the region, any set-back should be short-lived. There are good reasons to take a positive longer term view of the impact of market integration in the Asia Pacific region on future WTO negotiations.

There are a number of proposals to formally link regional trade agreements between continents. Discussions are underway on the part of the European Union with the United States, with MERCOSUR, and with Canada, to develop transatlantic trade alliances. These so-called supra-regional initiatives often encounter difficulty over agricultural issues, but the countries involved must eventually grapple with the arrangements for all sensitive sectors. The initiatives represent a further positive influence on the emerging trade environment. The multilateral issues most likely to be influenced include export and domestic subsidies, rules of competition, health and technical standards, domestic policy harmonization, and accelerated tariff removal for selected products.

With the growing complexity of economic activities, issues and trade relationships, it might be expected that new groups and alliances will have greater influence on trade negotiations. The Cairns Group brought a new dimension to the negotiating table in the Uruguay Round and it is already engaged in a strong, positive drive for a large agricultural result in the upcoming negotiations. The MERCOSUR countries are also coordinating their trade policies, and with support from their Latin American colleagues, will be a stronger force in a new Round. Assuming the United States can build the political will to support fast-track authority, and again adopts an aggressive leadership role, there may be a coalition of interests among potential FTAA countries on some issues, such as export subsidy disciplines, technical standards, and sector free trade.

The European Union will lead a strong, coordinated position of Western European countries in a new Round, as it has done in previous negotiations. However, it will now incorporate the positions of several EFTA countries and probably attract the support of potential new members from Central and Eastern Europe. While this will represent a stronger European alliance than prevailed in the Uruguay Round, it should be more friendly to agricultural trade liberalization, given the direction of EU policies and the EU need for multilateral agreements to support its own essential reform programs.

The APEC economies may have advanced their free-trade agenda sufficiently to coordinate some positions, at least for the sectors being considered for accelerated treatment. However, the Asian members will likely ensure that APEC is only a modestly positive influence on the emerging policy environment for agriculture.

Since a majority of WTO members are developing countries, a more unified position could emerge among them, particularly if China were to adopt a leadership role. The situation and interests of this disparate group differ greatly, and a common posture that could significantly influence the next Round is unlikely to emerge. China, India, the Middle East countries, as well as Asian and Latin American countries, all have their own agendas to pursue, and in some cases in opposing directions. The least developed and net food importing developing

countries strongly pressed their concerns in the Uruguay Round over possible negative effects of trade liberalization on supplies of basic foods. These countries continue to influence the discussions of further negotiations. It is reasonable to expect that the influence of developing countries will increase in the WTO, and this may emerge more strongly in the next Round over specific concerns such as food security. But in today's more open policy environment, and given greater regional integration, this influence will most likely be exerted through regional and issues groups involving countries with varied levels of industrialization and development.

The association of freer trade with a wide range of issues, particularly concerns over the environment, investment, labour, and food safety, has created a more complex and divisive trade environment. These concerns must be addressed on their merits, and ideally by the organizations and institutions that focus on such issues. There is a clear risk that trade principles and rules will be compromised, and economic performance weakened, if these issues are pursued through trade actions. To a considerable extent governments are using the activities of UN agencies to deal with the public's concern for the environment, including the trade aspects of technical matters through WTO Agreements. The interactions between trade, investment, and competition policy are being pursued through WTO working groups and the negotiation of a Multilateral Agreement on Investment under OECD auspices.

As market integration proceeds, trade is increasingly linked to investment flows and corporate activities. There is a need to develop multilateral rules to remove unnecessary restraints to trade and achieve greater compatibility and enforcement with respect to national competition policies. In this respect, the issues of trade, investment, competition, and state trading, are linked. In addition to seeking international agreement on the best means to deal with each issue, there are promising initiatives through education, public information, and regulatory enforcement, to make progress in these areas.

The current policy scenarios could be upset by exceptional events that cannot be anticipated. These could range from unusual weather and the upheaval of agricultural supplies or other commodity crises, to the revival of protectionism from an extended period of economic slow-down and stagnation, through widespread political instability in some regions, and the outbreak of broad conflicts. Perhaps equally plausible could be decades of steady growth, and the emergence of stronger economies and rapid increases in consumption in Asia, Latin America and the FSU countries. A truly global economy in a world of several powerful regions could emerge early in the new millennium. While the trade policy environment would need to be reassessed under any of these scenarios, the important question at this time is whether further trade liberalization in agriculture would assist or detract from a global response to new situations.

Market reforms and fewer impediments to the flow of goods, services and investments would help to alleviate the impact of most of the potential set-backs. For example, on balance, freer trade in agriculture contributes to global food security, provided markets are allowed to function effectively. Similarly, an economic slow-down in Asian countries or elsewhere would be worsened by actions to close economies to trade and investment.

The emerging international policy environment is much more conducive to progress in agricultural trade negotiations than was the case at the beginning of the Uruguay Round. Still, the situation has become more complex and newer trade issues have intensified. On balance, the specific determinants examined in this report will contribute to the favorable environment created by the global nature of economic activity and the general trends to

market-based economies. However, the urgency attached to resolving the problems of agricultural trade that prevailed during the Uruguay Round does not exist today. This major change in the political dynamics of trade negotiations in agriculture presents the greatest challenge to governments and groups that favour further multilateral trade liberalization. The negotiating history indicates that the agriculture and the food sector on its own is insufficient to provide for a substantial negotiation. The potential for a broad negotiating package exists covering agriculture and several other areas. There is no assurance, however, that another major Round of trade negotiations including industrial goods is in the offing.

There are many promising developments to help provide the political impetus for another agricultural negotiation. The timing and directions of the built-in WTO agenda, major policy and legislative requirements in several key countries, the EU enlargement plans, and regional negotiations for free trade areas, provide a convergence of dates to help build political momentum. There is a growing need to grapple with the new issues and concerns that are encroaching on the trade agenda. The environment for agricultural trade negotiations is positive. The WTO commitment to initiate negotiations on agriculture is only a year and a few months away, and time is passing.

Introduction

The international policy environment has changed dramatically since the Uruguay Round negotiations were launched in 1986. The global nature of economic activity and the regional and international integration of markets have fundamentally altered the agricultural policy approaches and activities of governments, institutions and commercial enterprises. There are fewer regulations and government interventions that directly affect agricultural production and marketing. The consumer's influence has become stronger and is reaching further back in the food chain. The structures and operations of commercial enterprises at all levels in the agriculture and food industry are changing rapidly in response to developments in technology, consumer tastes and preferences, and the flow of information and investment. Increasingly these trends are reflected in domestic policy choices, international trade patterns, and commercial arrangements and trade agreements. The world of food production, processing, and distribution is markedly different than it was over one decade ago, when the Uruguay Round began.

These broad and powerful trends greatly influenced the rules and commitments embodied in the Uruguay Round outcome for agriculture. Through the Agreement on Agriculture of the World Trade Organization (WTO), governments took the first major step toward treating agricultural products in a manner similar to other traded goods under multilateral trade rules. This Agreement includes a commitment to continue the agreed policy directions and reforms through negotiations to begin in 1999. The policy environment influencing agriculture will change further as multilateral trade negotiations are engaged at the turn of the century.

A range of more focused developments that are now in the policy domain or are emerging as specific determinants that will affect future trade negotiations will accentuate the directions of trade policy evolution in agriculture. The Agreement on Agriculture, and the implementation of it through the Committee on Agriculture, will serve to frame future negotiations and to establish the starting point for further progress. Regional trade agreements such as the North American Free Trade Agreement (NAFTA) add a further dimension to shaping the emerging environment for agricultural trade negotiations. Also underway are the WTO accession negotiations of several important agricultural trading nations, particularly China, Russia, Ukraine, Kazakstan and Taiwan. Hemispheric trade negotiations are under discussion at several levels including the enlargement of the European Common Market to some Eastern European states, and the development of additional regional agreements in the Americas, among Pacific nations, and in Africa. There

are initiatives to link regional trade agreements, and to develop bilateral or plurilateral agreements among neighbours and with more distant countries. The European Union (EU) is leading a trend toward formal coordination of economic and monetary policies among its members. Coalitions of other countries are beginning to coordinate their policy approaches to trade and economic affairs under formal arrangements, such as the Association of South East Asian Nations (ASEAN), and Mercado Comun del Sur (MERCOSUR). The Cairns Group is a broader alliance of agricultural exporters, spanning regions and continents, which seeks to coordinate their policy approach to multilateral trade negotiations. These group activities became more extensive during the Uruguay Round, and continue to shape the emerging environment for agricultural trade negotiations.

Over the past decade there has been a steady trend toward fundamental agricultural policy reform in virtually all regions of the world. Technological improvements, the rapid flow of information, growing consumer influences, and better production methods, are changing most agricultural activities into modern, market-sensitive enterprises. With almost continuous growth in productivity, the long-term trend of declining real prices for many basic farm commodities persists. The specialized commercial operations of today must adjust more rapidly to consumer requirements and market developments. The contribution of agriculture and other resource sectors to the economies of industrial countries is on a declining trend. Commodity support programs, import replacement policies, and other forms of protection have not altered these trends, although they tend to slow the process of adjustment. On the other hand, government deficits and expenditure restraints accelerate policy adjustments. Not only must the farm and food sector respond to internal and external influences, this response must occur more quickly as government transfers decline. As agricultural policies become less insular and more market-related, governments in many countries are reducing regulations and direct market interventions both internally, and at their borders.

In terms of their influence on the trade agenda, the United States Federal Agriculture Improvement and Reform Act of 1996 (FAIR) and the 1992 reform of the EU Common Agricultural Policy (CAP), are dominant changes in the direction of more open and market-sensitive policies. The proposed Agenda 2000, put forward by the European Commission, continues in the same direction (European Commission 1997). Policy reforms in many other important agricultural trading countries, including Mexico, Brazil, Argentina, India, China and Russia are moving in a common direction. Virtually every country is revisiting its agricultural policy regime with a view to making it more sensitive and responsive to global trends and market developments.

New issues and concerns broaden the trade policy agenda as agricultural production and marketing are progressively integrated into national economies and are more affected by international developments. Evolving consumer preferences, and a growing concern over food safety, health and the environment, are greatly influencing food production, marketing and policy choices. As more processed foods are entering world trade, the information and technical requirements of marketing are increasing.

Inevitably, specific concerns over global warming, environmental degradation, food safety, biotechnology, land reform and labour standards, are becoming linked to agricultural policies and to food trade, investment flows and trade agreements. Regardless of the efficacy and risks of mixing policies designed to improve social, environmental and even scientific behaviour with trade policies and trade agreements, governments are finding it necessary to

respond to these public concerns in developing their approach to trade negotiations. These new issues influence the pace and nature of economic policy development, whereas agricultural and trade reforms that took place in the last decade in virtually all of the major trading countries were driven primarily by more general and overriding factors that tend to redefine the international policy environment. Governments have no choice other than to adjust their domestic and trade policies in order to respond to, and take advantage of, these global trends which are expected to continue and probably accelerate over the next decade and beyond. As the Director General of the WTO has reminded governments, "policy makers could not stop the process (of globalization) even if they wanted to.... The only question is whether or not we accompany its advance with domestic policies which help us to adapt to the reality of change without an unbearable cost" (Ruggiero 1996).

While the starting point for renewed agricultural negotiations is the Agreement on Agriculture and the commitment to further negotiations in order to continue the reform process, some other sectors and activities also have a built-in mandate for further negotiations within the WTO. Some associated issues have been pursued in the WTO and Organization for Economic Cooperation and Development (OECD) work programs and may be added to the agenda for a new Round. Consequently, the size and scope of WTO negotiations have not been determined. The negotiations on agriculture may be conducted largely on their own, or fit into a more comprehensive Round covering many of the traditional areas already included in WTO Agreements, and possibly new areas. Obviously a broader negotiation will enhance the prospects of making progress in the more sensitive sectors such as agriculture.

Since broader economic and political developments more strongly influence agricultural policy in most countries, it is important to consider what may occur to upset these expectations. Currency instability and the deteriorating investment climate in different regions of the world are currently discouraging policy adjustments and trade negotiations. The failure of the US Administration to obtain fast-track negotiating authority from Congress (reflecting both new issues and economic uncertainties) severely constrains the prospects for advancing the Free Trade Area of the Americas (FTAA) negotiations following the Heads of State Meeting in Santiago in 1998. Behind this failure looms growing public concern over import competition, job security, environmental impacts of trade, income disparities and even national sovereignty.

