



# TRADE POLICY BRIEFS

FAO SUPPORT TO THE WTO NEGOTIATIONS AT THE  
11<sup>TH</sup> MINISTERIAL CONFERENCE IN BUENOS AIRES

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## The treatment of agriculture in Regional Trade Agreements

### SUMMARY

- The expansion of regional trade agreements (RTAs) stems from a demand for greater integration with selected strategic trading partners to increase bilateral or regional trade and stimulate economic growth.
- The treatment of agriculture in RTAs usually includes tariff reductions, expanding tariff-rate quotas (TRQs), improving coordination and transparency to regulate the application of non-tariff measures and export restrictions. RTAs often include agricultural safeguards such as temporary tariff increases.
- Normally, RTAs do not include provisions on domestic support to agriculture. Similarly, following the implementation of the Nairobi Decision on Export Competition, RTAs should no longer foresee provisions on export subsidies.
- Provisions on agriculture in RTAs can complement progress made in agricultural negotiations in the multilateral trading system.

### Types of Regional Trade Agreements

Regional trade agreements (RTAs) are “trade agreements of a mutually preferential nature”<sup>1</sup>. The types of RTAs are shown in Text Box 1. Extending preferences to selected trading partners would seem to be in contrast to the WTO’s fundamental principle of equal treatment for all WTO members (the “most-favoured-nation” principle). However, Article XXIV of the General Agreement on Tariffs and Trade (GATT) allows special exceptions for free trade areas and customs unions.<sup>2</sup>

### The growing importance of RTAs

RTAs have become a widespread option to liberalize trade. Since 1990, the number of RTAs has grown from approximately 50 to 279<sup>3</sup> currently in force.<sup>4</sup> In 2014, almost half of world trade took place between countries with RTAs.<sup>5</sup> The share of RTAs in global agri-food trade rose from over 20 percent in 1998 to nearly 40

<sup>1</sup> WTO General Council, Transparency Mechanism for Regional Trade Agreements, Decision of 14 December 2006.

<sup>2</sup> Art. XXIV.5 GATT 1947 says that: “the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area”.

<sup>3</sup> As of 20 June 2017, 279 RTAs were in force. These correspond to 445 notifications from WTO members, counting goods, services and accessions separately (WTO, 2017).

<sup>4</sup> WTO. 2017. Regional Trade Agreements homepage: [https://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](https://www.wto.org/english/tratop_e/region_e/region_e.htm).

<sup>5</sup> UNCTAD. 2015. Key Statistics and Trends in Trade Policy, UNCTAD/DITC/TAB/2015/2, [http://unctad.org/en/PublicationsLibrary/ditctab2015d2\\_en.pdf](http://unctad.org/en/PublicationsLibrary/ditctab2015d2_en.pdf).



## Box 1

### Types of Regional Trade Agreements

- **Free Trade Areas:** Reduction or elimination of barriers on trade among members; each party maintains its own external tariffs.
- **Customs Unions:** Reduction or elimination of barriers on trade among members; members maintain common external tariffs.
- **Common Market:** Customs Unions with addition of free movement of factors of production (labour, capital).
- **Economic Unions:** Common Market with addition of harmonization of certain economic policies, particularly macroeconomic and regulatory.

percent in 2009<sup>6</sup>. By limiting the number of parties involved and focusing on their strategic interests, RTAs tend to go deeper in trade and economic integration provisions than World Trade Organization (WTO) multilateral rules. Originally, RTAs focused mainly on reducing tariffs and other formal market access barriers. Presently, RTAs tend to address key policy issues that go beyond border measures, in areas such as intellectual property rights, investment, movement of capital and people, competition and state-owned enterprises, e-commerce, labour and environmental standards, and government procurement.

<sup>6</sup> Bureau, J. and S. Jean. 2013, The Impact of Regional Trade Agreements on Trade in Agricultural Products, OECD Food, Agriculture and Fisheries Papers, No. 65, OECD Publishing, Paris.

## Trends in the treatment of agriculture in RTAs

Agricultural trade is typically an important part of every RTA. The scope and depth of the treatment of agriculture can vary substantially in each agreement, but there are some general trends in the key disciplines regulating agricultural trade.

**Tariff reductions.** A central element of any RTA is usually lowering or eliminating tariffs among members. Through tariff reductions or lower TRQ restrictions, members are granted preferential access to other members' markets for particular agri-food products. Generally, in RTAs, non-sensitive agricultural subsectors are subject to greater tariff reductions than others. On the other hand, sensitive subsectors, such as dairy, meat, sugar and cereals, are often exempted from tariff reductions and their imports are regulated through TRQs.

