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Australia may also have potential to develop a competitive pork exporting industry. Land is certainly available for expansion in Australia. Limiting factors currently include the relatively small size of its production and processing industry. Problems could also develop for a pork industry in Australia in years when food-use wheat prices are strong, bidding wheat away from animal feeding.

Land-rich countries in Eastern Europe, as well as Russia and China, offer possibilities for development of efficient pork export industries. The limiting factors in each case however, are fragile market structures and underdeveloped infrastructures.

France and Spain offer some opportunity for expansion of the European pork industry. Both countries have relatively large land endowments relative to their neighbors. Factors that limit the possibility of exports are high labor costs, imposed limits on nitrate additions to the environment, and restrictive animal welfare measures.

In short, the current set of major pork exporters are capable of exporting large quantities of high-quality pork products at competitive prices. However, technical and managerial innovations are relatively easy to transfer across national borders, resulting in increased productivity and industry growth. For U.S. producers, a large land endowment is the key element that allows the realization of economies of size and price competitiveness with pork exported by Denmark and Taiwan. For both Denmark and Taiwan, very limited land endowments constitute a critical constraint on expansion potential and relative competitiveness.

While the U.S. pork industry has restructured, developed, and raised its competitiveness over the last several years, newcomers to the export market—particularly Canada and Mexico—may prove to be formidable competitors in the future. [Mildred Haley (202) 219-0833 and Liz Jones (202) 219-0619; mhaley@econ.-ag.gov; eajones@econ.ag.gov] 

Agriculture & the WTO: The Road Ahead

The Uruguay Round of multilateral trade negotiations, completed in 1994, was historic in that it was the first successful comprehensive attempt to bring agriculture into the general discipline of the General Agreement on Tariffs and Trade (GATT). The UR was also unique in that some of the agricultural commitments agreed to by the major players were achieved prior to signing of the agreement.

But the Uruguay Round (UR) keeps open the impetus for agricultural reform. Article 20 of the UR Agreement on Agriculture requires that negotiations for continuing the reform process be initiated one year before the end of the implementation period (1995-2000). A new mini-round of agricultural negotiations, therefore, begins in 1999.

A World Trade Organization (WTO) ministerial meeting is scheduled for December 1996 in Singapore to review, among other things, developments since the UR. What are some of the issues that are likely to emerge for the 1999 mini-round of agricultural negotiations?

The agenda will most likely cover issues left outstanding in the UR Agreement on Agriculture, particularly those relating to market access, domestic support, and export competition. But emerging issues not directly addressed by the Agreement on Agriculture might also be a big part of the negotiating agenda.

These issues include areas such as sanitary and phytosanitary provisions and state trading. Progress in the implementation of various UR agreements and country commitments are likely to have a bearing on all agricultural issues.

Improving Market Access

Market access issues are likely to revolve around two policy instruments: tariffs and quotas. Discussions on the level of tariffs are expected to dominate the agenda on market access. The UR provided governments considerable leeway in calculating and binding tariff levels. Some countries adopted tariff rates in which bound levels specified in the UR country schedules were set extremely high. The bound tariff peaks for agriculture in many developed countries range from 100 percent to nearly 500 percent. This is in sharp contrast to nonagricultural tariff peaks, which range from 25 to 50 percent. Both agricultural exporters and nonagricultural interest groups can be expected to pressure to change this.

The UR Agreement on Agriculture adopted a formula-based tariff reduction in which simple averages across products within a country's agricultural sector were acceptable. The country schedules for many OECD (Organization for Economic Cooperation and Development) members indicate that tariff reductions varied among agricultural industries. Reductions were at the minimum required 15 percent per tariff line for most of the highly protected industries while, for competitive industries, reductions were considerably more than the average 36-percent reduction. The net result was that substantial levels of protection were retained for import-sensitive products, and tariff variations among sectors may have increased.