These issues and concerns are not confined to the United States. They threaten to short-circuit efforts in Europe to achieve monetary union and macro-economic coordination, as well as to extend European integration. Japan faces an economic slowdown and the need to restructure its economy. The fast growing economies of the Asian Tigers are experiencing severe strains arising from rapid growth, strong capital flows, a lack of transparency in commercial systems, and currency instability. The possibility of a general economic recession, or of political disturbances in some regions of the world, stimulate concerns over the risks of further opening economies in times of increasing instability. Although similar concerns prevailed during the Uruguay Round, including a major economic downturn and the Gulf War, the implications of these possibilities must be taken into account in assessing the environment for further agricultural trade liberalization. It is also possible that the general movement toward a truly global economy could accelerate over the next decade, making further trade liberalization and greater economic coordination even easier to achieve.

Chapter 1: Purpose and Approach

The purpose of this report is to evaluate several specific determinants that are shaping the international policy environment in which agricultural negotiations will be carried out, and to discuss the nature of the emerging policy environment. A review of trends and developments since the Uruguay Round negotiations of 1986 to 1994 demonstrates that the international policy environment will be significantly different when the next WTO negotiations begin in 1999. In order to prepare for upcoming negotiations, an in-depth understanding is needed of the characteristics of the emerging policy environment, and how Canada's negotiating partners may establish their priorities, and pursue them. The time horizon for this review is the next decade.

This report is intended to complement separate assessments of the Uruguay Round Agreement on Agriculture and issues for the next Round prepared by the International Agricultural Trade Research Consortium (IATRC 1997), and other studies of the emerging supply, demand and trade situation. It will focus on the following set of specific determinants of the emerging international policy environment:

- Dynamics of WTO implementation
- Influence of WTO accession negotiations, and the role of new members
- On-going reforms of national and agricultural policies
- Effects of regional economic integration
- Role of new groupings and coalitions
- Emergence of new trade-related issues

The report will discuss these elements in the context of the broader trends referred to in the 'Introduction' that define the shape and direction of the international policy environment. These general trends may be summarized as:

- The increasingly global nature of markets and economic activity including the international scope of corporate decision making, trade and investment flows, and the economic integration of countries in the former Soviet Union (FSU), China and many developing countries with the rest of the world;

- the changing structure of agri-food markets and industries, facilitated or driven by evolving information technology, biotechnology-based production, rationalization of transportation networks, and other improvements in productivity;
- the particular supply and demand situation for agri-food products that is expected to prevail during the negotiations (including the increase in demand resulting from population and income growth, as well as the effects of changing tastes and preferences); and
- the anticipated effects of these general factors on world trading patterns in agri-food products.

The analysis assumes that these underlying trends will continue, at least over the time horizon of the report. The report acknowledges that the restructuring of economies and the changing role of governments in the wake of a revolution in information technology accompanies concerns over unemployment, growing income disparities and social tensions. As economic boundaries fade, and governments move away from the marketplace, there are understandable pressures to preserve national strengths and identities, to create jobs and to improve social programs. Policies and mechanisms are being developed or strengthened for these purposes. But it is improbable that the basic global trends will be fundamentally altered, or successfully resisted. The Canadian agriculture and food industry must be able to compete in North American and world markets, or it will shrink and add to the country's social and economic problems. A policy retreat from market integration, corporate restructuring, and the freer flow of goods, services and investment is extremely unlikely and would be counterproductive for Canada and other nations.

The report is a qualitative analysis of several specific elements that relate to the emerging trade policy environment. It is based on the experiences of past negotiations and more recent developments, published papers and public commentary on the specific determinants under review, discussions with officials involved in the process, and with other policy analysts.

Chapter 2: WTO Implementation

The implementation of existing WTO Agreements provides the first specific determinant of the environment for further agricultural trade liberalization. The Agreement on Agriculture commits governments to a fundamental process of agricultural trade reform, initiated by the Uruguay Round and to be continued through negotiations to begin in 1999. This ensures that further multilateral negotiations will take place on the basic elements of the Agreement on Agriculture: tariffs and other measures affecting market access, domestic agricultural supports with trade effects, and export competition. This significantly advances the negotiating agenda compared to the Uruguay Round launch, when developing a consensus on a framework for negotiations proved quite difficult to achieve in the lead up to the Punta del Este Declaration.

A second new element is the existence of the Committee on Agriculture. It is established under the Agreement and charged with an on-going review of progress in implementing its rules and commitments. The review is conducted on the basis of notifications by members, or issues raised by them, and documentation that the WTO Secretariat may be requested to prepare. The Agriculture Committee is also conducting a process of analysis and exchange of information in preparation for further agricultural negotiations.

The IATRC (1997) review of the implementation of the Agreement, and the state of play in relation to new issues, leaves little doubt that the next Round will include serious negotiations on agricultural tariffs, particularly peak tariffs, the administration and liberalization of tariff-rate quotas (TRQs), remaining exceptions to tariffication, special safeguard arrangements, further reduction and elimination of export subsidies, constraints on export credits, and clearer disciplines in the area of trade-distorting domestic support. Based on related developments, it is likely that the negotiating agenda for agriculture will extend to the issues of state trading and export restraints.

In the Uruguay Round the potential for an increased impact of sanitary and phytosanitary measures on agricultural trade was recognized. The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) established a multilateral framework of rules and disciplines to guide the use of SPS measures in order to minimize their negative effects on trade. The SPS Agreement establishes a Sanitary and Phytosanitary Committee and specific tasks for it to complete, called a built-in agenda. It also requires a review of operations which should be initiated in 1998. Problems related to the use of chemicals and hormones in food production have intensified since the Agreement was negotiated. A similar

situation prevails with respect to the Agreement on Technical Barriers to Trade (TBT Agreement) which has some relevance to the conduct of agricultural trade. These and other issues could form part of a new Round. On balance these institutional commitments, and the on-going dialogue that results, are a strong positive influence on the trade environment and help to create an expectation of, and a basis for, a further tranche of agricultural trade reform.

The manner in which some of the newer issues will be handled remains to be determined. These issues include the linkages between trade agreements and the environment and labour standards, and consumer concerns over genetically modified foods and other processes of food production. Trade related aspects of investments and competition policies are also being raised in the broader WTO work program. While these additional issues indicate that the environment for trade negotiations has become more complex, it has been improved and given a much clearer direction through the implementation of existing WTO Agreements and their mechanisms. As the IATRC assessment demonstrated, apart from some specific exceptions, Members are meeting their commitments and, in some cases, going beyond them for national reasons. There are many examples of governments using the provisions of the Agreement on Agriculture and the SPS Agreement to pursue less trade-distorting policies. While a few developments suggest that governments are devising new export support mechanisms, or using state import agencies to maintain protection, no concrete cases of governments refusing to implement commitments, or using "loopholes" to avoid them, were identified in the review.

Furthermore, there is convincing evidence that the dispute settlement provisions of the WTO Agreements are providing an additional positive influence on the trade policy environment. In the lead-up to the Uruguay Round, agriculture was responsible for a disproportionate share of total trade disputes. Long-standing differences over agricultural trade with the European Community and Japan, such as the oilseeds dispute and Japanese import restrictions against a number of food products, were considered by many policy observers to be undermining the multilateral trade rules. Based on strengthened WTO rules and commitments, including innovative dispute settlement provisions, these risks have been greatly reduced. However, agricultural trade disputes still occur, and their existence can signal an area for further trade negotiations.

In the current situation, a number of potential disputes are handled through consultations, some within the Committee on Agriculture. This probably reflects the stronger WTO rules and dispute settlement provisions which place constraints on the ability of a country to frustrate the process by delaying or blocking the panel's activities and reports. The overall effect is likely to be a growing confidence in the rules-based system, and for the more intransigent cases, a greater desire to pursue improved rules and more specific commitments. Experience with the dispute settlement provisions to date suggests that they improve the environment for further trade negotiations by enforcing existing commitments and ensuring that these commitments are meaningful. While the urgency of dealing with agricultural trade disputes has undoubtedly lessened, a number of difficult and potentially dangerous disputes remain unresolved such as the EU beef hormone case. When added to other complaints relating to the administration of tariff rate quotas, differences over high tariffs in selected sectors such as dairy and sugar, and persistent disputes over technical and food health standards, there are ample signals of the importance of launching further negotiations.

Chapter 3: WTO Membership and Accessions

The increase in WTO membership since the launch of the General Agreement on Tariffs and Trade (GATT) negotiations in September 1986, combined with accession negotiations that are underway, will alter the balance among negotiating countries and may have implications for the policy environment. Of the 96 GATT Contracting Parties initially involved in the Uruguay Round, about two thirds could be considered to have been in the early stages of economic development. These countries became the founding Members of the World Trade Organization together with several that acceded to the GATT during the Uruguay Round negotiations, such as Venezuela and Paraguay.

There are 29 countries, some with significant interests in trade in foodstuffs, involved in accession negotiations. These include China, Taiwan, FSU countries, Algeria, Saudi Arabia and Vietnam. New members will be bound by the same basic rules and disciplines that apply to founding WTO members, including the provisions of the Agreement on Agriculture. They will also have to accept comparable access and subsidy commitments. The commitments of WTO founding Members were governed by the modalities of the Uruguay Round negotiations. The commitments of acceding countries will be agreed on the basis of Working Party negotiations and request and offer procedures. While there will be differences between terms of accession, a strong effort is made by the principal negotiating partners to ensure that countries accede on comparable terms and conditions to avoid undercutting existing rules and commitments. However, there may be exceptions, as there have already been in the WTO Agreements for developing countries.

In accession negotiations WTO Members seek a standstill in the use of trade distorting measures by a potential member, and agreement on commitments to reduce them. Commitments based on recent trade experience are pursued, rather than the 1980s base used in the Uruguay Round. Of course acceding countries work to improve their relative positions, and to avoid commitments that may be more onerous than those in place for WTO members following the Uruguay Round. While flexibility may be granted with respect to implementation procedures and transition periods, the main trading countries will not accept arrangements that worsen their relative trade positions, or do not yield acceptable commitments for key products. However, the accession negotiations with China and the FSU countries are political as well as economic developments, and important differences could influence the future negotiating environment. This would be more likely for countries whose policy reforms are advanced, such as China, Taiwan, and the Baltic nations. Although similar considerations may prevail for Russia and other FSU countries, these negotiations are more

complex and are moving slowly. If they were to accelerate, or even occur as the next Round unfolds, these countries' influence would become more significant in the negotiating environment. An important question is the extent to which concessions are granted before the next Round, and what issues may be settled in the broader multilateral negotiation. This is particularly relevant in the case of China. Consequently a separate analysis was undertaken to assess the role that it may play in future agricultural trade and negotiations (Miner 1998).

Some of the applicant countries may become members before or during the next Round of negotiations although the accession process appears to have slowed in the post-WTO period, possibly because the obligations have become more extensive. The participation of additional members will add a useful dimension to future negotiations. Apart from China and the FSU countries, however, an expanded membership is unlikely to affect significantly the environment for negotiations or the nature of the outcome. Several of these countries are involved in arrangements to pursue freer trade within their regions and, in some cases, in plurilateral discussions to reform financial services, foreign investment rules and infrastructure arrangements. The influence of these newer members could be exerted through broader groupings or alliances, or through the negotiation of specific issues. While each member will pursue its own interests through the negotiating process, the influence of new members on the policy environment will probably be advanced primarily through formal and informal groupings around issues on a case-by-case basis. Since China, in particular, but also the FSU countries, can have a significant impact on future trade patterns and thus on the environment for agricultural trade negotiations, this potential is discussed more fully in the following sections.

China (also Taiwan and Hong Kong)

China is emerging as a major player in world trade and its economic strength and influence in international markets is bound to increase in the new millennium. Although the share of agricultural products in China's external trade is relatively low, agriculture is playing an important role in China's economic reform process and in the expansion of its external commerce. Given its size and growth potential, the outcome of on-going negotiations over China's accession to the WTO could have a significant impact on the emerging trade environment. The nature of China's influence will depend not only on the course of accession negotiations, and the role it chooses to play in the up-coming WTO negotiations and in Asia Pacific Economic Cooperation (APEC) but also, more fundamentally, on the future development of China's agriculture and food industry.

The economic reforms underway in China are changing the structure of its agriculture, consumption patterns, and food trade. China has moved aggressively (with policies of decentralization and the creation of freer markets) to transform an inefficient production system operating as collectives into a more productive, market responsive, and family-based agriculture. Difficulties of price inflation and market imbalances persist, aggravated by inadequate infrastructure. The basic food responsibilities have been decentralized but a significant level of intervention continues at national, provincial and lower levels of government within the domestic sector, as well as for import and export activities, particularly for grain. Nonetheless, the directions of policy change toward more openness, deregulation and market liberalization appear to be well entrenched. Recently China has taken further steps toward a market economy by announcing dramatic reforms of state trading enterprises, the financial system and government bureaucracy. In an increasingly

integrated world, China has little option than to continue its program of institutional and policy reform. But it has been evident throughout the reform process that the Chinese leadership intends to maintain significant control of its economy and trade aimed at sustaining political and economic stability.

