

UPDATE ON FTAA

Compiled by: Lourdes Martinez, Suzanne Thornsbury, and Mollie Woods
Department of Agricultural Economics, Michigan State University
December 2003

The Free Trade Agreement of the Americas (FTAA) is a collaboration among 34 democratic governments in the Americas, to ensure prosperity, democracy and free markets for goods and services in the hemisphere. One of the main objectives of the FTAA is to ensure the progressive elimination of barriers to trade and investment by the year 2005 (FTAA Official Website, 2003).

Free Trade Area of the Americas: Member Countries

Antigua and Barbuda

Argentina

Bahamas

Barbados

Belize

Bolivia

Brazil

Canada

Chile

Colombia

Costa Rica

Dominica

Dominican Republic

Ecuador

El Salvador

Grenada

Guatemala

Guyana

Haiti

Honduras

Jamaica

Mexico

Nicaragua

Panama

Paraguay

Peru

Saint Kitts and Nevis

Saint Lucia

Saint Vincent & the Grenadines

Suriname

Trinidad and Tobago

Uruguay

United States

Venezuela



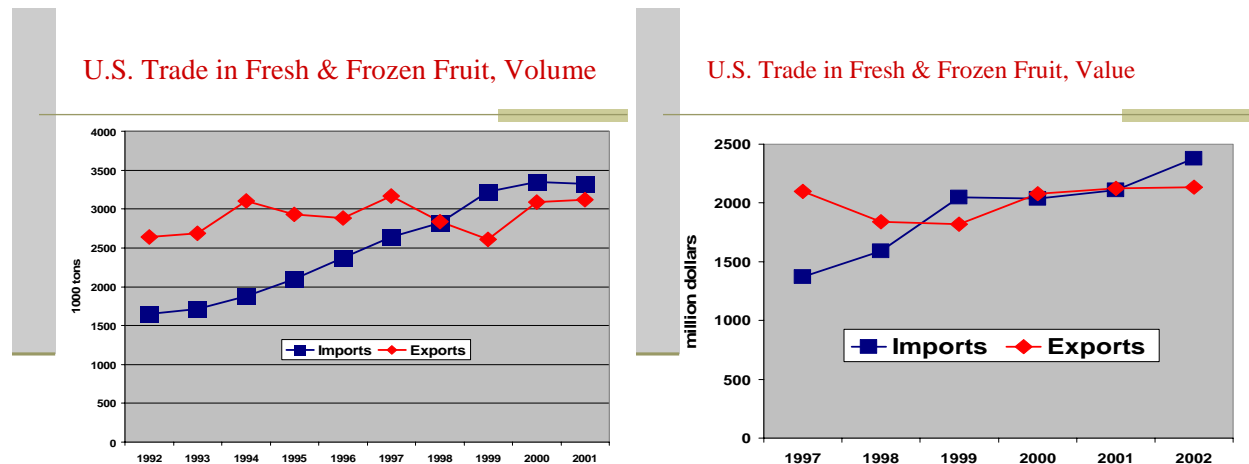
International Trade in U.S. Food and Agriculture

- Roughly a quarter of the cash receipts of U.S. agricultural producers are derived from exports. Since expansion of the domestic market is largely constrained by the growth rate of the U.S. population, the international market has absorbed much of the growth in U.S. agricultural production over the past decade. From 1994 to 2001, the value of exports consistently grew faster than total farm cash receipts. (Burfisher and Zahniser, 2003)
- In 2002, the following 10 products led exports from the U.S.:

Product	Sales (\$mill.)	Product	Sales (\$mill.)
soybeans and products	7326	fruits and preparations	3434
feed grains and products	6779	poultry and products	2279
live animals and meat	6097	cotton and lint	2052
wheat and products	4787	feeds and fodders	1951
vegetables and preparations	4551	hides and skins	1776

Source: ERS, 2003 (www.ers.usda.gov/data/stateexports/top10sx.xls)

- Imports now constitute about 9 percent of U.S. food consumption (versus 7 percent in the late 1980s), although this proportion varies greatly by product. For data on trade in fruit see the Figures below.
- Consistent with a domestic low-price food policy, imports have enabled U.S. consumers to enjoy more varied food at a lower cost. The USTR office estimates that joining FTAA would generate an income gain of \$800/year for the average family of four through greater purchasing power and higher income.
- U.S. food processors can also benefit from imports, since it provides access to a wider variety of goods and a greater number of sources.