Among the issues likely to be raised if the formula-based sectoral approach to tariff reductions is to continue is whether to change the simple-average formula to a trade-weighted scheme. Also, should the minimum tariff reduction commitment be increased and tied to maximum allowable bound tariffs? And, should a procedure be used to cut higher tariffs at steeper rates as was done with the Swiss formula in the Tokyo Round?

Associated with tariffication is the Special Safeguard Provision which protects goods subject to tariffication from

surges in world imports or depression in world prices. The mechanism that has been set up distorts transmission of world prices below trigger levels into the domestic economy.

Because grain prices have been strong for the last few years, this provision has not been of recent concern. However, in the event of global grain surpluses paralleling those of the mid-1980's, countries might use the Safeguard provision as a rule rather than as an exception. Experience over the next few years may determine the need for continuation of or adjustments to the Special Safeguard formula.

The Special Treatment Clause, which permits countries the option of foregoing tariffication and instead requires imports above the minimum access commitments of 3-5 percent of consumption, might be another issue of contention. This clause was intended to temporarily placate Japan and South Korea by protecting their rice producers. Other countries, notably the Philippines and Israel, have also resorted to this clause to protect their domestic industries. Should these quantitative access commitments which expire unless negotiated before 1999 be continued, expanded, or eliminated?

Quota administration is expected to be another nagging market access issue. The UR introduced the concept of tariff-rate quotas (TRQ's) under which countries had to specify import quantities they would accept at rates below bound levels. Precise rules and guidelines on procedures and practices on allocating the TRQ's were not established.

Consequently, some countries allocate TRQ's based on historical trade arrangements, others distribute them through competitive bidding procedures, and yet others fulfilled them on a first-come, first-served basis. Countries that fail to benefit from these arrangements could argue that the principle of most favored nation has been violated, with quotas earmarked for particular groups or fulfilled through bilateral agreement.

The Uruguay Round & the Agreement on Agriculture

The Uruguay Round of multilateral trade negotiations came to a conclusion in April 15, 1994 with the signing of the Final Act in Marrakesh, Morocco. The Agreement on Agriculture is one of 29 individual legal texts included in the Final Act under an Agreement establishing the World Trade Organization. The main provisions and commitments in the Agreement on Agriculture include the following:

- Convert nontariff barriers to tariffs (tariffication), bind all tariffs, and reduce these over 6 years by an average of 36 percent with a 15-percent minimum per tariff line. For commodities subject to tariffication, a Special Safeguard Provision allows the imposition of additional duties in the event of surges in import volume or low world prices.
- Establish minimum access commitments of 3 percent of 1986-88 consumption, rising to 5 percent in 1999. A Special Treatment Clause allows some countries to delay tariffication on some commodities and instead allow minimum imports.
- Domestic support—as measured by the total Aggregate Measure of Support (AMS) from a 1986-88 base—is to be reduced by 20 percent in equal installments over 6 years. Domestic support considered minimally trade distorting (green box policies) is not included. Direct payment for production-limiting programs (blue box policies) are not included in AMS reductions under certain conditions.
- Budget expenditures for export subsidies are to be reduced by 36 percent, and volume by 21 percent, over the 6-year implementation period.
- Developing countries are subject to only two-thirds of the cuts in tariffs, domestic support, and export subsidies that are applicable to developed countries. These countries' cuts are to be made over a period of 10 years. Least developed countries are exempt from all reduction commitments but are required to bind tariffs and domestic support.
- The Due Restraint provision, known as the Peace Clause, provides for a 9-year period when green box policies and export subsidies within commitment levels are exempt from GATT challenges.
- Negotiations for continuing the reform process are to be initiated 1 year prior to the end of the implementation period.

Constraining Domestic Support

Even though the UR acknowledges that domestic agricultural policies can distort trade, the political sensitivity of the topic precluded the agreement from disciplining a number of popular policies that support producers, such as assistance through environmental policy, disaster relief, regional support, or rural development

programs. Consequently, the domestic support agreement is replete with policies that might be subject to controversy.

