EU and Global Preferential Trade Agreements Review 2016:
Implications for agricultural trade
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Brian Gardner
A Message from the Editor

Agricultural markets around the world are becoming ever more interconnected and this process is being accelerated every year by the introduction of new bilateral and regional trade agreements.

The deals reached by some of the world’s biggest economies to facilitate increased commerce have the potential to permanently alter the face of farming globally as producers adjust to the new opportunities, as well as the threats, posed by the changing landscape in the agriculture sector.

While some progress has been achieved at the World Trade Organisation on issues such as agricultural export subsidies, it is with preferential trade agreements that real advances are being made, not only on reducing tariffs between countries but also on tackling thornier issues related to barriers to trade or Sanitary and Phytosanitary Standards.

Last year saw what could be the blueprint for agricultural trade in the 21st Century with the Trans-Pacific Partnership accord reached between 12 nations, including the USA, Canada, Japan and Australia.

If and when it comes into force, the TPP will be the biggest trade agreement struck since the 1994 completion of the Uruguay Round, which created the WTO.

Meanwhile, the US and EU have now completed 13 rounds of negotiations over a Transatlantic Trade & Investment Partnership (TTIP), which has the potential to influence trade rules around the world as well as establish firm positions on a number of so-called ‘sensitive’ agricultural issues such as genetically modified crops and geographical indications.

The EU’s trade strategy unveiled last year has prioritised the completion of trade agreements as a means to boost its flagging economy.

The bloc has been at the centre of many of the more prominent negotiations in recent years, with the EU-Ukraine Deep and Comprehensive Free Trade Area coming into effect in January 2016, while the Comprehensive Economic and Trade Agreement (CETA) with Canada is expected to be ratified later this year and come into effect in 2017.

This year has already seen market access offers finally exchanged with the Mercosur group of Latin American countries, while talks with a range of countries in Asia and the Pacific, including Australia, New Zealand, Japan, Vietnam, the Philippines and Indonesia are either already underway or on the agenda. And then there is the looming prospect of strengthened ties with China.

This Special Report from Agra Europe, which is the latest to be supplied to subscribers as part of their subscription package, is a new version of the previous Preferential Trade Agreements: Implications for Agricultural Trade report, originally released in 2014, and now updated for 2016.

It provides a clear assessment of the current state of play in regard to the most prominent bilateral and regional trade agreements and their potential effect on agricultural trade.

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Adam Sharpe
Editor, Agra Europe
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About the Author

Brian Gardner is a recognised authority on EU and international agriculture policy, who has written for Agra Europe for almost four decades. He has published numerous books on agriculture and lectures widely and frequently. He has advised UK Parliamentary Select Committees and governments overseas on policy developments.

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List of Acronyms

ACP African Caribbean and Pacific states
ASEAN Association of Southeast Asian Nations
AoA Agreement on Agriculture
CA Conformity Assessment
COMESA Common Market for Eastern and Southern Africa
CU Customs Union
CUSTA Canada-United States Trade Agreement
EAC East African Cooperation
ECOWAS Economic Community of Western African States
EFTA European Free Trade Association
EPA Economic Partnership Agreement
EPC Export Promotion Council of Kenya
EU European Union
FTA Free Trade Agreement
GATT General Agreement and Tariffs and Trade
GAP Good Agriculture Practices
GI Geographical Indication
GMP Good Manufacturing Practices
HACCP Hazard Analysis of Critical Control Points
IPPC International Plant Protection Convention
MFN Most Favoured Nation
MRA Mutual Recognition Agreement
NTB / Non-Tariff Trade Barrier
NTM Non-Tariff Measure
OECD Organisation for Economic Co-operation and Development
OIE World Organisation for Animal Health
ROOs Rules of Origin
RTAs Regional Trade Agreements
SACU Southern African Customs Union
SADC Southern African Development Cooperation
SSG Special Agricultural Safeguard
SPS Sanitary and Phytosanitary Measures
TBT Technical Barriers to Trade
TRQ Tariff Rate Quota
URC Uruguay Round Agreement
URAA Uruguay Round Agreement on Agriculture
WTO World Trade Organization
Introduction

“The rise of 21st century regionalism has been good for world trade. Despite slow progress by the WTO, trade and trade opening have boomed. Thinking ahead, however, it is clear that global trade governance faces a historical turning point. The current trajectory seems certain to undermine the WTO’s centricity, with the mega-regionals taking over as the main loci of global trade governance. Without reforms that bring existing deep Regional Trade Agreement disciplines under the WTO’s aegis and facilitate development of new disciplines inside the WTO, the trend will continue. At best, the WTO will continue to thrive as the institution underpinning 20th century trade flows.”