Source: USDA ERS (2002).

- Burfisher and Zahniser (2003) estimated that:
 - If the agricultural tariffs and subsidies in effect today were completely eliminated, the annual volume of U.S. agricultural exports would increase by about 20 percent.
 - U.S. exports would account for much of the resulting expansion in world trade, mostly due to the fact that U.S. producers face high agricultural tariffs in foreign markets, with a global average of 60 percent.
 - U.S. agricultural imports would rise by about 9 percent.
 - Consumers would benefit from the removal of U.S. agricultural tariffs, which average about 10 percent, as well as the effects of global tariff reform, which would increase agricultural production efficiencies around the world and lead to lower prices. Full agricultural policy reform would increase the purchasing power of U.S. consumers by about \$13 billion annually.

History of the FTAA Process (Source: FTAA Official website)

The Preparatory Process, 1994 – 1998

The effort to unite the economies of the Americas into a single free trade area began at the Summit of the Americas, held December 1994 in Miami. The 34 democracies in the region agreed to construct a Free Trade Area of the Americas in which barriers to trade and investment would be progressively eliminated. They agreed to achieve substantial progress towards building the FTAA by 2000 and to complete negotiations by the year 2005.

The FTAA negotiations were formally launched in April 1998 at the Second Summit of the Americas in Santiago, Chile. The Ministers agreed that the negotiations should proceed in order to contribute to raising living standards, improving working conditions of all people in the Americas, and better protecting the environment. A 1998 Declaration established 9 negotiating groups including one on agriculture.

Progress of the Negotiations

At the Ministerial meeting, held in Buenos Aires in April 2001, a number of key decisions were made regarding the FTAA negotiations.

- The Technical Committee of Institutional Issues was created to consider the overall architecture of an FTAA Agreement.
- Ministers also highlighted the need to foster dialogue with civil society, and directed the Committee of Government Representatives on the Participation of Civil Society to forward to the Negotiating Groups the Civil Society submissions in response to the open invitation.
- Ministers reiterated the importance of the provision of technical assistance to smaller economies in order to facilitate their participation in the FTAA.

Heads of State and Government endorsed the decision of the Ministers to make the first draft FTAA agreement available to the public as soon as possible in all four official languages (English, Spanish, French, Portuguese). This agreement was published on the Official FTAA Website on July 3, 2001. In addition, deadlines were fixed for the conclusion and

implementation of the FTAA Agreement. Negotiations are to be concluded no later than January 2005; entry into force will be sought as soon as possible thereafter, no later than December 2005.

At the FTAA Ministerial Meeting, held November 1, 2002 in Quito, Ecuador,

- Ministers confirmed the timetable established by the Trade Negotiations Committee (TNC) for market access-related negotiations to exchange initial offers between 15 December 2002 and 15 February 2003
- Deadlines were set by which new drafts of the texts of the FTAA Agreement will need to be produced.
- Guidance was provided to some of the FTAA entities on resolving issues in their negotiations.
- The second draft of the FTAA Agreement was made public on the official FTAA website in the four official languages.

Final Phase of Negotiations

The final phase of FTAA negotiations is guided by co-chairmen from Brazil and the United States. Two meetings of the Ministers Responsible for Trade are scheduled, the November 2003 meeting held in Miami, U.S.A, and one in 2004 in Brazil.

