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REGIONAL TRADING ARRANGEMENTS AND
THE MULTILATERAL TRADING SYSTEM:
AGRICULTURE

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Setting the scene

Uruguay Agreement on Agriculture a major multilateral breakthrough but much remains to be done.

Great expansion in RTAs since creation of WTO: over 330 in force or under negotiation today. What are the implications?

Drawing on recent OECD work, this presentation examines :

I) Treatment of agriculture in RTAs:

- Product coverage
- Domestic support
- Contingency protection
- SPS

II) Observable trade effects in Mercosur



I. Treatment of Agriculture in RTAs

A. Product coverage

- Agricultural coverage in RTAs parallels that at the multilateral level, with occasional improvements
- Regional tariff preferences often partial (exception: Mercosur);
- Quantitative limits often apply, usually linked to TRQs.
- In some cases RTAs achieve progress in traditionally difficult sectors (beef, cotton, dairy, rice, sugar); such cases may promote early adjustment and facilitate future MFN liberalisation.



I. A. Product coverage (cont'd)

- Hierarchy of preferential treatment: RTAs often contain a regional “MFN clause” (e.g. US-Chile FTA mutual “MFN clause” on wine).
- “**Inverse tariff escalation**”: RTA liberalisation sometimes promotes RTA trade in processed goods permitting continued protection of basic agricultural products.
- Importance of **rules of origin** for determining preference eligibility.



I. B. Domestic Support and Export Subsidies

No LA RTAs address the reduction or harmonisation of domestic support.

- The effects of neither subsidies nor remedies can be limited to RTA members; this provides a strong rationale for seeking multilateral solutions.
- A few RTAs have implementation mechanisms specific to agriculture, e.g. providing for consultation or encouraging co-operation in multilateral negotiations (e.g. Canada-Costa Rica).

Many RTAs ban export subsidies in internal trade although some allow their use to counterbalance subsidised exports from non-RTA members.



I. C. Contingency Protection

- For the three types of contingency measures (AD, SV and safeguards), most RTAs contain provisions similar to the WTO.
- Nearly all RTAs preserve recourse to antidumping and CVD as under the WTO.
- Most LA RTAs prohibit **safeguards** between RTA members:
 - Exception for transitional safeguards, although their use requires compensation.
 - Some RTAs (NAFTA, US-Chile) permit special safeguards for specified sensitive products, similar to AoA. After these safeguards are phased out, the liberalisation is locked in.



I. D. Sanitary and Phytosanitary Measures

By addressing SPS measures among smaller groups of countries, RTAs may be effective in strengthening coherence between national SPS regulatory regimes. Approaches include:

- **Harmonisation:** Many RTAs enshrine best endeavours to harmonise, in particular with international standards (*Korea-Chile*).
- **Equivalence:** Some encourage acceptance of equivalence when members' standards or regulations differ and yet aim to achieve the same or similar level of SPS protection (*NAFTA, Korea-Chile*).
- **Mutual recognition:** Implementing MRAs normally requires accreditation of conformity assessment bodies in the exporting country to assess products according to the standards of the importing country.



I. D. Sanitary and Phytosanitary Measures (cont'd)

- **Technical co-operation:**

- *NAFTA* indicates that technical co-operation “may include credits, donation and grants.”
- Some RTAs seek to build capacity for conducting conformity assessment.
- APEC is considering the development of a sectoral MRA on food through technical cooperation and assistance.

- **Trade Facilitation:**

- Mercosur to rationalise the application of sanitary and technical regulations and increase automation of customs procedures



II. Trade effects of RTAs

In general, empirical studies of the trade effects of RTAs produce a mixed picture:

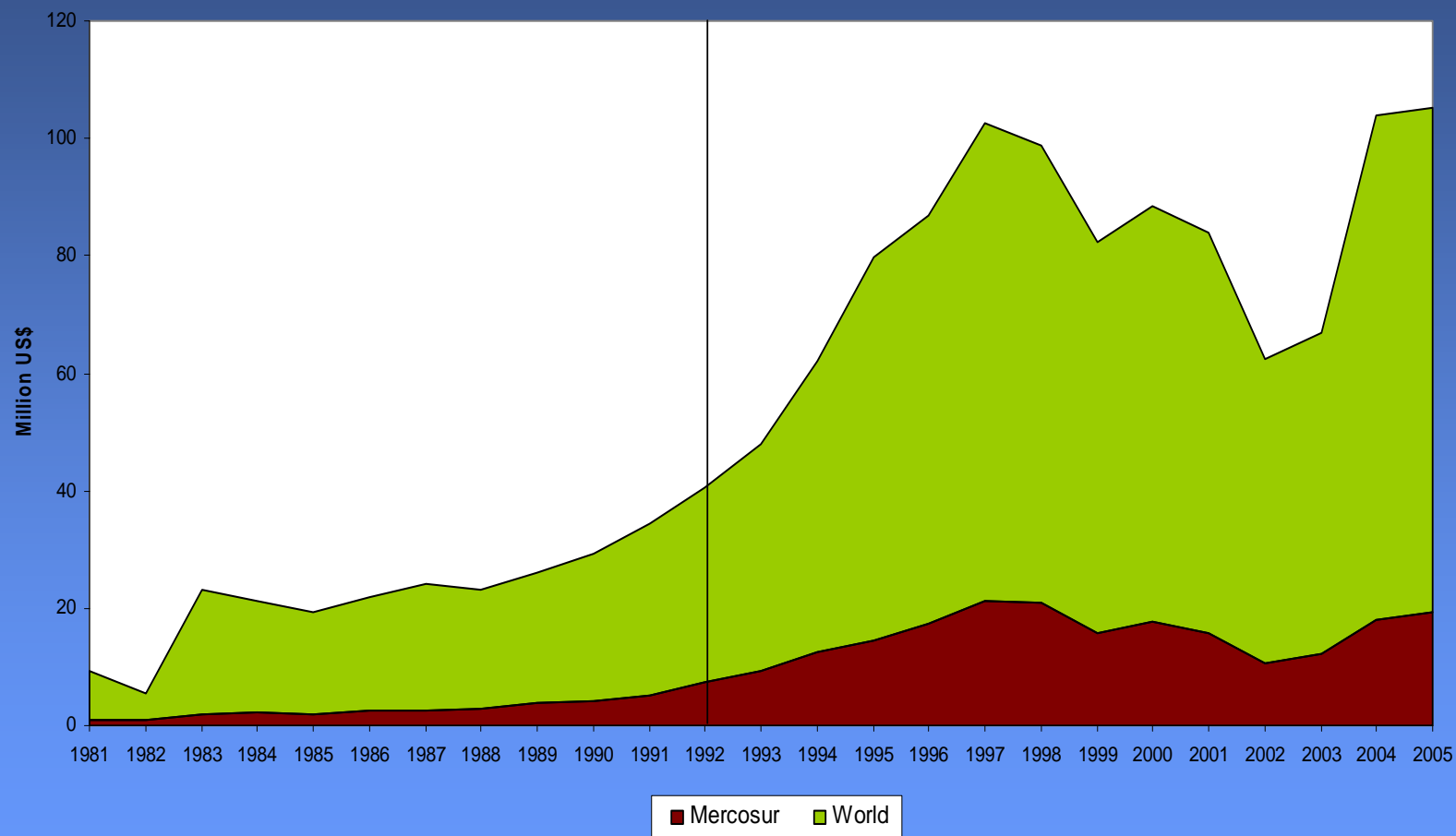
- Some RTAs significantly boost intra-bloc trade: others do not.
- Trade diversion is rarely a major problem.

The Case of Mercosur

- Intra-trade remains fairly small, in particular in agriculture.
- Trade creation and diversion seem to have been negligible.