Richard Baldwin, Professor of International Economics, Graduate Institute Geneva

OECD Global Forum on Trade, February 2014

Preferential trade agreements of all types have increased in number since the late 1980s. Significantly, there has been a tendency for the number and scope to increase since the emergence of a clear block to any further multilateral liberalisation of trade when the Doha Round negotiations ground to a halt during the first half of the 2000s. In response to disillusionment with the multilateral process, the total number of PTAs in existence more than doubled between 2006 and 2016 to more than 410 according to the World Trade Organisation (WTO). Inevitably, these agreements have great importance for agricultural trade. Principally this is because the agriculture sector has the most to gain (or lose – if seen from a different perspective).

The 1994 Marrakech Agreement which completed the 1987-94 Uruguay Round was the first multilateral trade treaty to put limitations on agricultural support and begin the process of reducing tariffs and other charges on agricultural products. While the Marrakech accord (also known as the Uruguay Round Agreement On Agriculture - URAA) undisputedly began the process of tariff reduction in the farm trade sector, it did not go nearly far enough for the majority of free trading agricultural exporting countries. Similarly, it did not give developing country agricultural exporters the access which they needed to the richer markets of the developed countries. It was for this reason that negotiation of the Doha Development Agenda, which began in 1999, was not only designed to build on the achievements of the Uruguay Round, but also sought to concentrate on the market access problems of the less developed countries. The lack of progress in this latest trade round has undoubtedly spurred many countries to seek the advantages to be gained from membership of bilateral and regional preferential trade agreements.

Generally, these agreements involve the process of elimination of tariffs and other barriers for the bulk of all trade over a reasonable period of time – usually of around ten years. Usually such agreements are more liberal among members than the current set of multilateral agreements in terms of tariffs and non-tariff measures. Inevitably, agriculture is an integral part of these bilateral and regional agreements. While this should mean that agriculture, still the most protected part of international trade, is being gradually liberalised, those countries excluded are likely to be disadvantaged.

To assess their full likely impact, it is necessary to examine such agreements in terms of commitments not only on tariff elimination, but other non-tariff measures as well. These may be described by what the Organisation for Economic Cooperation and Development (OECD) calls ‘WTO-plus’ if they go beyond the
requirements of multilateral agreements in terms of tariff elimination and commitments to reduce non-tariff barriers. The term WTO-plus can also be applied when an RTA provides terms that are not available within the WTO framework.

In practice, most RTAs are WTO-plus in that the share of duty-free tariff lines, averaged over products and concessions, indicates significant tariff elimination, as on average over 90% of tariff lines are duty-free at the end of implementation periods. A significant movement towards trade liberalisation is notable in a majority of RTAs since even where tariffs are not completely eliminated, reductions are made to applied and not bound rates. What is notable however is that participants’ preoccupation with so-called ‘sensitive products’ seen in recent multilateral negotiations is also present in these bilateral arrangements. Sugar and dairy products remain sensitive sectors in most agreements, with tariffs for these products being completely eliminated in only a few agreements.

It is observable that generally South-South agreements show the most significant levels of tariff reduction and elimination with their share of duty free tariff lines increasing from 28% to approximately 92% when fully implemented, according to OECD figures, while North-South agreements increase their share of duty free lines from over 68% to 87%.

The impact of RTAs on trade is now significant. Regional trade agreements (RTAs) have become increasingly prevalent since the early 1990s. As of 1 February 2016, some 625 notifications of RTAs (counting goods, services and accessions separately) had been received by the WTO. Of these, 419 were in force. These WTO figures correspond to 454 physical RTAs (counting goods, services and accessions together), of which 267 are currently in force. In the OECD’s most recent estimate they were reckoned to account for over 60% of world trade and the share is still increasing. Agreements have also become wider in scope. Prior to 2000 the emphasis was principally on market access, but the most recent agreements have widened to include competition, environment, and intellectual property.

Agreements between developed and developing countries increasingly include substantial technical assistance programmes linked to trade development and access, such as SPS regulations. In this way RTAs appear to extend their reach across economic and institutional set ups and often now operate as instruments of economic integration between the developed and developing countries.