Domestic support is disciplined through the use of an Aggregate Measure of Support (AMS) calculated for each product but committed for reduction in terms of the total for all commodities. Subsidies for individual commodities are not separately constrained, nor are particular

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The Application of Sanitary & Phytosanitary Measures

The main provisions of the Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures include the following.

- Countries importing products are permitted to take measures—based on scientific principles and not as a form of disguised protection—to safeguard human, animal, and plant life.
- *Principle of harmonization*—National SPS protection is to be grounded on internationally agreed standards. Stricter measures may be introduced if a member determines that existing international regulations do not achieve an appropriate level of SPS protection.
- *Principle of equivalence*—Members shall accept other members' measures as equivalent to their own if the exporting country objectively demonstrates that its measures achieve the appropriate level of SPS protection.
- *Principle of transparency*—Members shall ensure that changes to SPS regulations are made known promptly, provide inquiry points for documents and answers to questions, and allow producers in exporting countries sufficient time to adapt.
- *Special and differential treatment*—Developing countries are allowed to request longer timeframes for compliance with the agreement and are encouraged to participate in relevant institutions.

policy instruments. Is the aggregate measure meaningful as currently used? Does it make more sense to negotiate on an individual policy basis rather than on a sector-wide basis? Might it be possible, for instance, that reductions required in the AMS can be effectively achieved through liberalization of border measures without lowering domestic production subsidies?

Policies excluded from domestic-support-reduction commitments, colloquially known as "green box policies," are likely to be major points of contention. Many potential challenges may relate to the definition of policies and the interpretation of "minimally or not trade or production distorting." An example is crop insurance, which can encourage production on marginal land where yields are uncertain. Such support could distort both production and trade. Should government contributions to the cost of such insurance schemes be limited so that no subsidy is paid?

The same holds true for regional and rural development programs. One task for the miniround is to strengthen rules on domestic support so that governments are not tempted to circumvent the disciplines on output-enhancing producer subsidies.

Payments for production-limiting programs—"blue box policies"—which are not subject to AMS reduction commitments and were granted exemptions from GATT challenges, are also expected to be an issue. Some observers consider that this arrangement, which largely benefits the U.S. and the EU, negates the concept that country-specific exceptions have been eliminated. The policy may reduce market surpluses for selected commodities but does not promote market orientation. Passage of the 1996 Federal Agriculture Improvement and Reform Act (1996 Farm Act) under which U.S. farm payments are decoupled from production and thus compatible with green box policies, is likely to have a bearing on how the U.S. and the EU approach the blue box issue.

Restricting Export Subsidies

Many agree that the most meaningful aspects of the Agreement on Agriculture are commitments made on export subsidies. This is one principal area where both the U.S. and the EU must undertake meaningful cuts in support during the implementation period. Furthermore, countries are not permitted to introduce new export subsidies, and existing subsidies are to be bound at the levels that exist in year 2000.

But agriculture is still the only discipline in which export subsidies are permissible, and there are fears that agriculture has set in motion the legalization of export subsidies. The Peace Clause exacerbates this perception by making export subsidies exempt from GATT challenges for a period of 9 years ending in 2004.

There will be pressure in the next Round to eliminate export subsidies altogether. Most of these will come from the Cairns Group of exporting countries. In addition, the possible enlargement of the EU could place severe stress on its budget resources, compelling the EU to propose large cuts in export subsidies. An alternative approach might be selective elimination of export subsidies under which countries are given flexibility to choose a limited set of commodities to subsidize, but with greatly reduced budgetary provisions.

Preventing circumvention of UR commitments will probably dominate the agenda on export subsidies. Export credits, for instance, are not explicitly disciplined. OECD member countries are working toward a set of internationally acceptable disciplines to govern export credit practices. Progress on this has been slow, partly because of U.S. concerns about accepting disciplines similar to those in the nonagricultural sector.