There is a considerable public debate and divergence of views on the future direction of China's agricultural trade and the magnitude of its potential food import requirements. Projections range from a surplus and export position for cereals, to a substantial deficit comparable to the current level of world grain trade. However, a number of recent analyses indicate that pessimistic projections of China requiring such large grain imports are not realistic. China lacks the infrastructure for importing substantial volumes, and its policies are aimed at relative food self-sufficiency. It has a large potential to increase grain production through improving yields, diversifying output, applying modern technology and management techniques, and reducing waste. Most analysts conclude that while China will import progressively larger quantities of grain and other agricultural products, it is unlikely to import more than 10% of its grain or essential food needs. Even that level would represent a significant share of world trade in grains.

China took part in the Uruguay Round as an observer. Although it signed the Final Agreement in Marrakesh to be in a position to become a founding Member of the WTO, its acceptance of the WTO Agreement on Agriculture and the Sanitary and Phytosanitary Agreement was subject to completing negotiations. These Agreements represent the key agricultural issues under discussion in the accession talks. The requirement to remove all non-tariff barriers and replace them with tariffs and tariff rate quotas, as well as to provide for a minimum level of imports, represents a major undertaking for the Chinese authorities that will have to be met as a WTO Member. China will be challenged to establish and administer an acceptable and transparent national tariff system and import regime for agriculture. China has pledged not to use export subsidies in agriculture and, notwithstanding its interest in importing essential foods at lower prices, it should not have difficulty in accepting the export subsidy rules of the Agreement on Agriculture. With respect to domestic support, although Chinese policies appear to be shifting from taxing agriculture to relying more on market prices, a sizable share of production is still subject to government procurement and administered prices. In addition to any specific commitments that may be negotiated to ensure that Chinese state trading enterprises (STEs) do not discriminate against imports in relation to domestic supplies, China will be pressed to provide greater transparency in its state trading activities to ensure that their operations are not used to circumvent WTO disciplines. Chinese adherence to the SPS Agreement will require a system of health and sanitary regulations, including inspection and arbitration services, that is administered consistently on a national basis.

The difficulties and challenges that face China in acceding to the current provisions of the Agreement on Agriculture will be extended and intensified in a new Round. However, if its accession occurs before formal multilateral negotiations are engaged, China will be in a position to exert a greater influence on the outcome. In this respect, China can be expected to support efforts to open markets for its higher-valued food products while strongly pursuing improved and secure access for its labour intensive manufactured goods. It may join in seeking a ban on export subsidies, although as an importer, China benefits from lower-priced imports. China is likely to demand assured access to foreign supplies through eliminating export restrictions and banning food embargoes. It is expected that China will seek to retain its capability to intervene in its food markets through STEs or other means. But Chinese

policy makers recognize that significant quantities of grain, and other food and agricultural manufacturing inputs, must be imported under almost any scenario. Hence, China will have a strong and growing interest in well-functioning and relatively open world markets. Nonetheless, China's economic importance and influence is likely to make the negotiation of improved access for all products, safeguards, and disciplines on subsidies and state trading, more complex and difficult as it is unlikely to compromise the means to pursue its national food security objectives.

The growing influence of China in international agricultural affairs may affect the negotiating process, if not the trade rules themselves. The major trading countries will not compromise the basic rights and obligations of the WTO Agreements, and China will be obliged to accept these on its accession, or within an agreed transition period. The challenges will relate to how quickly China is able to demonstrate that it can implement these obligations, and whether the information and transparency of its programs and operations are sufficient to satisfy WTO Members that its performance matches its obligations. While it may obtain some concessions in the early stages of its membership, major Members are unlikely to accept differential treatment for such a large player. Although an active participant in the APEC process, China is unlikely to turn to regionalism at the expense of an effective multilateral trading system.

It is not in China's interest to seek to slow the process of trade liberalization in agriculture since its own economic program depends heavily on developing an efficient and productive rural sector. At this stage in its development, China needs foreign partners and periodic access on an assured basis to overseas food supplies, as well as agricultural raw materials for encouraging light manufacturing in rural areas. China has a major stake in building an efficient food system and maintaining market stability. Therefore it can be expected to play a constructive role in WTO agricultural discussions aimed at progressive trade liberalization, while insisting on sufficient flexibility to maintain basic programs and institutions linked to its food goals.

The inclusion of Taiwan and Hong Kong in this analysis strengthens the conclusions reached in relation to China. Taiwan is expected to be admitted to the WTO only when China becomes a Member. Although Hong Kong reverted to Chinese control on July 1, 1997, as a special autonomous region it retains separate WTO status. Imports to China through Hong Kong will face the same border treatment as direct shipments. Hong Kong has limited influence in WTO affairs and, as part of China, may exert a modest liberalizing impact on China's position.

Taiwan conducts a sizable level of trade in agricultural products both as an importer and as an exporter. As a newly industrialized economy, Taiwan is expected to increase its imports of grain and agricultural inputs for processing, and expand exports of more labour-intensive goods. Given its weak agricultural resource base, and need to restructure its farm sector, Taiwan is expected to reduce its production of grain and expand higher-valued output such as meats, fruits and vegetables for domestic use and exports. As a WTO Member, Taiwan is likely to exert a positive influence on the overall agenda for trade liberalization while seeking to maintain import protection for some basic foods.

Former Soviet Union (FSU) Countries

All but two of the newly independent states of the former Soviet Union, including Russia, Ukraine and Kazakstan (the Baltic states are discussed later), have applied to join the WTO. These negotiations are at an earlier stage than for China but could nonetheless have important implications for the Round. The economic reforms implemented in 1992 to transform their command systems into market-oriented economies were expected to change significantly the production, distribution and use of agriculture and food products, and to have a major influence on world trade. There was a general expectation that the FSU region would become a net exporter of food grains, oilseeds and other crops rather than being among the world's largest grain importers. The stance of the former FSU nations in their accession negotiations reflects these expectations as well as a desire by Russia, in particular, to exercise a strong influence in WTO affairs and to balance the leadership positions of the European Union and the United States.

However, the process of opening their economies and establishing a market-oriented agriculture has so far moved much more slowly than anticipated, and there have been set-backs and retreats from market liberalization. This indicates that their accession before the start of renewed agricultural negotiations in 1999 has become unlikely. Rather, depending on economic and political developments, the negotiations may occur in parallel with the next Round. While the influence of these countries on the negotiations would be less than in the case of China, their potential impact on agricultural trade is significant, and political pressures to accept them as WTO members are likely to grow. However, any assessment of how these influences may effect the Round is largely speculative at this time.

Many studies and analyses are available and provide some guidance on the trade impacts of the transition of these economies (such as Johnson 1997b, Liefert 1997, and Sedik and Liefert 1997). In the FSU countries, there are many policy challenges to overcome before their food sectors become productive and competitive. National markets for land, credit and produce have not begun to emerge. Infrastructure and management capabilities are poor. Substantial credit facilities are needed to establish modern productive agriculture and competitive input and processing sectors. There is continuing political uncertainty. Investment will remain at a slow rate until the basic market structures are in place and attitudes adjust to the new realities. While these countries have enormous natural and human resource potential, much time and change will be needed before it is realized.

The transition of these economies has resulted in a decline in grain imports, but the region is not yet a net exporter of grain. Both production and consumption of grains and livestock have declined due primarily to a reduction in yields and in input and consumer subsidies. Imports of meat have doubled. There is considerable pessimism about the prospects of overcoming the deficiencies of these systems in the time frame of this report. Some analysts forecast that the region will be close to a trade balance in grains by 2005 but continue to import meat, possibly at a declining rate. Others are more optimistic and forecast rising grain exports from Ukraine and Kazakstan and a net grain export position for the region, possibly by early in the next century.

There is very little evidence that the FSU countries have seriously addressed, or understand or accept, the disciplines of the Agreement on Agriculture and the SPS Agreement. This probably reflects a preoccupation with internal policies and the poor performance of their food sectors. There are examples of fragmented policies across the FSU region, and a lack of

interest in coordinating their approaches to the WTO, although Russia established a customs union with Kazakhstan and Belarus in 1995. Ukraine has moved more slowly than the others to open and privatize their agriculture and food systems. While most countries in the region no longer maintain STEs, they continue to influence the volume and direction of agricultural trade. Some domestic support is still provided, selected upward tariff adjustments have been made, and other interventions continue in the food trade. There may be political pressures from within and outside the region to speed up the accession process but the Members of the WTO will not compromise basic rules and disciplines, nor the specific provisions of the Agreements. Progress in the accession negotiations will depend largely on the nature and extent of market reform accomplished by each country. The WTO accession negotiations of some smaller countries in the region, such as Armenia, may move more quickly, and this would have a positive influence on the negotiations with larger FSU countries.

In conclusion, the influence of the FSU countries through their accession negotiations on the emerging trade environment is likely to be modest. If these negotiations proceed during the Round, they may tend to slow and complicate the process, as well as influence specific provisions. This would be more likely in relation to arrangements for access to markets and for the trade activities of STEs. Russia, given its potential economic leverage, may seek to balance US and EU influence by favouring developing country demands for greater access to industrial markets, or for preferential treatment. The FSU countries may also strengthen EU and Asian opposition to freer trade in specific sectors. Ultimately the FSU countries can be expected to develop market-sensitive and internationally competitive agriculture and food industries. This would be facilitated by their membership in the WTO. It may occur over the next decade, and their influence on the trade environment will increase accordingly.

Baltic Countries

The economic transition of the Baltic States is generally more advanced than the situation in FSU countries. As their agricultural structures change and market reforms expose their producers to more foreign competition, there are pressures for greater protection. Since the Soviet Union collapse, Estonia, Latvia and Lithuania have been preparing for integration with the European Union, and to some extent their agricultural policies reflect this objective. Agriculture is important to these countries, particularly Lithuania, and is generally the most protected sector of their economies, although Estonia has a low level of protection and support. The European Commission has recommended that Estonia be considered for early entry negotiations, along with Hungary, Poland, the Czech Republic and Slovenia. This reflects a judgment that Estonia's macro-economic policies and transitions to market economies are sufficiently advanced to allow their integration without undue hardship and cost. However, it is only a question of time as to when all three countries will become EU members.

The three Baltic states have applied for WTO membership and their preparations for accession are underway. The most progress has been made in the negotiations with Latvia and Estonia, providing a basis to expect that they may become WTO members before the next Round begins (Liefert 1997). Lithuania maintains greater protection and is moving more slowly in the process. The agricultural sectors of all three countries experienced similar difficulties to those of their FSU neighbours (see, e.g., Frohberg and Hartmann 1997, Johnson 1997b, Kazlauskienė 1997, and Liefert 1997). Their agricultural output shrank by one half from 1988 (gross volume), a more severe decline than occurred for Central European states. This demonstrates the greater degree of distortions in resource use from the previous regime,

and the extent of adjustment that is necessary to move to a market-based system. Since Lithuanian agriculture relied on FSU trade, and has low productivity and competitiveness, it faces a more severe adjustment than its neighbours. A Baltic Free Trade Agreement was signed in 1993 and became operational in 1997. These countries recognize the necessity to develop stronger and more competitive food industries. While there is pressure to align their policies with the CAP, there is recognition that higher farm prices and protection would harm their economies and their ability to compete in foreign markets and with imports.

In the expectation that both CAP reforms and EU enlargement proceed, the Baltic countries should not oppose further trade liberalization and may be moderately supportive. But eventual EU membership is their key objective for political and economic reasons. Membership in the WTO is perceived as helpful at this stage, and necessary once EU accession is achieved. It will help to rein in the protectionist pressures that are building up as their economies are opened to the outside world. In this respect the influence of the Baltic countries on the policy environment should complement the postures adopted by their Central European neighbors and the European Union itself (see section below on regional integration).

Chapter 4: National and Agricultural Policies

In contrast to the agricultural policy environment of the mid-1980s, there is now a widespread consensus that the fundamental reform of basic agriculture and trade policies and systems is an essential component of any successful response to global economic integration and competitive international markets. This awareness of the need to adjust policies and regulations, usually accompanied by relaxing border restrictions to allow producers and industry to respond relatively quickly and directly to market developments, sharpened throughout the Uruguay Round negotiations. Its influences are reflected in the Agreement on Agriculture, including the acceptance of a commitment to continue the reform process and to accept the consequential constraints that may result for domestic policy options.

Driven primarily by consumer demands, developments in technology, and investment flows, the trend toward market integration appears to be broadening and accelerating. Policy adjustments in response are occurring in all regions and most countries of the world, regardless of the orientation of their production and food systems. In the more developed economies, the direct influence on the market of government activities is being reduced. Government deficits and expenditure restraints are accelerating these policy adjustments. There are exceptions in a few sensitive sectors where government interventions are historically high and vested interests are well entrenched, such as sugar and dairy. Also certain developed and emerging economies still maintain food prices above international levels and provide relatively high tariff protection, notably Japan and Korea. Even in these cases, some policy and institutional reforms are occurring, and in similar directions toward a more open market environment. Most developing countries are moving away from policies that disadvantage agriculture and tax food exports.