The November 2003 meeting in Miami set forth instruction to develop a common set of rights and obligations for the 34 country members for the next meeting in 2004. The agenda included discussion on each of the negotiating areas originally established in 1998:

- market access for goods
- agriculture
- services
- investment
- government procurement
- intellectual property rights
- competition and subsidies
- anti-dumping/countervailing duty
- dispute settlement.

The U.S approach on agriculture has been “aggressive” in the sense that the U.S. has proposed the elimination of all agricultural exports subsidies on trade in the hemisphere, and globally. Also, the U.S. has proposed a substantial reduction and progressive elimination of domestic supports to agriculture. However, agriculture liberalization needs to be discussed in the World Trade Organization (WTO), in which major players are involved (i.e., Europe and Japan), and not in the FTAA negotiations. Although the U.S. position is to put forward offers to liberalize agriculture, the U.S. cannot liberalize its agriculture market while Europe and Japan subsidize their farmers. (USTR 2003)

FTAA: International Agriculture and Trade (Source: USDA/ERS 1998)

An FTAA that eliminates tariffs among the 34 Western Hemisphere countries would benefit the U.S. agricultural sector--and the U.S. economy as a whole--if the United States were part of the arrangement (ERS 1998). Conversely, if the other Western Hemisphere countries formed an FTAA without the United States, the impact on the U.S. agricultural sector and the general U.S. economy would be slightly negative. In either case, the expected economic impact of an FTAA on the United States would be small in the short run (3-5 years), primarily because tariffs in the region are already relatively low and are being further reduced through bilateral and multilateral agreements. Broad-based trade liberalization could boost economic growth by stimulating investment and reallocating capital and other resources toward more productive uses.

The U.S. interest in forming an FTAA comes, in part, from the broad U.S. goal of fostering economic and political stability in the hemisphere and from a desire to secure more open and transparent rules for U.S. trade and investment in the rapidly growing markets of Latin America. The U.S. Trade Representative Office (USTR) has identified Latin America as a region of great promise: U.S. goods exported to the region grew 137% between 1990 and 2000, compared to 99% growth worldwide. An FTAA, like all other trade arrangements, could help the countries in the region "lock in" the economic reforms they have already adopted, improving the long-term outlook for growth and stability in the hemisphere, and deepen the trade liberalization that is already taking place. It could simplify the complex system of regional and bilateral trade preferences that is emerging in the hemisphere. It would also ensure that U.S. exporters gain or retain access to regional markets on a basis comparable to other exporters.

ERS (1998) economic estimates for the economy are:

- An FTAA that includes the United States would cause annual U.S. farm income (in 1992 dollars) to be \$180 million higher than it would be otherwise. An area that excludes the United States would cause annual U.S. farm income to be an estimated \$50 million lower. These represent very small changes in U.S. farm income, which was around \$50 billion in 1997.
- Including the United States would increase annual U.S. agricultural trade as well, with exports \$580 million higher (1 percent) and imports \$830 million higher (3 percent). If the United States is not included, annual U.S. agricultural exports would decline about \$130 million (0.2 percent), while imports would be \$90 million (0.3 percent) lower.
- An FTAA would have virtually no impact on gross domestic product (GDP) in the short run. Annual U.S. GDP would be about \$3.8 billion higher annually with a full FTAA, while an FTAA that excludes the United States would lower U.S. GDP by \$740 million.

Implications for Michigan Fruit Industries

Currently the U.S. has zero tariffs on apple and cherry imports from FTAA partners. Although there are .5 cents/liter tariff on cherry juice, 14.5% tariff on IQF cherries, and 6.9 cents/kg tariff on prepared cherries, all the FTAA countries already have preferential agreements that adjust

these most-favored-nation (MFN) tariffs to zero. Therefore any competitive adjustments in imports related to tariffs have already been made.

Some countries that will be part of the FTAA currently have tariffs on imports of Michigan products. Tariffs and tariff rates vary by country, and are subject to existing special preference agreements, like Mercosur (Table 1).