Issues of circumvention might also arise regarding export promotion, advisory services, and food aid. Experience over the next few years will determine whether such programs have been used properly, and whether stricter disciplines and definitions are needed.

The EU continues to express reservations about the dual volume and value concept of export liberalization (the requirement to be in compliance with both volume and value reductions in export subsidies). These reservations are likely to heighten as falling levels of protection leave even less room for maneuvering between the twin constraints in trying to fulfill export commitments. There might thus be a push to develop a measure that includes both volume and expenditure reductions in a single formula.

There are also concerns that levels of aggregation on export subsidy commitments are too broad and allow countries too much leeway. The UR export subsidy commitments are, for instance, at a level of aggregation that includes wheat and wheat flour. This allows countries considerable latitude in devising subsidy allocation strategies within the wheat group that would be most effective from its own perspective. Some member countries may propose more detailed commodity specification in reduction commitments to make them more meaningful and consistent with tariff reduction provisions.

Export taxes too may come under scrutiny. GATT negotiations have typically pursued a mercantilistic approach to trade, with the focus on market access and tariff reductions and without commensurate attention to export restraints. Hence, the issue of disciplining export taxes, which have the effect of raising international prices and allowing competitors to expand their trade, has never been brought up. But this may be gradually changing, partly in response to the EU's recent imposition of export taxes on wheat and barley trade. Several developing countries, anxious about food security and rising import bills, have been arguing that export taxes should be disciplined.

Sanitary & Phytosanitary Measures

In an effort to guard against the use of safety and health standards as disguised barriers to trade, the UR concluded a separate Agreement on Sanitary and Phytosanitary (SPS) Measures. This agreement permits countries to protect human, animal, or plant life based on

Equivalency in Products Labeled "Organic"

The concept of equivalency and its implementation in international trade can be expected to gain in importance with increasing levels of trade in specialty foods. For example, international trade in organic food represents an area with tremendous potential for future growth for the U.S. organic food industry. However, to establish fair trade in organic food, traders must agree on the standards defining organic food, and on a system of enforcing those standards.

The EU is the largest market for organic food outside the U.S. Valued at approximately \$1.7 billion in 1990, the European market has been projected to grow at a rate of 25 percent per year, reaching approximately \$14 billion by 2000. In 1994, France and Germany—the two largest EU member states in terms of organic sales—had combined organic retail sales of approximately \$2 billion, equal in sales to the entire U.S. market.

EU regulations establishing standards were adopted in 1991 as the basis for equivalency in products labeled organic among EU member states and for imports from outside the EU. EU countries allow imports from nonmembers to be labeled organic only when the importing country's national standards have been determined to be equivalent to EU standards.

U.S. organic standards were mandated under the Organic Foods Production Act of 1990, but their adoption awaits official implementing regulations, expected in 1997. The EU has opted to withhold blanket approval for importation of U.S. certified organic products until U.S. standards are in place. Until then, U.S. organic producers and handlers can access EU markets only by obtaining specific product permissions granted to individual importers by organic regulatory authorities in an EU member state.

This is a time-consuming and expensive process, requiring the importer to satisfy authorities, through documentation and possible site inspection, that the product in question has been certified under equivalent standards of production and inspection. Upon approval of U.S. standards by the EU and removal of trade restrictions which is expected to follow, larger growth in trade might be anticipated.

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sound scientific principles, but does not include any quantitative benchmarks nor regulate any specific policy. A Committee on SPS has been set up to provide a regular forum for consultations and provide firmer guidelines on implementation.

Several disputes during the past year, including the EU's embargo on imports of hormone-treated U.S. beef, and South Korea's regulations on shelf-life requirements for imported agricultural products, have heightened concerns about the use of SPS measures as a form of disguised protection. Much, therefore, depends on how widely the principles of harmonization and equivalence are accepted, and how often countries insist instead on their

own domestic standards. If the latter approach is extensively pursued, the SPS Agreement requires that the measures are consistent with scientific evidence and are based on appropriate risk assessments.