This new awareness and widespread policy shift is the most significant change in the trade environment since the early days of the Uruguay Round. There are many indications that these policy directions will continue. This is demonstrated by a review of policy developments in key agricultural trading countries and regions of the world.

United States

A gradual shift is observed in basic US farm legislation since the mid-1980s toward increasing reliance on markets for producer income, accompanied by a decoupling of farm supports and less program management of supply. The Federal Agriculture Improvement

and Reform Act of 1996 (FAIR) was the most significant move in the direction of greater production flexibility and less government regulation and expenditure. The export orientation of US agriculture is continuing and strengthening. The aggressive government export programs of the 1980s are being maintained but are now disciplined by budget limitations. Income support for farmers through direct transfers (main crops) and from consumers (sugar, dairy, peanuts) continues at substantial levels. For the principal crops, the direct transfers reflect political pressures to offset the withdrawal of commodity program supports. They will decline by about 30 percent over the period of the Act. Consumer transfers, and related border protection, respond primarily to the political powers of special lobby groups concerned over the impact of significant reforms on asset values. Export subsidies are usually justified as necessary to offset the subsidies and “unfair” trade practices of international competitors. The recent evolution of US farm policy has been summarized in these terms:

“Compared to the wasteful and intrusive policy prior to 1985, US farm policy has been reformed substantially over the past decade. In 1997, the United States now has a policy for many commodities in which: (a) price supports will soon be either eliminated or irrelevant; (b) annual acreage set-asides do not apply; (c) income support does not depend on what is planted; (d) subsidies do not vary with market prices and (e) the government is (mostly) out of the storage business. FAIR continued a policy evolution that led to these major changes. However, much more remains to be reformed before one could describe US farm policy as open and liberal” (IATRC 1997, p. 14).

The initial US position in the Uruguay Round called for the total removal of trade-distorting farm policies and border restrictions over ten years, the so-called zero option. Such a fundamental reform of world agricultural policies looks more realistic today than in 1986 when few believed this goal to be achievable, even in the United States. With the FAIR Act in place, and a solid trend toward agricultural policy reform taking hold globally, the previous US position could become a reasonable goal for the next multilateral Round. The main thrust of the negotiations would be the conditions and timing of the transition arrangements.

Such an aggressive approach for agriculture, while optimistic, is broadly consistent with the emerging trade environment and with the direction of US farm policy. However, it is not reflected in recent US performance. Congress is unwilling to grant fast-track negotiating authority to the US President. Even the largest US farm groups are only reluctant supporters of free trade in the Western Hemisphere. This reflects a range of protectionist attitudes and concerns associated primarily with the NAFTA experience. The principal issues raised are environment and labour standards, job migration, competition from cheaper labour and state trading enterprises, and weak enforcement of health, safety or technical standards. To some extent these concerns indicate areas where the NAFTA negotiations were incomplete, or where US groups continue to oppose the deal that was struck, particularly with Mexico for fruit and vegetables, and with Canada for dairy, poultry and wheat. Their focus is mainly on the perceived weaknesses of NAFTA and the opening of US markets to products of the nearby less developed Mexican economy, as well as opposition to the concept of a Free Trade Area of the Americas (FTAA).

There is some evidence that US interest groups, and Congress, would be more supportive of a further multilateral Round which would offer a broader agenda and a greater balance of concessions and gains. This does not imply that the concerns over import competition,

labour, the environment and food safety would disappear, but rather that the scope for dealing with them would improve. Certainly this would be so if the WTO agenda is broadened to encompass the issues raised in the Singapore Ministerial Meeting including trade aspects of services, investment, and the environment.

The FAIR Act does not end income transfers for US agriculture or fundamentally alter their programs for the more protected sectors of sugar, dairy and peanuts. The permanent law providing for price supports is suspended until the 2002 crop year when a new Farm Bill is due. Under the Act, a Commission on 21st Century Production Agriculture will review the Federal government's role in support of production agriculture and offer recommendations for new legislation. An initial report is due in 1998 and a final report in 2001.

Although there could be shifts depending on political and market developments, the substance and direction of US farm legislation appears to be well established. Increasingly, US agriculture depends on exports for its expansion and prosperity. The value of US products sold abroad is rising three times as rapidly as domestic sales (Troostle 1997). With tighter federal budgets and a growing recognition that subsidies weaken the long-term competitiveness of the sector and that access to foreign markets is essential, the policy directions of FAIR are unlikely to be altered. The US agriculture and food industry can be expected to provide solid support to multilateral trade liberalization, and a proposal to move to free trade in agriculture over a negotiated time frame could again become the opening US position for the next Round. The United States will probably play an aggressive, leadership role in pursuing further agricultural trade negotiations. Once again, the US approach is likely to be the main determinant in the emerging trade environment for agriculture.

European Union

Developments in the European Union, particularly when viewed in the context of Eastward enlargement, are much more supportive of multilateral trade liberalization in agriculture than was the case during the Uruguay Round. The MacSharry reforms, introduced following the breakdown of the negotiations in Brussels in 1992, allowed the Round to reach a conclusion. Despite these reforms, the EU negotiators were obliged to seek modifications to the draft agreement on agriculture at Blair House in November 1992, and again in the closing negotiations a year later (IATRC 1997, p. 19). This demonstrated the degree of resistance in the European Union to farm policy reforms and to agricultural trade liberalization.

Developments since that time reveal a further shift in EU policy needs and attitudes as reflected in the European Commission proposals for another significant tranche of agriculture policy reforms in the Agenda 2000, related to preparing for enlargement negotiations (European Commission 1997). The Commission proposals are made in the context of further European integration through the introduction of a common currency, extension of the Single Market, and EU enlargement to the East. They reflect a vision of a new role for Europe following the demise of the Berlin Wall, globalization of the economy, and the emergence of a multi-polar world in which the European Union will restructure markets, enterprises and infrastructure. The proposals for agriculture recognize not only that the constraints imposed by the Uruguay Round are meaningful and a factor in determining additional farm policy reforms, but also that such reforms are necessary to compete. They should also strengthen the EU negotiating position in the next Round. This is compelling evidence that the policy environment for agricultural trade negotiations in Western Europe is distinctly different and much more positive. It has been observed that:

“Responses from EU member states to these proposals differ, but all member states are very much aware of the constraints which the WTO now imposes on the CAP. In summary, after the Uruguay Round, the atmosphere in the CAP is no longer what it used to be” (IATRC 1997, p. 20).

However, the EU agricultural policy position has not moved to the point that this group of 15 countries can be expected to “lead the charge” in a new Round for agriculture. The EU implementation of commitments from the Uruguay Round has been challenged in several aspects, and several WTO disputes have been launched against them. The most serious are the banana import panel and the beef hormone case which remain unsettled. While WTO panels have ruled against the European Union in both cases, the European Union has been given more time to formulate a response.

The Agenda 2000 proposals indicate a willingness by the Commission to move to world prices for cereals and livestock. This suggests that further disciplines on export subsidies and domestic support are possible. However, as output projections indicate a further build-up in surplus supplies of cereals and meat, and the need to constrain production of dairy and sugar, there will be continuing strong resistance to improving access. The Commission recommends a reduction in dairy subsidies but essentially postpones reforms for these products. They are silent on sugar policies which were not adjusted under the MacSharry program, and remain highly trade-distorting.

There is a growing recognition in the EU agricultural community that world trends will oblige their farm and food sectors to become competitive, and to rely on exports for further expansion. The Commission’s Agenda 2000 recognizes that this is already necessary in the case of cereals, oilseeds and meats within the time frame of this report, and will become so for the rest of agriculture. Europeans are sensitive to the social pressures of these changes, and hence their desire to continue to support farm incomes, particularly in marginal areas. This is contributing to a growing acceptance of the desirability of preserving the rural areas. There will be EU pressures to maintain subsidies to compensate for lower support prices and to assist less-favoured areas, and to ensure the compatibility of these programs with WTO disciplines. In addition, in response to rising consumer concerns over foods derived from the use of growth hormones, to genetically modified foods, to health risks, and to how foods are produced and processed, the European Union may endeavour to go beyond internationally agreed rules and standards to respond to public pressures. Although these concerns were evident in the last Round, and had some affect on the outcome, they have now emerged as major influences on the environment for trade negotiations.

The Agenda 2000 places the European Union squarely on a course of further economic integration and market reform. The proposals encompass agriculture and would provide substantial latitude for the negotiation of further trade reforms. The Commission could accept some reduction in border protection for several commodities and further reductions in export subsidies and domestic supports. In relation to EU commitments to pursue enlargement to the East for political and economic reasons, further trade liberalization, as discussed later will be needed. While EU policy developments have not moved to the point of assuring a leadership role in the agricultural negotiations, such leadership is sought more generally. Indeed the EU Commissioner for Trade is openly advocating a Millennium Round with the full knowledge that this must include further progress in agricultural trade reform.

Another dimension of developments in Europe that will have an important bearing on the negotiating environment is on-going EU enlargement. The accession of Sweden, Finland and Austria means that the main influences of the Nordic and EFTA countries will be felt through the EU position. This may dampen the resistance of Finland and Austria to further commitments that discipline domestic support mechanisms, but their impact on the last negotiations was modest. Of much greater significance will be further Eastward enlargement which is discussed under regional integration.

Latin America and the Caribbean

The agricultural sectors and food markets of the Latin American countries have changed significantly over the last two decades. The transition from protectionist, inward-looking policies to relatively open, trade-oriented economies, responded to both internal and global economic developments. The policy shift largely occurred before and during the Uruguay Round and is reflected in relatively low bound tariffs and unrestricted trade, conducted primarily through the private sector. Latin American exporting countries are among the strongest advocates of a further Round of trade liberalization for agriculture. While these countries have a range of trade and economic agreements among themselves, and with other countries in the Hemisphere, they place great emphasis on the WTO as the preferred vehicle for pursuit of their trade objectives.

The Latin American countries are still heavily oriented to commodity production. Direct foreign investment and technology transfers are the key drivers in their economic development. Labour unions and rural workers still oppose market integration although it is increasingly recognized that the region benefits as industry is attracted to cheaper labour. However, these countries lack an adequate social and infrastructure framework, and there are continuing concerns over monetary and political instability. The MERCOSUR countries raised tariffs on a number of products in 1997 in response to exchange rate pressures. The agricultural sectors generally support trade liberalization as they have much to gain. Their strategy is to insist on access to the United States, EU and Japanese markets, and to target subsidies and technical trade barriers in developed country agriculture as a pre-condition for progress toward free trade. Since Europe is also important to this strategy, their preference is to work through the WTO for these objectives.

Several Latin American countries are members of the Cairns Group. Their influence on the climate for WTO negotiations is expected to be strong and focused, and have a positive influence on the emerging trade environment. Their impact on the negotiations will be greater than in the Uruguay Round, given the progress that is being made through regional agreements, and more active participation in the Cairns Group.

The position of Mexico as a Latin country is unique. As a member of NAFTA, it may have a common approach on some issues with one or the other of its North American partners, but it will also share many of the negotiating objectives of its Latin American colleagues. Mexico implemented an aggressive economic and agrarian reform program ahead of joining NAFTA to open its economy to investment, structural adjustment and trade. With relatively free access to the US market, in contrast to other Latin American countries, Mexico is less concerned about trade off-shore in either direction. Its interests are likely to focus on issues that threaten its access to the US market and in the areas of health, sanitary and technical standards. Although Mexico has less to gain from multilateral trade negotiations, it has a

strong stake in discouraging protectionist tendencies in the United States. Mexico is thus likely to be a modestly positive force in the Round.

The Caribbean countries seem likely to have a neutral impact on the emerging trade environment. On the one hand, most will support the Latin American thrust to improve access to industrial country markets. But declining tariffs reduce their preferential arrangements. The agriculture and food industries in the Caribbean area operate in a protected market environment. As the restructuring of their economies and agricultural policy reforms are in their early stages, or have not begun, these smaller economies may be largely on the defensive. They would thus seek to sustain their preferential arrangements, while improving their market access abroad, and avoid opening their economies to world competition before restructuring and reinvestment has occurred.

Japan and Korea

These two industrialized economies support and protect their agricultural sectors through high tariffs, government market interventions, state trading and high internal prices. They resisted significant trade liberalization during the Uruguay Round and reluctantly accepted the outcome, after insisting on special treatment for rice under the requirement to convert all non-tariff barriers to tariff equivalents. The results have been implemented against strong resistance by agricultural producers and special interest groups. However, both Japan and Korea have introduced programs to begin the reform and restructuring of their agriculture and food industries. These countries devote a much higher proportion of consumer spending on food than North America which is creating pressures for agricultural reforms.