Table 1. Sample tariff rates on some U.S. exports among some FTAA countries

Country	Fresh Apples	Apple Juice, Brix <20	Apple Juice, Brix > 20	Cherries, prepared or preserved	Juice including Cherries
Argentina	No	No	No	No	No
Brazil	11.5 % Ad Valorem	15.5% Ad Valorem	15.5% Ad Valorem	No	No
Canada	No	No	No	No	No
Costa Rica	14% Ad Valorem*	No	No	14% Ad Valorem*	No
Mexico	No	No	No	No	No
Uruguay	11.5% Ad Valorem*	15.5% Ad Valorem*	15.5% Ad Valorem*	No	No

*These countries indicated special preferences for some exporters. In the case of Costa Rica, preferences seemed to be based on individual agreements with countries including the former Czechoslovakia, Honduras, Palestine, the Gaza Strip region and even individual exporting companies. Uruguay's special preferences were for exporting members of Mercosur.

Source: FTAA website - Tariff database available at http://www.ftaa-alca.org/NGROUPS/NGMADB_e.asp Accessed December 3, 2003.

Of course, policy and market measures other than tariffs also impact trade flow. If, for example, transportation rates are influenced by volume of overall trade that occurs, there will likely be adjustments in product flow as rates are lowered. Non-tariff policies include measures such as sanitary and phytosanitary (SPS) concerns which can limit trade. For example, in some extreme cases, countries are denied access to export markets because they fail to meet food safety standards. Also, in some instances countries cannot meet standards due to the high costs of compliance. Other examples of SPS measures are 'outright bans' which are mostly applied as temporary measures when acute food safety issues are identified (e.g., green onions from Mexico). The U.S. has a long-standing dispute with Mexico over SPS restrictions on apple exports. Current indications are that the FTAA would adopt SPS guidelines based on disciplines already enacted by the World Trade Organization.

Sections of this report were drawn directly from the following sources:

Burfisher, Mary E. and Zahniser, Steven (2003). Multilateralism and Regionalism: Dual Strategies for Trade Reform. Article drawn from Agricultural Policy Reform in the WTO—The Road Ahead, edited by Mary E. Burfisher, AER-802, USDA/ERS, May 2001. Effects of the North American Free Trade Agreement on Agriculture and the Rural Economy, edited by Steven Zahniser and John Link, USDA/ERS, WRS-0201, July 2002.
<http://www.ers.usda.gov/AmberWaves/September03/Features/Multilateralism.htm>

Concluding Ministerial Press Conference VIII Free Trade Area of the Americas. Miami, Florida. November 20, 2003. <http://www.ustr.gov/releases/2003/11/2003-11-20-transcript-closing.pdf>

Free Trade in the Americas: International Agriculture and Trade--Summary (1998). Economic Research Service, U.S. Department of Agriculture, Washington, DC 20036-5831.
<http://www.econ.ag.gov>

FTAA Official Website (2003). http://ftaa-alca.org/alca_e.asp.

Henson, Spencer (2003) Food Safety in Food Security and Food Trade. For Food, Agriculture, and the Environment. Focus 10, Brief 5 of 17. September, 2003
http://www.ifpri.org/2020/focus/focus10/focus10_05.pdf

Office of the United States Trade Representative [USTR] (2003). Trade Facts. “Myth: the U.S. refuses to discuss agriculture in FTAA” and “The Opportunity for a Hemispheric Marketplace”. Available at: www.ustr.gov.

USDA ERS (1998) “International Agriculture and Trade (FTAA)” T. Raney and J. Link, report coordinators. <http://www.ers.usda.gov/publications/so/view.asp?~f=international/wrs-bb/1998/trade/>.

USDA ERS (2002). Fruit and Tree Nut Situation and Outlook Yearbook.
<http://www.ers.usda.gov/publications.fts/>.