Advocates of developing countries have expressed concerns regarding the SPS Agreement given that agricultural practices in their countries pay little attention to health and safety standards, in contrast to the rigid requirements in developed countries. The enhanced standards could be interpreted as severe nontariff barriers for developing country exports.

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Conversely, developed countries face a competitive disadvantage if developing countries do not rigidly enforce international standards. U.S. agricultural interests, for instance, want Latin American farmers to use the same tough pest control standards that they do. The Committee on SPS is still developing guidelines on procedures for achieving consistency, monitoring international harmonization, and evaluating risk assessment practices.

The operation and implementation of the SPS Agreement are to be reviewed within 3 years of UR implementation, nearly 2 years prior to the miniround in agriculture. And countries are likely to await rulings of the Dispute Settlement Body on existing SPS cases before raising associated issues for consideration in the miniround.

Disciplining State Trading Activities

Many provisions and loopholes that previously made agricultural support possible are now constrained as a result of the UR Agreement on Agriculture. This includes state trading enterprises (STE's) which are now subject to rules on market access and subsidies. However, the continued activities of STE's have generated growing concern that some countries may use STE's to circumvent UR commitments.

On the *export side*, the principal concern is STE's that use their exclusive domestic monopoly and/or monopsony power to engage in unfair trading competition. U.S. producers, for instance, have complained that the Canadian Wheat Board gains a competitive advantage by subsidizing grain exports via discriminatory pricing policies. Practices such as selective price cutting, undisciplined use of export credits, and price pooling schemes are the major irritants. The "covert" manner in which STE's operate makes it difficult to determine whether they win sales because of true competitive advantage or because of unfair practices.

On the *import side*, the existence of state trading import agencies raises questions concerning the relevance of some market

access disciplines agreed to in the UR. The conversion of nontariff barriers and the binding of those tariffs was clearly the most significant outcome of the Agreement on Agriculture. But market access commitments can have little meaning when such parastatal organizations regulate total demand. It is difficult to determine whether purchases are being restricted because of lack of demand or because of specific governmental policies.

WTO rules permit countries to use monopoly importers to handle foreign purchases of particular products as long as purchases and sales are based on commercial considerations. However, the lack of transparency in decision-making procedures makes it difficult to determine whether purchases are WTO-legal. The impending accession to the WTO of countries of the Former Soviet Union, China, and Taiwan, all of which use parastatal organizations to set the basic terms of trade and marketing, makes the issue of transparency especially important.

The UR Understanding on Interpretation of Article XVII made some progress in addressing the problems with state trading by establishing a working definition of an STE, calling for a review of the notification process, and establishing a working party on STE's. Since then, notifications have been more frequent and comprehensive. To what extent state trading might be an issue for the next miniround of agricultural negotiations will depend on the progress made in the WTO working party on STE's. If progress is slow, it is possible that there will be attempts to modify the Agreement on Agriculture and include regulations to discipline agricultural state trading enterprises.

Setting the Stage For the Next Round

The success or failure of any round of trade negotiations is judged by changes in rules as well as the extent of liberalization. What are some of the factors that might affect the outcome of the 1999 agricultural round in terms of these twin criteria?

What Is "State Trading"?

The UR Understanding on Interpretation of GATT's Article XVII defines state trading enterprises as "governmental and nongovernmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through purchases or sales the level or direction of imports or exports." The U.S. acknowledges that the Commodity Credit Corporation is a state trading organization, and most other traders, including Canada, Australia, New Zealand, and Japan have recognized the existence of STE's in their countries.

But controversy surrounds the characterization of the EU intervention agencies, which manipulate markets but do not directly engage in trade. To date, the EU has declined to include such agencies in its notifications.