The Japanese budget for agriculture was increased to provide aid to offset the modest increase in access conceded in the Uruguay Round. Japan has used safeguard provisions to reduce import pressures and has faced several WTO challenges over its import procedures and internal mark-ups. Successive Japanese administrations have examined various forms of mild reforms of domestic policy and embarked on a gradual process of deregulation. There is little evidence that the country would consider any fundamental shifts in policy. The political system has been strained by actions to implement existing commitments, and Japan has given little indication of a willingness to go further. The recent poor economic performance may have hardened this protective stance, and the current monetary and banking crisis may set it back further. On the other hand, the impacts of maintaining high cost food programs on government expenditures and the costs of doing business may lead to some acceleration in the conservative reform process.

A similar situation prevails in Korea, although this country has shown more willingness to accept market liberalization and policy reform on a gradual basis. Korea has experienced difficulty in implementing the agricultural provisions of the Agreement on Agriculture. However, the Agreement is providing an opportunity to re-evaluate the Korean policy regime for agriculture (IATRC 1997). The government has introduced a package of structural adjustment programs for the sector.

Nonetheless, there is some evidence that the domestic and trade policies of Japan and Korea are changing. In addition to the trade problems these countries face as their agricultural systems are out-of-step with world trends, the impact on their economies of the protective regimes is substantial. But the political forces in these two countries that resist change are strong, and so far they have accepted the costs and strains of maintaining out-dated policy

regimes. Economic and monetary developments in that part of the world indicate that policies and structures must change. However, given these countries' conservative approach to basic reform and the economic uncertainties of the nearby period, their impact on the trade environment is likely to remain negative, although not sufficiently so as to block progress in a new Round. On the positive side, the commitments taken by these countries in the Uruguay Round will prevent a retreat from the modest degree of liberalization that has taken place.

Pacific and Asia Region

A mixed but somewhat more positive assessment of the prospects for agricultural policy reforms and trade liberalization is possible from countries in the Pacific and Asia region. The policy thrust and posture of Australia and New Zealand is positive, transparent and well publicized. As leaders of the Cairns Group, their influence on the last Round in doggedly pursuing a comprehensive and substantial result in agriculture is well recorded. Given Australia's and New Zealand's extensive and growing trade and commercial relationship with the rest of the region, where free trade is less enthusiastically embraced, their message may be somewhat muted but it will continue.

With some exceptions, particularly in the application of health and sanitary standards, the agricultural policies of Australia and New Zealand match their free trade stance. Remaining agricultural programs that may limit or distort trade are being shifted toward greater market orientation and reduced government intervention. The influences of these countries on the preparations for the next Round can be expected to be constructive and positive, both directly and through the Cairns Group.

The countries of the South East Asian region implemented economic reforms and market liberalization over recent decades with impressive success. These complemented the Uruguay Round but were done independently of it. The discrimination against agriculture was gradually reduced, as were import barriers, although many import controls remain with respect to foods and other consumer goods. There are long-standing concerns that these countries might try to follow the examples of many other industrialized countries, particularly Japan, and protect and support their agricultural sectors.

Several countries in the region are members of the Cairns Group which reflects their export interests. Even so, the region is ambivalent about agricultural trade liberalization for agriculture, given the concern to maintain some control over essential foods. Modernization trends are creating tensions in several countries, particularly as people migrate to the cities, and securing food supplies is part of the policy response. While export expansion is essential for economic growth, opening markets to imports is perceived as destabilizing for the food sector. Thus the caution of many countries in the region with respect to agricultural trade liberalization tends to outweigh the support generated by Cairns Group members. In the wake of the economic and currency instability that has recently emerged in the region, there is a risk that countries such as Malaysia, Thailand and Indonesia may retreat from their policies of monetary and trade liberalization.

Looking toward South Asia, a similar record of economic policy reform exists, combined with a more cautious attitude to opening their economies to foreign investment and trade. India, Pakistan, Bangladesh and Sri Lanka are undertaking reforms to transform their economies to a market basis, while retaining control over currency and trade flows. Their

extensive use of import restrictions, often said to be justified on balance of payments grounds, penalize the agriculture sector. This is disappearing with the liberalizing trends, but these countries have retained the capability to intervene in the vital food sectors through border measures and state trading agencies.

The countries of south Asia accepted limited tariff reductions in the Uruguay Round and replaced most of their border protection measures with high tariff bindings. These leave ample scope to provide protection to the food sector. In addition, these countries retained the capability to intervene through state food agencies. Particular attention should be given to the situation of India. India rivals China in both population and production volumes of many basic foods. India has a reasonable record of looking after its food needs and even exports grains from time to time. This country embarked on fundamental economic reforms in the 1990s, following decades of inward policies and central planning. The market reform policies, and the reduction of discrimination against agriculture, should stimulate their agriculture. Of course, internal demand is expanding. While the trade regime has been opened, food imports are allowed only as a residual. This means that India can become a significant player in world trade for some food products, and its influence may rival that of China. However, this would only occur over some time, probably a decade or more.

On balance, the policies of the South Asian countries are relatively neutral in relation to trade negotiations. While they operate with a policy reform and trade liberalizing agenda, this may not apply to agriculture. All these countries have the capability to intervene in food markets, and given the challenges facing them, are likely to do so.

Africa and the Middle East

The countries of Africa are moving more slowly down the path of market liberalization and economic integration. Agriculture is important in these economies, and governments have intervened at all levels in the food chain. This has often taken the form of controlled prices and over-valued currencies, to the detriment of production. Most of Sub-Saharan Africa depends on food imports, and many countries in the region follow policies aimed at greater self-sufficiency in strategic crops. Although these countries are taking steps to implement policy reforms and reduce the constraints of government intervention on their food systems, these efforts are hampered by political and economic instability.

An exception should be made for South Africa, which has implemented a program of economic reforms. As the dominant economy in the region, and with a relatively open market, South Africa will be able to exert some impact on economic developments in the area. This year South Africa joined the Cairns Group since its agricultural policy reforms and export interests coincide with the Group's orientation.

The developing countries of Sub-Saharan Africa receive preferential tariff treatment in industrial markets. While the impact of the Uruguay Round on their economies is limited, there are short-term negative effects of agricultural trade liberalization from the erosion of trade preferences and the strengthening of food import prices as subsidies decline. However many African countries have taken steps to open their economies to investment and trade, and adjusted policies to improve resource use and agricultural efficiencies. These efforts are assisted by trade reforms and international financing. The influence of the countries of Africa on the trade agenda is likely to be small, although many will add their support to efforts of

the food deficit developing countries to obtain special consideration through the Round for their import and development needs.

Most of the countries in the Middle East have implemented market-oriented economic reforms and structural adjustment programs. This is also a net food importing region and experiences both benefits and costs from agricultural trade liberalization. The increase in self-sufficiency in basic foods is an important policy objective in this region, and most countries in the region intervene significantly in international trade and domestic markets.

Nearly all countries in the region have association agreements with the European Union and receive preferential tariff treatment. Several are WTO Members, including Egypt, Israel and Turkey, and Algeria and Saudi Arabia have applied to join. As the Middle Eastern countries can be expected to continue their economic reforms programs, they should generally support efforts in the WTO to liberalize agricultural trade. Given their preferential trade relationships the position of Middle Eastern countries may complement the EU position in the Round and reflect their interests as net food importers.

Chapter 5: Regional Integration

An almost universal change in the international policy environment since the early days of the Uruguay Round has been the embracing on all continents of regional trade agreements. Underway in Western Europe for several decades, regional integration has become a global phenomenon. In the past GATT negotiations, including the Uruguay Round, the European Community and its Common Agricultural Policy both constrained and strongly influenced the outcomes for agriculture. Several free trade agreements and regional economic pacts were in existence at the close of the Uruguay Round, including NAFTA and MERCOSUR. Only the European Community was a key determinant of the result, however. Today almost all WTO Members are formally committed to at least one regional or plurilateral trade agreement. Increasingly agriculture figures prominently in these initiatives, and in many it receives special or specific treatment. The agreements seek to go beyond the WTO provisions into the realm of free trade. They expose differences in national policies, and create new pressures for reforms. The trade implications that arise often require multilateral solutions. The regional free trade agreements, in most cases, are fully consistent with WTO rules and may act as a catalyst in the global trade liberalization process.

The principal focus of regional agreements is the freeing up of trade and investment in order to encourage economic expansion on a competitive basis. They are intended to complement domestic economic policy reforms and the structural adjustments needed to stimulate economic growth and improve living standards. Existing regional trade groupings, in conjunction with planned broader alliances, such as EU enlargement, a Free Trade Area of the Americas, and an Asia Pacific Free Trade Area, may profoundly influence the course of the new Round.

EU Enlargement

The process of EU enlargement to include the Central and Eastern European Countries (CEEC) will fundamentally change the environment for agricultural policy in the region. On a proportional basis, agriculture is much more significant to the economic and social welfare of the potential CEEC members than in the EU states. The negotiation of EU membership for Poland, Hungary, the Czech Republic, Slovenia and Estonia, to begin in 1998, and with several remaining CEEC within five years, places the viability of the CAP in question. In addition to the pressures on the CAP generated by surplus production capacity within the European Union itself, the budget implications and the WTO export constraints makes the

extension of the existing CAP to these Eastern countries unrealistic. The increases in production, agricultural support expenditures, and surplus for export, would undermine the CAP and seriously threaten the WTO trade rules. Thus CAP reform is necessary before or during EU enlargement negotiations, and EU enlargement is again a major determinant of the emerging environment for agricultural trade negotiations.

The EU enlargement negotiations are expected to occur during the new WTO Round of negotiations. The framework and terms for accessions, as well as the timing, will depend on the stage of transition in the CEEC to viable market economies. Despite much progress in establishing forms of democracy in the region, and implementing legislative changes in political and economic institutions, the reform process is far from complete. While the performance is quite variable, most elements of the food chains in the countries of the region have been privatized in some manner. Land reform and the restructuring of farms are well advanced. Production, marketing, and trade are no longer centrally planned. However, with some exceptions, a true market for land, inputs and production does not yet exist. Attitudes change slowly and old power structures and systems persist. Most economic relations and trade functions have been liberalized. But import controls are maintained at the borders and some agricultural policies are becoming more restrictive. As is the case in Western European countries, considerable government intervention and regulation continue in agriculture. Since the CEEC aspire to EU membership, some of the emerging support and protection instruments resemble those used in the European Union. Estonia, however, has a very low level of protection and support.

Agriculture continues to play a key role in the CEEC economies despite a gradual decline in its contribution to GDP and employment. The trade of the region is being reoriented toward the EU and other developed markets. For the Visegrad countries (Hungary, Poland, Czech Republic and Slovakia), agri-food exports are expanding but imports are rising more quickly. All these countries have a deteriorating agricultural trade balance with the European Union, and only Hungary retains a positive balance. This reflects a decline in domestic production, decreasing competitiveness, access limitations and inadequate marketing systems. The trade performance provides a further incentive for these countries to accede to the European Union. They expect to gain not only open access to EU markets but also the financial resources and corporate affiliations to overcome current limitations. At the same time the European Union stands to gain larger markets for processed foods, access to cheaper inputs, and more profitable investment opportunities.

While the enlargement of the European Union to the East is being driven primarily by foreign policy and domestic political considerations, it appears that the challenges and problems of implementing the Maastricht Treaty may slow the process down. The emergence of economic difficulties, higher levels of unemployment, and related social tensions, tend to delay the general thrust toward market-driven policies and trade liberalization. The difficulties and complexities of the transformation process of CEEC economies further reduce the pace of regional integration. However, enlargement negotiations will begin in 1998, and the first five candidates are expected to accede by 2002-03. Thus the timetables for enlargement and the WTO negotiations are placing pressures on the European Commission to advance CAP reforms. Agriculture is only one of many factors in developing EU strategies for further monetary and economic integration in Europe, and the European Union needs multilateral trade negotiations, beyond agriculture, as part of the process. These developments represent an important and positive influence on the environment for a new WTO Round.

Integration in the Americas

The proliferation of regional trade agreements in the Western Hemisphere demonstrates the profound changes that are taking place in the trade environment. Although NAFTA, MERCOSUR, the Andean Pact, the Central American Common Market (CACM) and the Caribbean Community and Common Market (CARICOM), were in place during the Uruguay Round, their impact on the negotiations was modest. These integration arrangements have been deepened and extended during the last decade. They have become a much stronger factor in the trade performance of most countries in the region and significantly influence the attitudes of the key members. There are now a myriad of smaller inter-locking agreements that define and stimulate or constrain the trade policies of these countries, and not always in consistent directions.