Mercosur's Intra and Extra trade: Exports



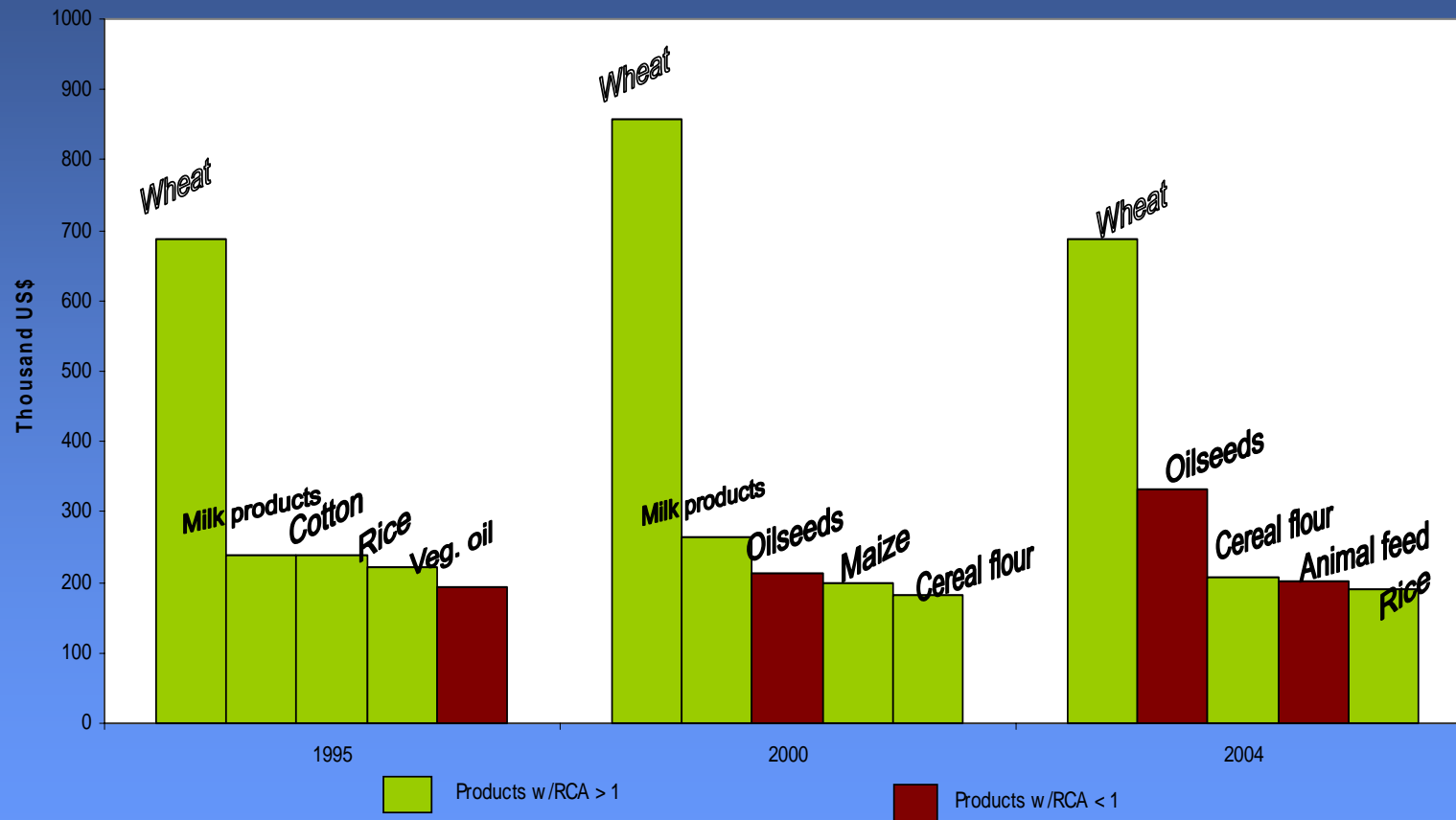


II. Trade effects of RTAs (cont'd): the case of Mercosur

- Argentina and Brazil have *similar* RCAs in many agricultural products, leading to low intra-trade.
- On the other hand, most agricultural intra-trade is in products with *low* RCAs. This reflects high barriers in major international markets.
- And suggests the value of pursuing multilateral liberalisation.



Top 5 Agricultural Export products in Mercosur intra-trade





Conclusions

RTAs may help in liberalising agricultural trade but encounter difficulties similar to those of the MTS.

Disadvantages of RTAs:

- Risk of trade diversion: yet not significant in practice; similarly, trade creation effect is not conclusive (cf. Mercosur)
- Risk of deflecting attention from MTS and the importance of multilateral liberalisation



Advantages of RTAs:

Can complement and help strengthen the multilateral framework by:

- Providing a gradual approach to liberalising sensitive sectors, where adjustment can be initiated before undertaking multilateral liberalisation (Mercosur includes all products).
- Tackling issues that are not ready for multilateral discussion
- Facilitating policy co-ordination at the regional level and thus preparing the ground for the next level of multilateral liberalisation



Selected Bibliography

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Thank you!

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