Inevitably with the proliferation of RTAs, there must be overlapping and interlinking of different agreements. Since most countries are involved in two or more agreements and some even participate in ten or more, what has been described as a “spaghetti bowl” of trade agreements now exists. For example, the European Union is at the centre of some 26 PTAs, Chile has 19 such agreements, EFTA 19, Ukraine and Mexico 14 and the United States 11. These tend to be in the nature of a hub, with a powerful member at the centre with radiating trade connections.

As of mid-2013, there were over 350 Regional Trade Agreements in force and reported to the WTO, with over 70% having been concluded since 2000. Most countries have multiple agreements, each consisting of its own set of trade rules. The average WTO member has 13 such agreements and some have over 20 (WTO, 2011). In spite of costs of negotiations and the implementation of diverse agreements as well as the difficulties of navigating through this “spaghetti bowl of trade rules and commitments”, such agreements continue to increase.
While the US and the EU are obvious hubs, other smaller countries have developed roles as trade hubs; Mexico and Chile, with a web of over a dozen agreements, each are clearly also hubs.

What is the driving force behind this move to closer trade integration? Approximately 20% of currently existing RTAs were concluded prior to 1995, while the remainder have come into force after the conclusion of the URRA in 1994 and over two-thirds of the agreements have come into force since 2000. The most obvious reason for the increase in regional trade agreements after 2000, particularly by the Latin American countries, it is argued, is the failure to achieve a new multilateral agreement to improve and extend the 1994 Marrakech Agreement. These agreements are often not necessarily regional, nor limited to what might be regarded as natural trading partners. The fact that they are international - China-New Zealand, Chile-Japan, Chile-European Union, Thailand-Australia and Thailand-European Union – indicates that they are increasingly a substitute for multilateral agreements.

**Figure 1A: Growth of Preferential Trade Agreements**

The failure of the Doha Round negotiations to make any progress on further liberalisation of world trade and, in particular, on liberalisation of agricultural trade has undoubtedly been a major factor stimulating new interest in bilateral free trade agreements. But will it lead to new arrangements or merely lead to bolstering of existing groupings? Shortly after the breakdown of the negotiations in 2006, India’s Trade minister Kamal Nath warned that his country would be likely to seek a series of bilateral trade accords; arrangements with the European Union and Japan are being negotiated. This development raises the question: what effect will a fresh growth in free trade agreements have on progress towards eventual global trade liberalisation?
Several potential new bilateral agreements were already on the stocks even before the collapse of the multilateral round; recent events are likely to speed up the proliferation of such agreements.

Given that for developed countries at least, bilateral arrangements are second best compared with multilateral liberalisation, what are the advantages and disadvantages of such agreements? Are they merely a means through which a large and powerful country gains large trade advantages in return for only modest advantages to smaller and less powerful partners or are there genuine advantages for both sides?

More broadly, in the light of the limited Doha round progress, the fundamental question is: do regional bilateral trading agreements help or obstruct the attainment of free international trade? Economists have long debated the issue, but the debate has intensified with the growth of such agreements in the last three decades. On the one hand, it is argued, that these agreements are an important step on the road to global free trade, while on the other it is argued that they represent a positive barrier to the extension of the multilateral trading system.

There is a considerable body of research which supports the former contention that regional trade agreements can be seen as stepping stones to eventual global free trade. A paper by Raymond Reizman of the Centre for the Study of Globalisation and Regionalisation at Warwick University in the UK reported that: “The most surprising result of this investigation [of help or hindrance] is that not allowing bilateral agreements can result in more protection and lower world welfare”. There is however an important condition and that is whether the ban on bilateral agreements helps or not “depends on the size distribution of trading blocs”.

However, the view that RTAs are a positive barrier to the achievement of global free trade is vehemently argued by the distinguished international trade expert Professor Jagdish Bhagwati. Writing, with colleague Arvind Panagariya, in the Financial Times, Bhaghati stated unequivocally that “bilateral agreements pose a deadly threat to the multilateral trading system.”

Their letter pointed out that there are three main reasons for this. First, bilateral trade deals undermine the essential principle of the WTO: that the lowest tariff applicable to one member must be extended to all members (the ‘most favoured nation’ status rule). While the WTO exempted free trade areas from the MFN rule, this was merely intended to be recognition of a temporary necessary evil.