Trade ministers from 34 countries in the Americas met in Brazil in June 1997 and endorsed a joint declaration "to conclude negotiations (of free trade) no later than 2005". Negotiations were launched by Heads of State at the Second Summit of the Americas in Chile in April 1998. Participating countries are committed, at least on paper, to make concrete progress by the end of the century. Since one of the key principles of these negotiations is to conclude an FTAA that is consistent with WTO Agreements, this bold and comprehensive initiative should give a major positive thrust to the emerging trade environment. However, the failure of the US Administration in late 1997 to develop the political support for fast-track authority guarantees that free trade of the Americas will not move forward quickly. There may also be some backsliding if countries use import protection to offset the turbulence in currency markets. But regional economic integration will continue to move forward, and the negotiations toward an FTAA can be expected to do likewise.

The economies of the NAFTA partners, and their trade, have become progressively more concentrated and integrated. There are obstacles and disputes which in many cases demand progress in negotiating multilateral rules and disciplines. The lack of enthusiasm in Congress and among many US interest groups for expanding free trade in the region is traced largely to labour and environmental concerns and is related primarily to experiences with Mexico. But the shift toward an integrated North American market is strong and unassailable. As companies and business patterns adjust to a continental market, border regimes and trade rules have to keep up. There are related pressures for the harmonization of domestic policies and technical standards. These influences are bound to drive the NAFTA partners toward the pursuit of multilateral solutions and a positive WTO result in agriculture.

The MERCOSUR countries are working toward creating a common market. In the initial stage, a free trade zone has been established, to be followed by the creation of a customs union. With a population of over 200 million, trade and cross-border investments are rising within the area. However, there are problems in consolidating MERCOSUR. Brazil and Argentina are competing for the leadership, and a number of issues, including trade in sugar, remain outstanding. Brazil is slowing the process of integration in order to develop its economic infrastructure and prepare for international competition. While the countries in the region have a positive attitude toward Hemispheric free trade, they appear to need time to sort out differences and consolidate their positions. Since their trade with Western Europe exceeds that with North America, they also wish to develop a strategy to relate to the European Union. They need assured access to the important US market for their agricultural exports. This leads the MERCOSUR countries to be strong advocates of further negotiations in the WTO.

The countries of the Andean Pact have followed the policy directions of their southern neighbours. Since the Pact underwent a revival in the early 1990s, and Pact countries began to liberalize markets, significant progress has been made in tariff reductions and coordinating import policies. A Common External Tariff (CET) was implemented between Bolivia, Colombia, Ecuador and Venezuela in 1995, and free trade agreements were signed between Mexico, Colombia and Venezuela (G3) and between Chile and individual Andean Pact Countries. Chile has led the region in economic and trade liberalization and has developed arrangements with most of its Latin American partners and with Canada. Moreover, in 1998 the Andean Pact and MERCOSUR signed a framework agreement to establish preferential tariffs by October 1, 1998 and create a free trade area by January 1, 2000. Thus the influence of the entire region should be conducive to further WTO liberalization.

The situation in the CACM is similar. Following improvements in their political stability, these countries have made progress in modernizing their economies and encouraging growth and trade. Structural adjustment programs are being implemented in an effort to diversify exports and reduce dependence on particular crops such as bananas and coffee. Their challenges resemble those facing the CARICOM countries, whose special trade arrangements and import protection have delayed adjustments in the Caribbean region toward stronger economies.

There is a lack of consensus among the FTAA countries on the speed and approach to negotiations and on a number of key issues. For example, among the major interest groups, some North American representatives favour global and simultaneous negotiations beginning now. Others, particularly from Latin America, insist on a slower timetable and a phased approach moving from business facilitation, harmonization of standards and disciplines, to tariff elimination. Some prefer country by country negotiations, while MERCOSUR countries favour negotiating as a group. There are differences over establishing supranational mechanisms for dispute settlement and duplicating WTO procedures. Some wish to eliminate antidumping laws within the area and to enforce rules on competition instead. This range of views serves to demonstrate the variety of approaches that may be taken to the table. The negotiations toward an FTAA are likely to go forward as planned, but slowly, and with pressures to pursue multilateral solutions in the areas of difficulty. There is a perception among key Latin American players that they opened their economies in the Uruguay Round and received in return little “real” access improvement from industrial countries for their products. Thus progress in the WTO is likely to take strategic priority throughout the region.

There is an opportunity for the leading countries in the Hemisphere to move more quickly toward free trade, and to develop coordinated positions in relation to the WTO. Given the importance of multilateral negotiations to the objectives of NAFTA, MERCOSUR, and the arrangements of other countries in the region, their posture in the FTAA run-up period will add a positive influence and an urgency to the WTO negotiating environment.

Asia Pacific Integration

Economic integration in the Pacific region also accelerated in the last decade under the Asia Pacific Economic Cooperation umbrella and through developments in the Association of South East Asian Nations, the Closer Economic Relations Agreement (CER) between Australia and New Zealand, and several other inter-locking arrangements. Although the countries of the region are far from a homogeneous group, the region includes some of the

most vigorous, trade-oriented countries in the world. There has been a huge increase in trade within the region and with other countries.

The APEC economies, which include China, Japan and the United States, have agreed to achieve free trade, for all products, by 2010 for the developed members, and by 2020 for developing countries. The ASEAN countries have a timetable of their own to implement a free trade area by 2003, and by 2006 for Vietnam. At their Summit in Vancouver in 1997, the APEC members maintained their free trade targets despite devoting much of their time to discussing the turmoil in Asian currency markets. They also agreed to work to reduce tariffs sooner in nine sectors, including fish and forest products, to be implemented on a voluntary basis in 1999. However, the APEC members were unable to agree to move immediately in six other categories, including the food sector and oilseeds and oilseed products, and proposals for action on these are to be considered at their 1998 meeting (APEC 1997). There is some concern that open trade will lose momentum in this region, as an economic downturn is expected to follow the Asian currency and stock market crisis. However, since trade agreements respond to longer term policy trends, and trade is an essential component of strategies to improve the economies of newly industrialized economies, protectionism should not re-emerge, or not for long.

As the 1997 APEC Summit demonstrated, the ASEAN nations, and particularly Japan and Korea, are reluctant to liberalize trade in foodstuffs. Furthermore, China and most other Asian countries are unlikely to forgo control of this vital sector, at least at an early stage in their development. But the APEC members are trading economies, and they require, and benefit from, effective and balanced multilateral trade rules. There are good grounds to take a positive longer term view of the impact of integration in the Asia Pacific region on future WTO negotiations.

African Integration

Although interest in various agreements to promote economic cooperation and regional integration was renewed during the 1980s, the countries of Sub-Saharan Africa exerted little influence on the Uruguay Round, made few concessions and accepted only limited obligations. In 1996, the members of the Southern African Development Community, including South Africa, agreed to establish a free-trade area within eight years. Under the Lomé Convention, certain African states have preferential trade arrangements with the European Union (under renegotiation). The African states endeavour to coordinate their positions concerning these preferential trade arrangements with Caribbean and Pacific countries. South Africa is also engaged in discussions of a free trade arrangement with the European Union, where agricultural trade is presenting an obstacle to progress.

Given the slow rate of economic growth and internal instability throughout much of Africa, the region is unlikely to exert much influence on a new Round of trade negotiations. Their circumstances indicate that many of the region's countries will continue to emphasize preferential treatment, accepting only limited commitments and pursuing special transitional arrangements. South Africa is the exception, and its growing influence in the region may be exerted primarily through its new membership in the Cairns Group.

Supra-Regional Initiatives

Proposals to formally link regional trade agreements between continents present a further dimension to the potential influence of these arrangements on the trade policy environment. So-called supra-regional agreements have been proposed between NAFTA and the European Union, the European Union and MERCOSUR, and in the Pacific between NAFTA, the CER and ASEAN. Already there are several examples of individual countries in separate regions, or groups of countries, entering into formal trade relationships with the European Union, MERCOSUR, and NAFTA members. Although discussions aimed at creating supra-regional agreements often founder over agricultural issues, or reach special arrangements for these products, it is increasingly difficult to make progress while avoiding sensitive sectors such as agriculture.

Already there are examples of linking regional agreements to deal with specific issues, such as the agreement reached between Canada, the United States and the European Union for mutual recognition of standards and testing. The United States and European Union are engaged in exploratory talks over a possible transatlantic trade agreement. A free trade agreement between the European Union and MERCOSUR is under active discussion, as well as between Canada and MERCOSUR.

These and other similar initiatives represent a positive influence on the trade environment. Inevitably the countries involved must grapple with the agenda for agriculture. The issues most likely to be influenced would include export and domestic subsidies, rules of competition, health and technical standards, domestic policy coordination or harmonization, and accelerated tariff removal or free trade in selected products. These issues must be confronted in regional trade agreements, and their resolution could be advanced through discussions aimed at linking them across continents. The prospects for progress in trade liberalization through regional and supra-regional initiatives could have a strong and positive influence on the future trade policy agenda.

Chapter 6: Groups and Alliances

The emergence of new or strengthened regional groupings or constellations of trading partners could change the dynamics of multilateral trade negotiations. In principle, the GATT was intended to work through pursuing a consensus among the Contracting Parties which initially were primarily industrial countries. The GATT developed as a forum where countries with similar market-based economies pursued progressive freer trade and a balance of advantages through the reduction of tariffs and other trade barriers. As the membership broadened to include more developing countries and some non-market economies, the rules and operations were interpreted or adjusted in an effort to fit the differing economic systems and needs into a common framework of rules. There was a gradual trend toward the coordination of approaches to issues and negotiations through smaller committees or groups within the GATT structure, and through outside organizations such as the OECD and UNCTAD.

When the Uruguay Round was launched, it was obvious that the policy environment had become more complex, interrelated and interdependent. The trend toward seeking agreement on single issues or sectors as separate agreements or codes that emerged in the Tokyo Round was extended. However, in the new WTO organization, the Agreements are consolidated by one Final Act, and subject to a single dispute settlement system which tends to lock the commitments together. Furthermore, in response to the changing economic environment, many of the old coalitions and alliances began to fade. However, the two main trading partners, the European Union and the United States tended to dominate the agricultural trade agenda, influenced by the positions adopted by Japan, Canada, and other larger trading nations.

With the growing complexity of issues, economic activities, and trade relationships leading to the Uruguay Round, it might be expected that new groups and alliances would have greater influence on the negotiations. The Cairns Group brought to the negotiating table a new dimension comprising the smaller and medium-sized exporting countries, led by Australia. This group spanned continents, economic systems and levels of development. In addition to the two main players (the European Union and the United States), the Cairns Group exerted a significant influence on the agricultural negotiations by pushing strongly for a major result. Although the developing countries had previously used group coordination to advance their positions, in the Uruguay Round they operated primarily on a country basis. There was some coordination around common issues, such as the successful push for special consideration for the least-developed and net food importing countries. Some coalitions also

formed among Latin American countries, best demonstrated by their refusal to allow other issues to proceed in the Uruguay Round without progress on farm trade. The Nordic countries continued to coordinate their positions, while seeking to respect their relationships and objectives regarding the European Union. Hungary was a member of the Cairns Group, and the remaining CEEC operated largely on their own. However, in the final stages of the Uruguay Round, most key issues were settled bilaterally between the European Union and the United States.

There is likely to be a greater coalescence of interests and positions, particularly on a regional basis, in the next Round. The Cairns Group has continued to meet regularly at ministerial and other levels to develop negotiating objectives and strategies. The MERCOSUR countries are already coordinating their trade policies, and support can be expected on many issues from their Latin American colleagues. The Latin members of the Cairns Group will probably also use that group to strengthen their positions on major elements of the negotiation. The influence of the South American region should grow in comparison to the Uruguay Round. The CACM countries will lean toward their southern neighbours on a selective issue-by-issue basis. The Caribbean countries may tend to take a defensive posture, seeking to sustain their preferential access to US and EU markets.

Assuming that the United States can build the political will to support fast-track authority, they are well placed with the FAIR legislation to again take the lead in agriculture. The Americans can expect at least comparable support from the Cairns Group and, on most issues, from the remainder of the Western Hemisphere. There will be opportunities for a coalition of interests among FTAA countries on some issues such as export subsidy disciplines, technical standards, and sector free trade, e.g. grains, oilseeds, beef and their products. For this to be a viable scenario, both the United States and Canada would have to show flexibility in their most protected agricultural sectors of interest to Latin American exporters.

Turning to Europe, the European Commission's mandate ensures that the position of the 15-member Union will be a coordinated one. The accession of Sweden, Finland and Austria means that the main thrust of the Nordic and EFTA countries will be felt through the EU position. On balance, the CEEC and Baltic states are more likely to support the European Union on key issues since their primary goal is EU membership. Hungary withdrew from the Cairns Group in early 1998 in anticipation of launching negotiations to join the European Union. Due to the implications of enlargement for CAP reform, and the European Commission's Agenda 2000 proposals to move toward international prices, the European Union should be much more supportive of another Round of agricultural trade liberalization. It needs a further multilateral negotiation to pursue its own essential reform program and to help establish the basis for accepting CEEC members. Given the longer term interests of CEEC in agriculture, these countries should not block progress in agricultural trade liberalization and may become progressively more positive as the transition to market economies proceeds.

