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The Treatment of Agriculture in Regional Trade Agreements

Submitted by: OAS Department of Trade, Tourism and Competitiveness

APEC Workshop on Best Practices in Trade Policy for RTAs/FTAs: Practical Lessons and Experiences for Developing Economies
Ha Noi, Viet Nam
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THE TREATMENT OF AGRICULTURE IN REGIONAL TRADE AGREEMENTS

APEC Workshop "Best Practices in RTAs"

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MAIN PROVISIONS ON AGRICULTURE IN RECENT RTAs

US – Chile

- Agricultural export subsidies
- Agricultural safeguard measures
- Agricultural marketing & grading standards
- Working Group on Agricultural Trade
- Mutual Recognition for Grading of Beef

US – DR - CAFTA

- Agricultural export subsidies
- Agricultural safeguard measures
- Administration of tariff rate quotas
- Sugar compensation mechanism
- Consultations on trade in chicken
- Agriculture Review Commission
- Committee on Agricultural Trade

MAIN PROVISIONS ON AGRICULTURE IN RECENT RTAs

Export Subsidies

- Subsidized exports between the FTA parties banned BUT export subsidies may be reintroduced to counter subsidized competition from non-FTA parties
- Forms of export subsidies not specified
- Provision never been tested

Domestic Support – US-DR-CAFTA

- There are no commitments on domestic support in FTAs.

MAIN PROVISIONS ON AGRICULTURE

US-DR-CAFTA Agreement

Safeguards

- **FTA parties may apply a safeguard as additional import duty**
- **For this, quantities must exceed or prices must be below a fixed trigger level**
- **Provision has not been used**
- **DR-CA lists more U.S. goods as eligible for agricultural safeguard measures than the U.S. has listed goods from these countries.**

EXTENT OF LIBERALIZATION

US-DR-CAFTA Agreement

Market Access – Tariffs

- **Tariff elimination on agricultural products over time with a slower pace by developing partner(s):**
  - **Some back-loading**
  - **Many tariff rate quotas and special safeguards**

EXTENT OF LIBERALIZATION

US-DR-CAFTA Agreement

Duty Free Entry

- 98% of (the value of) imported goods (including agriculture) originating from DR-CAFTA will enter the U.S. duty-free immediately on entry into force of the agreement (22% already enter free)

Tariff Elimination by CAFTA

- Agricultural goods imported into DR-CAFTA and originating from the U.S.:
  - Agricultural tariffs to be eliminated on a product and country-specific basis:
  - -Immediate -12 years
  - -5 years -15 years
  - -10 years
  - -17-20 years (5-10 year grace period for US chicken leg quarters, rice and certain dairy products

EXTENT OF LIBERALIZATION

US-DR-CAFTA Agreement

Exclusions for the U.S.:

- The out-of-quota tariff on sugar will not be eliminated by the U.S. BUT, the U.S. did offer increased quotas for the DR-Central American parties on sugar but allowed the U.S. to give alternative forms of compensation rather than take the imports.

Exclusions for Central America:

- Exclusions from tariff elimination for the following US exports:
  - Potatoes and onions for Costa Rica
  - White corn for other Central American signatories
- Many tariff-rate quotas and special safeguards

EXTENT OF LIBERALIZATION

US-DR-CAFTA Agreement

Tariff Rate Quotas

- The U.S. provides the same tariff treatment to each of the six other parties, but makes country-specific commitments on tariff rate quotas.
- For a few agricultural goods subject to tariff rate quotas, while the in-quota rate is duty-free, the U.S. will eliminate the out-of-quota tariffs from DR-CAFTA as follows:

Beef	15 years
Peanuts	15 years (6-year grace period)
Peanut Butter	15 years
Dairy Products	20 years (10-year grace period)

EXTENT OF LIBERALIZATION

US-Chile Agreement

Market Access – Tariffs

- Tariffs on goods, including agricultural products, will be eliminated within 12 years by both parties.

Exclusions:

- No product exclusions in the agreement (all agricultural tariffs to be liberalized).

EXTENT OF LIBERALIZATION

US-Chile Agreement

Duty Free Entry for Chilean exports

- On the U.S. side, 85% of (the value of) imported goods originating from Chile entered the U.S. duty-free immediately on entry into force of the agreement (54% already entered free).

Duty Free Entry for U.S. exports

- On the Chilean side, 87% of (the value of) imported goods originating from the U.S. entered Chile duty-free immediately on entry into force of the agreement.

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EXTENT OF LIBERALIZATION

US-Chile Agreement

Tariff Elimination by the U.S.

- 62 tariff lines are subject to the longest (12-year) staging period for elimination.
- The U.S. also back-loads its (12-year) tariff elimination staging for wine products from Chile.

Tariff Elimination by Chile

- 109 tariff lines are subject to the longest (12-year) period for elimination.

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EXTENT OF LIBERALIZATION

US-Chile Agreement

Tariff Rate Quotas for Chile applied by U.S.