The UR was unique in that agriculture was at the center stage of negotiations. Several countries, including the U.S. and the Cairns Group, insisted that there would be an agreement on agriculture or no agreement at all. Several nonagricultural sectors did not complete an agreement until an agreement on agriculture was reached. This same situation is unlikely to occur in the next round because agriculture is only one of two areas where continued negotiations are mandated. And even if a comprehensive round were to take place, agriculture is unlikely to be the focus as in the last round. Thus it may be more difficult to propose radical reforms in agriculture without the nonagricultural sector at stake.

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To date, multilateral agricultural negotiations have devoted little attention to regional liberalization initiatives because most of those agreements did not include agriculture. The picture has been changing rapidly in the last few years with the advent of APEC, MERCOSUR, and NAFTA.

The agricultural trading system is now moving on the twin tracks of multilateral and regional trade negotiations, and this can have offsetting effects in terms of future multilateral negotiations. Cooperation is normally easier when fewer players are involved, and agreement might be swifter if these countries were to negotiate as a trading block. Conversely, dissensions within a trading block can make negotiating an agreement even more difficult, as happened to the EU during the last round. Moreover, with larger markets available within the trading block, there may be less incentive for countries to reach an agreement on a multilateral basis at the WTO.

The UR agricultural negotiations were shaped largely by positions taken by the U.S. and the EU. The changing composition of global trade might bring new player alliances into the next round. In 1985, roughly half of global agricultural trade was in high-value products. By the year 2000, this share is expected to rise to 75 percent, with much of the growth concentrated in Asia. If the objective is to expand agricultural trade, it is the high-value-product markets of Asia where greater market access is desirable. Asian countries, therefore, are likely to become much bigger players in future multilateral agricultural negotiations. More influential players could require more compromises and protracted negotiations.

Budget pressures typically affect a country's negotiating position. If funding constraints are minimal, countries may have little incentive for continued reform and, hence, would be less inclined to take the negotiations seriously. What might be the likely budget situations that confront the U.S. and the EU, the two major negotiating countries?

In the U.S., passage of the 1996 Farm Act has resulted in a system in which government farm payments are decoupled from production decisions and are known with relative certainty. Hence, unless further drastic actions are taken to balance the Federal budget, it is unlikely that budgetary expenditures on domestic farm programs will be an issue of imposing importance for the U.S., at least during the next 7 years.

For the EU, on the other hand, there is less certainty, and much depends on enlargement to the east. If enlargement goes ahead as planned, budgetary pressures are likely to increase, and this may make it difficult to sustain the current system. The need for real reform then becomes very pressing, and agreement might be easier to reach.

One of the achievements of the UR is a more efficient and rules-bound dispute settlement mechanism. The system, however, has yet to be fully tested on agricultural disputes. If the mechanism works as designed, countries might be content with fine tuning the current sets of rules and regulations. If this is not the case, then they might be inclined to pursue further reforms in rules that govern agricultural trade, leading to protracted negotiations.

If today's market conditions were to change dramatically, as is not uncommon in agricultural markets, the priorities and options relevant for the next round of agricultural negotiations could alter accordingly. Similarly, economic disruptions or political conflicts could modify the outlook of some countries and raise issues that are not yet on the policy horizon. The real challenge for the world community is to continue to pursue economic reforms cognizant that changes involve a blend of apprehension and opportunities.

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December Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

December

- 2 *Crop Progress (after 4 pm)*
- 3 *Egg Products*
Poultry Slaughter
- 4 *Broiler Hatchery*
- 5 *Dairy Products*
- 11 *Broiler Hatchery*
- 12 *Cotton Ginnings (8:30 am)*
Crop Production (8:30 am)
- 13 *Turkey Hatchery*
Milk Production
- 16 *Potato Stocks*
- 18 *Agricultural Chemicals,*
Restricted Use Summary
- Broiler Hatchery*
- 20 *Catfish Processing*
Cattle on Feed
Chickens & Eggs
Cold Storage
Livestock Slaughter
- 23 *Cotton Ginnings (8:30 am)*
- 26 *Broiler Hatchery*
- 27 *Hogs & Pigs*
Peanut Stocks & Processing
- 30 *Agricultural Prices*