Developments in the APEC region are moving in the right direction to support further trade liberalization, but apart from Australia, New Zealand and the Western Hemisphere members, there is not much enthusiasm in APEC countries for opening markets to more farm products or ceding internal controls over their basic food systems. The monetary and economic uncertainties that have recently emerged in Asia are likely to dampen enthusiasm for even modest advances until these economies get back on track.

Following the Vancouver APEC Summit, the targets for achieving free trade remain in place, and the Asia-Pacific trading nations agreed to move more quickly in cutting tariffs on a voluntary basis in a number of sectors. Under conducive economic and market circumstances, there may be scope to add additional agricultural products, such as oilseeds, cereals, meat, and food products, to the list for early attention. The APEC targets for achieving free trade are complementary to mounting a WTO negotiation but over an extended timetable. However, developments in the Asian region of APEC are only modestly positive in terms of the emerging trade environment, and any significant moves will have to await a turnaround in the economies of the key players.

Should the supra-regional approaches discussed earlier proceed, the prospect of new alliances developing on an issue basis are quite high. However, experience has shown that broad progress on the multilateral front in agricultural trade liberalization is only possible if the United States and the European Union reach agreed approaches. Should this occur before or during the next Round, this powerful alliance would dominate the negotiations. At this stage such a development for agriculture appears unlikely.

Since a majority of WTO members are developing countries, their influence on the next Round is expected to grow. China is insisting on its developing country status in accession negotiations and is likely to lend support to other developing countries on some issues. In the Uruguay Round the least developed countries obtained a Ministerial Decision to support any special and differential treatment agreed in the negotiations through regular reviews, particularly in relation to early implementation of concessions and the application of transitional arrangements of importance to them. The least-developed and net food importing developing countries successfully pursued a Ministerial Decision concerning the possible negative effects of the reform program for greater trade liberalization on supplies of basic foodstuffs. This group of developing countries strongly pressed its concerns during the WTO Ministerial Meeting in Singapore and its influence is being felt in preparations for further negotiations.

It is reasonable to expect that the role of developing countries in WTO affairs will increase as their populations and economies grow more rapidly than those of more industrialized nations. However, the developing countries will continue to rely for some time on the more advanced economies for investment, new technology and commercial expertise. The situations and interests of developing countries differ greatly, and a strong, unified stand on economic and trade matters is unlikely to emerge. This could occur in the next Round for specific issues such as food security concerns that are widely shared in the developing world. But even in this example, the role of properly functioning markets, and trade policy reforms, are recognized as important elements of strategies to overcome poverty and improve food security. The growing influences of developing countries is most likely to be exerted through regional and issue groupings of countries with varied levels of industrialization and development.

Chapter 7: New Issues and Concerns

Public debate over the merits and direction of trade liberalization has become immensely more complex and divisive since the early days of the Uruguay Round. The association of freer trade with issues ranging from global warming and safeguarding the environment through human rights and agrarian reform, to unemployment, and labour regulations, income disparity, genetic modifications and maintaining a safe and secure food supply, demonstrate the nature of the debate. The recent US experience of a failure to secure fast-track negotiating authority is compelling evidence of the challenge to gain political support for freer trade. Despite overwhelming evidence that freeing up markets is an essential ingredient of almost any successful policy for economic growth and improving incomes and public welfare, trade negotiations are attracting opposition from a myriad of special interest groups in virtually every democratic country.

There appears to be a back-lash against technology, markets, capital flows and corporations coincidentally with a world-wide trend to embrace modern information technology, foreign investment, and democratic, market-driven systems. The inevitable structural adjustments that must accompany a revolution in information technology and economic development are giving rise to serious concerns over change. Unfortunately this resistance to change, which is a natural reaction to adjustment pressures, is being linked with specific concerns over a host of issues including freer trade. These developments are clouding the agricultural trade policy environment.

Governments must address these broad policy concerns, and most are seeking to do so through economic, social and technical policies. In addition to pursuing steady and balanced economic growth, many countries are altering their fiscal, education, employment and social policies to cope with structural change. To some extent policies and programs are being advanced and coordinated through the activities of international organizations and institutions. The World Food Summit in 1996 and the Kyoto Conference on Global Warming in 1997 are examples of such recent international initiatives. In addition to using domestic legislation, some issues can best be addressed through international agreements and codes such as human rights, labour and environmental standards, new technologies and food standards. There is a clear risk that trade principles and rules will be compromised, and economic performance weakened, if these issues are pursued through trade actions. But this is occurring and it adds new dimensions and difficulties to agricultural trade negotiations.

There is also a possibility that the future could unfold quite differently than can be predicted based on the underlying trends toward economic integration and changing structures of agri-food markets and industries. It is important to consider developments that could significantly alter the scenarios upon which the current evolution of policy is based. This section examines some newer issues in the trade arena, and how they may be handled, and speculates on developments that could upset the expectations already discussed.

Trade and the Environment

The relationship between trade and the environment was placed on the WTO agenda at the close of the Uruguay Round. To help gain Congressional support for NAFTA, the US Administration had earlier negotiated a side-agreement with Canada and Mexico on environmental cooperation. Although the US Congress is split on the merits of injecting environment (and labour) standards into trade agreements, this was a factor in the opposition to granting fast-track authority. The issue of safeguarding the environment is often linked to concerns over global warming.

This debate is being waged in many countries and has important implications for agricultural trade negotiations. Public concern over environmental degradation is extended to the use of chemicals, biological controls and waste disposal. While technical and management advances offer the means to reduce environmental damage, they too are being challenged by groups concerned over biotechnology, animal welfare, and food production processes. Advocacy groups often focus on agricultural imports and exports in pursuing their concerns and this is posing new complications for negotiations.

It is important to pursue environmental concerns, and issues related to them, on their own merits. To a considerable extent governments are doing so, as demonstrated by the activities of UN Agencies such as the WHO and the FAO and OECD expert consultations, global conferences and international agreements. The issues are technical and complex and require general agreement about scientific testing, assessment and international approval. Usually trade is involved only as a peripheral issue. The pursuit of International Agreements and Conventions is the appropriate means of responding to public concerns. Initiatives such as the Kyoto Conference are essential to make progress and to isolate these issues from the multilateral trade agenda. In the WTO context, the SPS and TBT Agreements provide the basis for dealing with trade aspects of these technical matters.

Trade, Investment and Competition Policy

The Singapore ministerial meeting established WTO working groups to examine the relationship between trade and investment, and the interaction between trade and competition policy. In the context of economic policy reforms and the integration of economies, the growth in direct investment plays a much greater role than trade. Although it is recognized as the principal component of strategies to adopt modern technology, improve growth, create employment and enhance economic development, there are concerns over the extra-territorial effects of investment flows and corporate activities. In turn, these concerns spill-over into opposition to freer trade.

The integration of economic activity is forcing agriculture in virtually all trading nations to become competitive throughout the food chain on a continental or world basis. To improve the level and stability of earnings, there are pressures on agricultural enterprises to

specialize, or diversify and add value to production. Corporate affiliations are quickly becoming essential in the food industry to link national operations to a global network. Trends toward greater consolidation and specialization throughout the processing industry, and a greater degree of partnering and integration, have been occurring in most regions and are expected to continue.

Increasingly trade is linked to investment flows. Corporations engage in inter-corporate trade to compete profitably. Processing is undertaken in multiple countries, and component trade is becoming more prevalent, even in the food sector. Through investments and management on a global basis, corporations can minimize the effects of trade barriers, and avoid protection devices. This increases the importance of trade negotiations to remove unnecessary restraints to investment and trade. There is also a need to achieve greater compatibility among national policies and their enforcement, to maximize the gains from investment and trade to the economy.

These trends are much stronger in the 1990s than previously and may be accelerating. Privatization and an expanding private sector has become an integral part of most national growth strategies. Notwithstanding the positive results that can flow from investments, corporate networks and associated trade, there is some unease and outright opposition to these trends. The Agreement on Trade-Related Investment Measures (TRIMS) includes a requirement to review its operation within five years and propose amendments as needed. In the review WTO members are to consider whether TRIMS should be complemented with provisions on investment policy and competition policy. The WTO working group on trade and competition policy includes work on anti-competitive practices where issues relating to cross-border corporate activities may be addressed. Separately, under the terms of the Uruguay Round regarding state trading enterprises, a working group is examining their activities in relation to the trade disciplines. The issues of trade, investment, competition policy, and state trading are linked. This adds to the complexity of the emerging trade environment. It also identifies an area where additional multinational rules may be needed and adds a further dimension to the WTO trade agenda.

OECD governments are negotiating a Multilateral Agreement on Investment (MAI). The draft MAI is a comprehensive investment agreement intended to cover all economic sectors. It would commit signatories to treat foreign investment no less favourably than national investment at all levels of government. Governments would remain free to implement their own policies, including labour and the environment, provided they do not discriminate against foreign investment. There will be general exceptions and safeguards for national security, and the agreement is expected to provide for specific exceptions, such as the exemption for cultural industries being pursued by Canada. While the proposed Agreement is being challenged over its implications for national sovereignty, and social, cultural, labour and environmental concerns, its overall impact is intended to assist global development and to facilitate trade.

Consumer Concerns

In the transparent world of today, consumers are much more aware and involved in the food system. Their changing life styles and diets, the demands for quality, nutrition, convenience and service, and concerns over food safety, health, and production and processing methods, are reflected throughout the food chain.

Through their market power, consumers have a growing influence over what is produced and how. This has led to new forms of trade disputes such as the EU ban on the imports of meat produced with growth stimulants. There is resistance by the public to the production and trade in new products of biotechnology. Animal rights groups seek to influence the conditions for livestock and poultry production. These concerns raise new issues with respect to the trade rules if consumer preferences, not based on scientific facts, were to become part of the regulatory regime, and are used to restrict imports.

The SPS and TBT Agreements respond to some of these concerns. Governments are naturally sensitive to the public's perception of health and food safety matters, and this is even more the case where biotechnology and genetic modifications are concerned. The most promising avenues for progress on these issues involve education, public information, transparent procedures, standards based on science, labelling, and professional regulatory enforcement. There are many initiatives underway to advance scientific standards and seek international acceptance and enforcement. These activities are stimulated by the negotiation of WTO and regional trade agreements. However, these initiatives are not always proving adequate to build consumer confidence and to avoid trade disputes. The result is an additional area that detracts from trade liberalization. Indeed, in some cases, these concerns are being exploited to raise uncertainty over the merits of freer trade.

Unexpected Developments

The current policy scenarios could be upset by exceptional events that cannot be anticipated. These could range from unusual weather and the upheaval of agricultural supplies, or other commodity crises, to the revival of protectionism from an extended period of economic slow-down and stagnation, through widespread political instability in some regions, and the outbreak of broad conflicts. Perhaps equally plausible could be decades of steady growth, and the emergence of strong economies and rapid increases in consumption in Asia, Latin America and the FSU countries. A truly global economy in a world of several powerful regions could emerge early in the new millennium. While the trade policy environment would need to be reassessed under any of these scenarios, the important question at this time is whether further trade liberalization in agriculture would assist or detract from a global response to new situations.

The risk of a major upheaval in the world's food supply is under review in some aspects on a regular basis by governments and international institutions. The most recent medium term policy baseline is optimistic, anticipating a continuing trend of globalization, declining government intervention and improved market orientation (OECD 1998). Adequate supplies and stronger prices for agricultural commodities are projected on a world basis in response to rising incomes and growing food demand. More open exchange of technology and technical information combined with freer flow of capital, goods and services helps to make producers more responsive to market needs, and reduces the risks of supply variability. However, with less government involvement in production and stock-holding, global inventories of basic foods are generally lower. On balance, freer trade in agriculture contributes to global food security although markets must be allowed to function to achieve this long-term benefit.

The recent monetary and currency crisis in Asia, and the economic slow-down that is following, is an example of the risks inherent in a possible global economic downturn. In an inter-related world, economic failures in one area have impacts in all regions. Temporary

interventions by national and international financial institutions are necessary to respond to financial and economic crisis, and actions to close economies to trade and investment would be counter-productive. A part of the Asian difficulties has been the maintenance of less-open government and financial systems that must be reformed and restructured to regain the health of the economy. Nonetheless, the severe adjustments that are needed inevitably will dampen enthusiasm in the Asian region for further trade liberalization. It may also cause a retreat from liberal economic policies, at least on a temporary basis.

There is a risk that some Asian countries will be attracted to the approach of China and India which tend to isolate their financial institutions and control capital flow and trade. The impact on the international policy environment of a major move in Asia away from gradually opening their economies would be negative and substantial. But it should be short-term, since their economies would become severely weakened if cut off from direct foreign investment and faced with currency devaluation and foreign constraints against their exports. Further trade liberalization in agriculture as part of a broader negotiation should help these countries to adjust, and reduce costs.