**Non-tariff measures.** In addition to tariffs, non-tariff measures can pose barriers to market access for agri-food products. Recent RTAs, such as the Comprehensive Economic and Trade Agreement between Canada and the European Union (CETA), impose rules on the application of non-tariff measures, mainly by strengthening communication and coordination between members in this area. Typically, RTA provisions related to the use of both sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) are coherent with the corresponding multilateral agreements. A total of 77 percent and 74 percent of RTAs signed since 2001 reaffirm the principles of the TBT and SPS agreements, respectively, while over 60 percent go beyond these provisions.<sup>7</sup>

**Exports prohibition and restrictions.** RTAs typically recognize WTO rights and obligations concerning export prohibition and restrictions, and allow members to temporarily apply these measures to prevent or relieve critical food shortages (e.g. the ASEAN-Australia-New Zealand RTA). However, in some RTAs (e.g. Mexico-Bolivia RTA and Mexico-Colombia RTA), the rules go beyond those contained in WTO agreements, with specific criteria for the use of export constraints (such as the types of products that can be subject to restrictions) and timeframes for notifying other members of the upcoming measure. Also, other RTAs (e.g. the Chile-European Free Trade Association (EFTA) RTA or Mexico-Japan RTA) go even further by prohibiting export restrictions, without any exceptions being mentioned.<sup>8</sup>

**Export subsidies.** Many RTAs, in particular in the Asia-Pacific region, contain provisions that prohibit the use of agricultural export subsidies.<sup>9</sup> However, the recent Ministerial Decision agreed upon at the WTO Nairobi Ministerial Conference in December 2015 foresees the elimination of export subsidies in different timeframes for developed and developing countries. Specific exceptions have also been agreed upon for some products and for specific developed and developing country members. As such, export subsidies should no longer be a major concern in RTAs, once the phase-out periods envisaged by the Nairobi Decision end.

**Agricultural safeguards.** Agricultural safeguards, which allow for a temporary tariff increase or a suspension of any further tariff reduction under special circumstances (e.g. when an import volume threshold is crossed) are sometimes included in RTAs. For instance,



a study by Shearer et al. (2009)<sup>10</sup> found that out of 33 RTAs analysed in the Americas,<sup>11</sup> 36 percent contained special provisions on safeguards for agricultural products. Fulponi et al., 2011<sup>12</sup> and UNCTAD, 2014<sup>13</sup> highlight that in the instances when RTAs do cover agricultural safeguards, they do not usually go beyond WTO requirements, except for provisions to limit product coverage, shorter duration of measures in particular cases, and modalities for triggering the agricultural safeguards. For example, in some RTAs, such as the China-Australia free trade agreement (FTA), safeguards may be invoked for specific agricultural products. The North-South agreements use detailed criteria and modalities, while the South-South agreements rely on more generic modalities and rules.<sup>14</sup>

**Domestic support.** Usually, RTAs do not include provisions for domestic support to agriculture.<sup>15</sup> Further limiting domestic agricultural subsidies in RTAs would benefit all trading partners and not just RTA members. As such, there is little incentive for RTA members to make further concessions on agricultural subsidies, which suggests that domestic support is better suited to be addressed in the multilateral arena.

## Possible implications for future trade integration

While in some instances RTAs have been pursued by members as an alternative to multilateral trade negotiations, these agreements have the potential to become a tool to promote trade at the global level. RTAs have enabled countries to negotiate rules and commitments that go beyond what was possible multilaterally, and some of these rules have paved the way for an agreement on specific issues in the WTO. For instance, services, intellectual property, environmental standards, investment and competition policies are all issues that were raised in regional negotiations first and later developed into discussions and negotiations in the WTO (WTO website). However, the proliferation of RTAs, where countries extend preferences in different trading arrangements, also risks creating a «spaghetti bowl» phenomenon, in which various rules, tariffs and institutional arrangements apply at the same time.<sup>16</sup>

## Key challenges

-  To limit trade distortions in the agriculture sector through both RTAs and multilateralism, consistent with the 2030 Agenda for Sustainable Development.<sup>17</sup>
-  To ensure that the treatment of agriculture in RTAs positively influences future multilateral trade negotiations on agriculture.

<sup>7</sup> Lejarraga, I. 2014. "Deep Provision in Regional Trade Agreements: How Multilateral Friendly?" OECD Trade Policy Paper, No. 168, OECD Publishing, Paris.

<sup>8</sup> FAO. 2017. "E-learning course: Agriculture in Trade Agreements".

<sup>9</sup> Fulponi, L., M. Shearer and J. Almeida. 2011. «Regional Trade Agreements - Treatment of Agriculture», OECD Food, Agriculture and Fisheries Papers, No. 44, OECD Publishing, Paris.

<sup>10</sup> Shearer, M., J.S. Almeida and C.M. Gutierrez Jr. 2009. "The Treatment of Agriculture in Regional Trade Agreements in the Americas", Inter-American Development Bank Working Paper Series #145.

<sup>11</sup> The term "Americas" in the paper (Shearer et al., 2009) refers to Canada, Dominican Republic, Mexico, Central and South America and the United States.

<sup>12</sup> Fulponi, L., M. Shearer and J. Almeida. 2011. «Regional Trade Agreements - Treatment of Agriculture», OECD Food, Agriculture and Fisheries Papers, No. 44, OECD Publishing, Paris.

<sup>13</sup> UNCTAD. 2014. "Regional Trade Agreements: Coverage of Trade in Agricultural Goods," Trade and Development Board: Sixty-first session, Item 7, Geneva.

<sup>14</sup> FAO. 2017. "E-learning course: Agriculture in Trade Agreements."

<sup>15</sup> Fulponi, L., M. Shearer and J. Almeida. 2011. «Regional Trade Agreements - Treatment of Agriculture», OECD Food, Agriculture and Fisheries Papers, No. 44, OECD Publishing, Paris.

<sup>16</sup> Bhagwati, J. 1995. "US Trade policy: The infatuation with Free trade agreements", Discussion paper series, Columbia University.

<sup>17</sup> Target 2B under SDG2 calls the countries to "correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round".