Second, American development of FTAs allows the United States to exploit its hegemonic economic power by offering preferential access to a multi-billion dollar market. It is argued that unlike the European Union, the US has adopted bilateral FTAs “to advance the agendas of domestic lobbies, agendas that are not related to trade. The US is using one-on-one agreements with small countries as models for other multilateral trade agreements, hawking them around the world as the ideal way to further trade liberalisation”.

Third, this domination of one large and powerful economy in FTAs weakens the negotiating strength of poor countries in multilateral trade negotiations.
The United States currently has free trade agreements with Israel, Canada and Mexico (NAFTA), Jordan, Singapore, Chile, Australia, and Morocco. Most recently, it approved DR–CAFTA, which includes the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Gains to American industry and the economy have been significant. In the first year of the US–Singapore FTA, America’s trade surplus with Singapore more than tripled, growing to $4.3 billion. Exports to Chile and Singapore expanded by $4 billion in the first year after implementation of FTAs.

The US–Australia free trade agreement, many would argue is another example of one sided advantage. Just four months after the FTA was implemented in 2005, America’s trade surplus with Australia had grown by almost 32% to more than $2 billion. The US-Australia agreement is therefore a good example of the disadvantages that can be incurred by the weaker partner in an FTA. Largely driven by its industry and business interests, who saw gains for service industries and inward investment, Australia signed up to an agreement that, it is argued, has disadvantaged its agricultural industry.

Australia granted duty free access for all US agricultural products from the very beginning of the agreement on January 1 2005. The United States, on the other hand, has granted only limited concessions on agriculture – and then mainly on products where there is no direct competitive challenge to US farmers. The only important gain for the Australian agriculture industry, and it is undoubtedly significant, is immediate duty free access for lamb – in which the US market is massively deficient.

The US-Australia FTA would appear to be a clear demonstration that, in general, bilateral trade agreements are not necessarily a stage in the development of multilateral free trade, but rather the extension of the protectionist objectives of the strongest partner to a greater economic area. The only, probably weak, argument favouring FTAs is that if such agreements are extended they eventually stimulate greater liberalisation through the possible desire of members to maintain and extend their trading relationships with members outside the group.

Opponents of the spread of so-called free trade agreements say that this is unlikely to happen, particularly with those countries forming bilateral agreements with the US, mainly because the dominant partner is careful to keep each of its agreements in separate trade-tight compartments. Despite the now too obvious difficulties, pursuit of multilateral free trade in the WTO is likely to pay much greater dividends for countries like Australia dependent upon significant agricultural exports. The same argument can also be justifiably applied to Latin American countries which have signed up to trade agreements with their powerful northern neighbour.

In conclusion it should be pointed out that, just as in multilateral agreements, in PTAs of all types agricultural trade still lags behind industrial goods and services in terms of liberalisation. Close analysis of almost all PTAs, whether bilateral or regional, indicates that the scaling down of protection of agriculture takes second place to the wider economic advantage to be gained. It is also clear that the advantages of liberalisation are often far from equally balanced between the partners in many agreements. It is also important to stress that non-tariff barriers such as health and safety regulations are often as important if not more important barriers to freer trade. This is particularly significant for less developed countries seeking access to the markets of the most prosperous developed countries.
This report looks closely at the nature and structure of preferential trade agreements. A review of the economic evidence to assess their impact on agricultural trade in particular forms the main focus of Chapter 1. Meanwhile, the implications and prospects for the main multilateral alternative to existing PTAs – the Doha Round of negotiations within the World Trade Organisation – is analysed in detail in Chapter 2.

The extent to which partners do, do not, or are likely to gain from PTAs is examined in this report. This is revealed in particular through analysis of the putative US-EU agreement (TTIP), which is examined in depth in Chapter 3, together with an analysis of latest developments in European and US agriculture policy. Other key FTAs, such as NAFTA, the US-Australia agreement and the European Union’s many agreements with developing countries, are reviewed in Chapters 4 and 5. The extent to which these agreements give significant benefits in liberalising agricultural trade is also examined in detail. Limitations on the effective advantage for trade resulting from such non-tariff barriers to trade as sanitary and phytosanitary (SPS) regulations, labelling restrictions, rules of origin and other obstacles to free movement are also examined in detail, while Chapter 6 offers an overview of how PTAs affect trade in the main agricultural commodities.
1. Bilateral and multilateral trade agreements