- Some agricultural goods from Chile are subject to tariff rate quotas and to tariff elimination periods for out-of-quota tariffs lasting up to 12 years (and back-loaded)

Beef	4 years
Dairy Products	12 years (7-year grace period)
Sugar	12 years
Tobacco	12 years
Avocadoes	12 years (4-year grace period)
Processed artichokes	12 years
Poultry	10 years (2-year grace period)

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EXTENT OF LIBERALIZATION

US-Chile Agreement

Tariff Rate Quotas for U.S. applied by Chile

- Chile applies tariff rate quotas on certain meat products originating from the U.S. and is eliminating out-of-quota tariffs on these goods as follows:

Beef	4 years (with an initial access quantity of 1,000 metric tons)
Chicken & Turkey	10 years (2-year grace period with no initial access quantity)

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DIFFERENCES BETWEEN WTO AND RTAs

- *Same product coverage but different objectives and disciplines.*
- RTAs are more ambitious on market access but less so on domestic subsidies, export subsidies, export credits and food aid

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DIFFERENCES BETWEEN WTO AND RTAs

WTO Agreement on Agriculture

- *"…Objective is to establish a fair and market-oriented agricultural trading system and that a reform process should be initiated through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally effective FTAA rules and disciplines…[and] to provide for substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets."*
- *Art. 20: "the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process."*

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DIFFERENCES BETWEEN WTO AND RTAs

WTO Doha Round Goals

Comprehensive negotiations aimed at:

- Substantial improvements in market access (tariff reductions)
- Reductions of, with a view to phasing out, all forms of export subsidies
- Substantial reduction in trade-distorting domestic support

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DIFFERENCES BETWEEN WTO AND RTAs

Outcome of WTO Hong Kong Ministerial

- **Date certain (2013) set for elimination of all agricultural export subsidies; some in-kind food aid, export credits and STE practices to be disciplined**
- **Trade-distorting subsidies: Countries to be categorized into three bands, with highest to be cut the most.**
- **Tariffs: Countries to be categorized into four bands, with highest to be cut the most.**
- **Development: LDCs to get tariff- and quota-free access to high income country markets for 97% of tariff lines plus more aid for trade capacity building.**
- **Deadlines for remaining work:**
  - **Modalities by 30 April 2006**
  - **Tariff schedules by 31 July 2006**

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DIFFERENCES BETWEEN WTO AND RTAs

FTAA Objectives
(San José Ministerial Declaration:

- **Progressively eliminate tariffs and non-tariff barriers, as well as other measures with equivalent effects, which restrict trade between participating countries;**
- **Eliminate agricultural export subsidies affecting trade in the Hemisphere; and**
- **Identify other trade-distorting practices for agricultural products, including those that have an effect equivalent to agriculture export subsidies, and bring them under greater discipline.**

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DIFFERENCES BETWEEN WTO AND RTAs

RTAs and WTO Consistency

- **Under the WTO, an RTA must be notified and reviewed for WTO-consistency (GATT Art. XXIV and GATS Art. V).**
- **To qualify as an exception to the MFN principle under GATT Art. XXIV (and the Understanding on its interpretation), an interim agreement leading to a free trade area must:**
  - **eliminate duties on "substantially all the trade" in goods between its members within a reasonable length of time; i.e., not exceeding ten years.**
- **In practice, the WTO has a backlog of RTAs to review; none has ever been disapproved of by the (GATT or) WTO membership thanks to the consensus rule.**

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Source: Anderson, Kym. World Bank study, "Trade Reform Under Doha: Implications for Competitive Farm Exporters." Summary of Results. 26 May 2005.

QUESTION:

- What would be the potential welfare gains from full trade liberalization and agricultural reform, by country/region, due to:
  - developed relative to developing countries' policies?
  - agriculture relative to manufacturing policies?
  - within agriculture, tariffs relative to export subsidies and domestic support?

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World Bank model´s gain by 2015 from removing current protection policies

- Global benefit from removing current tariffs on all goods plus agricultural subsidies would be $287 billion per year by 2015
  - Would have been about $350 billion if reforms during 2001-2004 also included
- 2/3rds accrues to high-income countries
- But as % of GDP, the benefit to developing countries as a group is twice that for developed countries.

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Full liberalization: global gain ($bn)

$ billion due to reform by:	**Agric & food**	Textiles clothing	Other manuf	TOTAL
High-income countries	135	15	9	159 (55%)
Developing countries	47	23	58	128 (45%)
All countries' policies	182 (62%)	38 (14%)	67 (24%)	287 (100%)

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Full liberalization: gains to developing countries

$billion due to reform by:	**Agric & food**	Textiles & clothing	Other manuf.	TOTAL
High-income countries	26	13	4	43 (50%)
Developing countries	28	9	6	43 (50%)
All countries' policies	54 (63%)	22 (27%)	10 (10%)	86 (100%)

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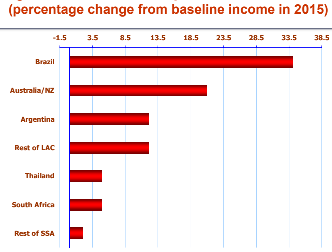
Importance of 3 agricultural pillars

Welfare gains from: *% of gain to:*	Agric market access	Agric domestic support	Agric export subsidies	All agric policies
Developing countries	106	2	-8	100%
World	93	5	2	100%

Agricultural & food output rise from full lib'n
(percentage change from baseline income in 2015)



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Take-away messages from full lib'n

- Potential gains from further trade reform are **large**
  ➔must find the political will for Doha success
- **DCs would gain disproportionately** from reform, notwithstanding non-reciprocal tariff preferences
- But DCs would gain as much from South-South as South-North trade growth
  ➔importance of DC reform too
- **Agricultural reforms are the highest priority** for goods, from global and developing country welfare viewpoints

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Take-away messages from full lib'n (cont.)

- Removal of agric **export subsidies**: great achievement
- Reducing/disciplining other trade-distorting agric **domestic support** is crucial too
- But gains to DCs from agric subsidy cuts could be multiplied many-fold by **also cutting agric tariffs**
  - with half coming from **South-South trade growth**
- Adding **non-agric market access** has the potential to raise the welfare gains to DCs by >50%, and help balance the North-South exchange of 'concessions'