The possibility of increased political instability in some developing regions and in former command economies, must be recognized. Outbreaks of regional hostilities are occurring in the Middle East, the FSU region and parts of Asia and Africa. As countries deregulate and privatize state enterprises to develop market economies, the necessary adjustments may create unemployment, increased migration to the cities, social unrest and political instability. As was the case during the Gulf War, these developments can have economic effects, but as long as the incidents remain localized, even in the case of a large trading country such as China, the impact on the general economic environment is limited. Only the remote possibility of general hostilities would seem likely to have a major influence on the overall trade policy environment. More open economies, and the freer movement of goods, services and investment will help countries to overcome many of the causes of political unrest.

Chapter 8: Building a Negotiating Package

The emerging international policy environment, despite its greater complexity, is much more conducive to making progress in agricultural trade liberalization than was the case at the beginning of the Uruguay Round. The Agriculture Agreement itself, the initial framework for negotiations, and greater consistency in policy directions establish a basis for optimism. The on-going trends of greater regional and global market integration, and trade growth, are pushing the process of economic liberalization forward. However, the urgency attached to resolving the problems of agricultural trade that prevailed during the Uruguay Round does not exist today. Despite the need to continue policy reforms, and to deal with new issues that have emerged, there is no crisis in agriculture trade that would compel governments to act now. This represents a major change from events leading up to the Uruguay Round, and presents the greatest challenge facing governments and groups seeking further multilateral trade negotiations.

Agriculture does form part of the built-in agenda for the next Round, together with services and trade-related aspects of intellectual property rights (TRIPS). The Singapore Ministerial Declaration authorized a process of analysis and exchange of information to prepare for negotiations so the package on the table, at a minimum, will cover these matters. But there is no assurance at this time that a broad WTO negotiation will be launched. Members of the Committee on Agriculture are conducting a work program to understand the issues and identify their interests. A series of country "non-papers" are being exchanged. Reviews and other WTO work is underway on many other issues, which may add to the negotiating agenda (IATRC 1997). This work program was agreed in Marrakesh and endorsed by ministers at Singapore. As indicated, the ministers also established working groups on investment, competition and transparency in government procurement, and requested work on trade facilitation (WTO 1996). Member countries are in a position to be much better prepared to engage in substantive negotiations on agriculture in 1999 than was the case in 1986.

The potential for a substantial negotiating package exists, but only for agriculture, services and TRIPS are negotiations assured. The MAI agreement, if concluded, could eventually serve as the foundation for a WTO Agreement. There is a full plate of issues of importance to agriculture that should be pursued. Notwithstanding the favourable trade policy environment that is emerging, the pressures that preceded the Uruguay Round are much less today. There is nothing concrete on the policy scene to indicate that another major Round is in the offing for industrial goods. The negotiating history indicates that the agriculture and

food sector, largely on its own, would not provide for a substantial negotiation. There would be inadequate benefits for some countries, such as Japan and Korea, to accept politically difficult concessions in agriculture. This signals the need to devote attention to broadening the agenda.

What will generate the political will to negotiate on agriculture? The Peace Clause in the Agreement on Agriculture expires in 2003. If this occurs in the absence of further commitments, the special protection provided for domestic support in the "green box" would expire (i.e., non-actionable in respect of serious prejudice and nullification of tariff concessions and countervail). This should generate some pressure to complete these negotiations. Added pressures will arise in Europe related to the EU enlargement negotiations scheduled to be completed early in the next century. A new US Farm Bill is due in 2003. The FTAA negotiations are to be completed by 2005. The APEC countries are to begin reducing tariffs for selected sectors on a voluntary basis this year. As in the past, the expiry of US fast-track legislation, once granted, could set a similar deadline. The convergence of these dates may be enough to build the political momentum for concluding a package.

The appropriate policy directions are there, as are many desirable benefits from developing an open global food system. On balance the trade environment is favourable, although it has become more complex and difficult. The WTO membership will be broader, and cover most of world trade. China and Taiwan may be full members when negotiations are engaged and Russia, together with other FSU states, should be at the table to complete their accessions. But US leadership is not assured, and the European Union appears unwilling to take the lead. Pressure for progress on farm trade liberalization can be expected from the Cairns Group. The principal Latin American trading countries appear committed to further multilateral negotiations but are in no apparent hurry to engage without consolidating their regional arrangements and obtaining clear indications that the United States and the European Union are ready to move ahead in areas of interest to them. Canada endorses a further Round in agriculture, but is still on the defensive for key import sectors. In these circumstances what must happen for the Round to proceed toward a conclusion?

This analysis indicates that US leadership is still the key determinant if the negotiations are to move forward. Although fast-track authority could not be achieved in 1997, it was primarily for reasons related to perceived short-comings in NAFTA, and a lack of political will to push forward under an FTAA banner. The fact that Canada has made a free-trade deal with Chile, and together with the European Union, is exploring a relationship with the MERCOSUR countries, is a useful catalyst. The United States is at risk of being left behind, to their commercial disadvantage, but this was not enough in the fast-track debate to overcome the split in Congress on the desirability of freer trade. Some issues might be advanced together among Western Hemisphere countries, such as abolishing export subsidies and moving to free trade for selected sectors. But Brazil, Argentina and their Latin American neighbours need assurances of better access to US (and other industrial) markets for sugar, meat, dairy, fruits and their products, before they will reduce their relatively low agricultural tariffs. The United States and the European Union are engaged in talks over freeing trade across the Atlantic but agriculture is already posing a constraint.

The US political imperatives appear less compelling if the Administration were to challenge the world to move toward free trade in agriculture and foods on a multilateral basis combined with negotiations in other areas. Would the US Congress consider fast-track legislation for a WTO Round more palatable, possibly enriched to allow their negotiators to go further on some issues, and in some areas, with those countries willing to do so? Apparently there is some interest in Washington to move forward with discrete sectoral packages in agriculture as evidenced by the APEC discussions in Vancouver although the Asian countries resisted progress for oilseeds and food products. Many in US agriculture and elsewhere would oppose such a limited negotiation since it would lead to small and inadequate results. Given the range of the WTO work program, it should be possible, and highly desirable, to broaden the package beyond the built-in agenda.

The European Union has sound reasons to support a US initiative to launch a full WTO negotiation. Already EU Commissioners are referring to a Millennium Round. Even for agriculture the European Union needs a multilateral negotiation to complement and help advance further CAP reforms and enlargement to the East. The EU members have endeavoured in the past to harmonize policies across agriculture sectors, stimulated by their experiences with oilseeds. The 1992 CAP reforms and the Agenda 2000 make it obvious that the European Commission wishes to proceed, and more quickly in cereals and meats. The European Union would also be attracted to broadening the agenda.

Japan, Korea, and other Asian countries, would be unwilling to endorse a major trade negotiation in agriculture only, but assuming their economies are strengthening, they should support a broad negotiation that would reinforce steps they must take in structural reforms. Many Asian countries are lukewarm about opening their agricultural markets to imports, or weakening their controls over internal food systems. There is a risk that some will resort to subsidizing their farmers when they can afford to do so. Possibly the recent currency and economic difficulties will make them more amenable to basic structural reforms in their food sectors but this is not yet apparent. There is some acceptance by the countries of the region of the need to continue domestic farm reforms, and many will have specific goals in a negotiation, such as assured access to imports of foods and other commodities and disciplines on the use of export restraints. This region needs access to markets for labour intensive goods so a well-functioning rules-based trading system is important to them.

The emergence of stronger regional coalitions in the Americas and the Pacific area to move to free trade will help create the impetus for a broad multilateral negotiation. As discussed, these coalitions may provide pressures to make progress on export and domestic subsidies, domestic policy coordination and harmonization, rules of competition, health and technical standards, and accelerated tariff reductions for selected product groups. The Cairns Group can be counted on to provide aggressive support to broaden and deepen the agenda for the Round.

There is a growing need to grapple with the new issues and concerns that are encroaching on the trade environment. The specialized and technical issues need special attention, preferably in the venue or institution where the expertise exists to work on them. Rather than retreat from these challenges or hide behind traditional responses and argue that the critics are badly informed or wrong, it would be much more constructive to act. This should be done outside the WTO framework, and hopefully in step with another broad trade negotiation.

The environment for negotiations on agricultural trade liberalization is positive. An analysis of several specific determinants leads to that conclusion. Special issues and concerns are pushing against the flow and they should be addressed in the appropriate place. But where is the political leadership and the drive? The WTO commitment to initiate negotiations on agriculture is less than two years away, and the clock is running.

Conclusion

A review of the economic trends and developments since the Uruguay Round negotiations demonstrates that the international policy environment will be significantly different when further agricultural trade negotiations begin in the WTO in 1999. The trends toward regional and global market integration and the restructuring of economies and industries that were underway during the Uruguay Round have deepened and accelerated since the WTO Agreements were signed. An assessment of several specific determinants in this paper concludes that their influence on the emerging international policy environment will be favourable to achieving a further tranche of trade liberalization in agriculture.

The commitment embodied in the WTO Agreement on Agriculture to undertake further negotiations to continue a fundamental process of agricultural trade reform is unprecedented and positive. The institutional framework of the Committee on Agriculture, the Sanitary and Phytosanitary Committee and the Dispute Settlement Mechanism, provides for an on-going dialogue to address trade problems in agriculture, and these activities greatly improve the prospects for another constructive Round of trade negotiations. The broadening of WTO membership will add a useful dimension to future agricultural negotiations, particularly if the key agricultural trading nations, China and Russia, accede to the WTO.

There is now a widespread shift in agriculture and food policies toward more open, market-sensitive operations. A review of national and agriculture policies in the main trading countries and other regions of the world demonstrates the magnitude and strength of this fundamental reform process. As trade agreements must follow these trends, the on-going reforms of national and agricultural policies is the most significant change in the trade policy environment since the early days of the Uruguay Round.

Regional economic integration and the proliferation of regional trade agreements has become a global phenomenon since the launch of the Uruguay Round. The principal focus of these agreements is the freeing up of trade and investment in order to encourage economic growth on a competitive basis. Regional free trade agreements are generally consistent with WTO rules and disciplines and seek to go beyond them in some respects. Consequently, these agreements should act as a catalyst in the global trade liberalization process. Proposals to formally link regional trade agreements between continents present a further positive dimension to the potential influences of these arrangements on the trade policy environment. The emergence of new and strengthened regional groupings and broader constellations of

trading partners could change the dynamics of multilateral negotiations as coalitions develop around issues and proposals to press for freeing-up trade and investment.

It must be recognized that public debate over the merits and direction of trade liberalization has become more complex and divisive. New issues and concerns over environmental degradation, labour regulations, food safety, and a host of other concerns, have been linked to trade agreements. While governments must address these issues on their merits and in the proper venue, there is a risk that trade principles and rules will be compromised and economic performance weakened if these issues are pursued through trade actions. More open economies, and the freer movement of goods, services and investment, should help countries to deal with economic and social problems.

The international policy environment, despite its greater complexity, is much more conducive to making progress in trade liberalization than was the case at the beginning of the Uruguay Round. Despite the positive environment for further trade reforms, a major change from the last negotiation is the absence of a crisis in agricultural trade that would compel governments to act now. There is a built-in agenda for further negotiations, including agriculture. But there are few indications that a major new Round is in the offing, encompassing industrial goods and a range of pressing trade issues. Experience suggests that a substantial negotiation is necessary to provide sufficient and broadly-based benefits for governments to accept politically difficult concessions in agriculture or in other sensitive sectors. The emerging environment for negotiations on agricultural trade liberalization points to further progress for the sector. The analysis of several specific determinants in this report supports that conclusion. However, the need to build a broad negotiating package presents the greatest challenge facing governments and groups seeking further agricultural trade reform.

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Acronyms

AAFC	Agriculture and Agri-Food Canada
AFTA	ASEAN Free Trade Area
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CACM	Central American Common Market
CAP	Common Agricultural Policy
CARICOM	Caribbean Community
CEEC	Central and Eastern European Countries
CER	Closer Economic Relations
CET	Common External Tariff
EFTA	European Free Trade Area
EU	European Union
FAIR	Federal Agriculture Improvement and Reform Act
FAO	Food and Agriculture Organization of the United Nations
FTAA	Free Trade Area of the Americas
FSU	Former Soviet Union

G3	Free Trade Agreement between Mexico, Colombia and Venezuela
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IATRC	International Agricultural Trade Research Consortium
MAI	Multilateral Agreement on Investments
MERCOSUR	Southern Common Market
NAFTA	North American Free Trade Agreement
OECD	Organization for Economic Cooperation and Development
SPS	Sanitary and Phytosanitary
STE	State Trading Enterprise
TBT	Technical Barriers to Trade
TRIMS	Trade-Related Investment Measures
TRIPS	Trade-Related Intellectual Property Rights
TRQ	Tariff Rate Quota
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States
WHO	World Health Organization
WTO	World Trade Organization