This report deals with a number of different types of trade agreements. All of them however involve the mutual granting of tariff and other trade concessions by all the parties to any arrangement. In other words, preference in trade terms is given by all parties. Such agreements may be merely bilateral or regional in nature, but will be based on an agreement between two or more countries under which the participants agree to reduce tariffs, quotas and other restrictions on trade between them. Bilateral trade agreements, as the name suggests, involve only two parties; whereas regional trade agreements are generally entered into between a number of countries in a particular region. Preferential trade agreements may also operate between countries which are not in the same region. Agreements are likely to cover both trade in goods and trade in services, and also deal with issues such as health, the protection of intellectual property, and general regulatory issues.

Both bilateral and regional trade agreements are generally referred to as preferential trade agreements because they are only beneficial to the particular states or countries involved. They may also be divided into two further categories of trading arrangement:

- "Customs unions" – involving two or more countries entering into an agreement to remove tariffs and other restrictions on trade between themselves, but at the same time applying a common external tariff to trade with any other countries (for example, the European Union – at least in its early stages).

- "Free trade areas" – where two or more countries enter into an agreement to remove tariffs and other restrictions on trade among themselves, but each signatory is still able to set the tariffs applying to trade with any other countries (for example, the North American Free Trade Agreement - NAFTA).

Agreements between several parties, such as Australia’s regional agreement with ASEAN, and New Zealand’s with NAFTA, are also referred to as Free Trade Agreements or Areas.

It is important to note that these agreements do not go as far as ‘free trade’. Free trade requires the removal of all tariffs, quotas, subsidies and other government measures that distort trade flows. It should be borne in mind that FTAs often only involve preferential arrangements under which tariffs and some other barriers to trade are lowered only for those countries party to the agreement. Thus, the barriers to access to the member countries for ‘third’ countries, outside the agreement, are not reduced by the agreement. Because of this FTAs have the potential to distort trade flows between member states and third countries; they should thus be clearly defined as ‘preferential trade agreements’ (PTAs). In practice, almost all of the bilateral and regional FTAs which have proliferated over the last two decades have been virtually all PTAs.
1.1 Economic impacts of preferential trade agreements

Preferential trade agreements are generally made because the countries involved expect to gain advantages in trade through the widening of the market. The theoretical argument against such agreements is that there is a danger that they will divert rather than create trade. However, the practical record of the agreements already in operation is that wider trade liberalisation has resulted in little diversion, while FTAs and regional agreements have been seen to be effective in encouraging increased trade. This is the major reason for the rapid growth of such arrangements; they also have the advantage that they are quicker and easier to negotiate than multilateral agreements because fewer parties are involved. Parties can secure advantages that are harder to win in bigger forums.

Potentially however, there can be two disadvantages. If the FTAs are not set up within the right framework of policies, they can diminish rather than enhance economic welfare. The second disadvantage is that they have a negative trade liberalising effect in sectors on which parties outside the agreement have a major influence. This is likely to be a major disadvantage of the planned EU-US free trade agreement for agricultural trade: third country exporters will be disadvantaged, particularly in the European market, by the increased flow of exports from the US.

For the participants in any trade pact, bilateral trade liberalisation will bring changes to the participants in two ways: through diverting production and service provision from countries that become disadvantaged in relative terms from the liberalisation, and by displacing higher cost goods and services. Liberalisation that displaces high priced goods with cheaper goods gives gains to consumers. It is however the likelihood of some trade diversion that is the cause of objections to bilateral and regional free trade agreements as opposed to multilateral agreements. The greatest trade benefits have resulted from FTAs where countries have vastly different economic structures. Comparative advantage in different areas of production allows both partner countries to gain as a result of specialisation.

More refined analysis has shown how trade is likely to raise the prices of cheaper goods in each of the trading partners while lowering the prices of the scarcer (imported) good to more than offset this. In other words; the imported product whose price is raised by a tariff is replaced by a product from within the FTA.

Because of this exploitation of comparative advantage, the price of the domestically produced good is also likely to fall. This is because of:

i) increased competitive pressures on producers previously less heavily challenged in their home markets;

ii) further exploitation of traditional comparative advantage gains coming from increased specialization of modern production and the increased number of stages through which materials are transformed prior to reaching the final consumer.

Trade diversion will take place if one of the partners in a new FTA is a major operator in the global economy. It will also depend on the size and scope of existing barriers to imports from third countries and therefore on whether the new arrangement will influence the overall access for third countries. Most important is the extent to which the new trading relationship will protect and encourage high cost production.
1.2 Reasons for the growth of bilateral and inter-regional preferential trade agreements in the period 1990-2014

Countries form trade agreements with other countries principally to gain wider access to larger markets. They seek such agreements in order to gain increased returns from an enlarged market which they believe will give them increased export markets without the burden of tariffs and other trade barriers. They also expect to gain the economic benefits of lower production and consumer costs through importing goods and raw materials at lower prices. In addition, countries with access to larger markets are more attractive to foreign direct investment (FDI). Although governments of countries planning new trade agreements are often careful to conceal it, they also expect increased competition from trade partners to improve the efficiency of their own producers.

Trade agreements are also regarded by many as a way towards broader economic integration and as serving foreign policy and strategic interests. PTAs have not only grown in absolute numbers, but have also become more wide ranging as the areas of cooperation have been extended from only tariff reduction into liberalisation of trade in services, safeguard commitments, harmonisation of sanitary and phytosanitary measures (SPS), removal of technical barriers to trade (TBT), and other areas which foster greater economic integration. Agriculture, given the near-universal desire among governments to protect the sector, is inevitably a highly sensitive area in the negotiation and implementation process.
Generally, the more alike the countries involved in a bilateral partnership, the easier it is to establish a new relationship. Agreement is more difficult and commitments tend to be weaker when trading partners at different levels of development pursue integration bilaterally. The desire of both types of country to seek trading and security advantage has led to the development of so-called ‘hub and spoke’ agreements. The EU’s agreements with developing countries and those of the US with smaller Pacific countries are good examples of arrangements where there is a considerable measure of imbalance. This has important implications for agreements on agricultural trade. Typically, issues that could have significant impact on the liberalisation of agricultural trade (such as those related to SPS) are more easily negotiated among developing countries than those between developed and developing countries. Nonetheless, taking into account the increasing trend towards North-South integration agreements, deeper commitments on agriculture have to be established if there is to be any significant trade liberalisation in this area.

The most obvious examples of ‘hub and spoke’ development are those involving the European Union and the United States. ASEAN, China and Japan are also emerging hubs. The factors stimulating the formation of these types of relationships are varied, and the motivations can differ significantly between the ‘hub’ and the ‘spoke’ parties.

The noted international trade economist Jagdesh Bhagwati suggests that the main reasons why small or developing countries might seek trade agreements with hub countries are:

- **Trade Preferences.** At its simplest, the appeal of a preferential trade deal is to improve market access opportunities and gain a competitive advantage over competing exporters. However, in response, competitors seek to negotiate their own bilateral agreement with the hub economy in an attempt to counter potential trade diversion from existing agreements, leading to an increasing number of ‘spokes’.

- **Security.** Smaller countries may undertake bilateral agreements to more closely align themselves with the economic and political fortunes of larger powers.

- **Economic reform and credibility.** Developing countries may engage in agreements with hubs either to lock in domestic reforms or as a means of improving credibility to attract foreign direct investment (FDI).

The motives of the hub economies for seeking to establish PTAs can vary. Competitive expansion of bilateral and regional trade agreements in response to increased activity of other hub economies is often a source of motivation for the creation of and increasing participation in PTAs. Another may be the stimulation of domestic reforms in areas such as intellectual property, labour laws and environmental standards that may not be possible within a multilateral setting.

It can be argued that the pursuit of the hub and spoke approach by large trading nations has created a web of bilateral agreements that not only raise transactions costs, but favour most the development of industry in hub countries, rather than spoke countries. In the context of trade arrangements in east Asia, for example, the development of development of two hubs within the region – China and Japan – is seen by some as risking potential regional divisiveness, rather than regional cooperation.
Several decades ago countries looking for expanded markets might have expected to gain their advantage from expanding multilateral trade liberalisation agreements. The failure of the Doha Round process has increasingly forced such countries – particularly developing nations – to look for expansion through more limited regional and bilateral preferential agreements.

Following the stalling of what was eventually to become the Doha Development Agenda, at its intended launch at the Seattle WTO Ministerial meeting in 1999, there was a turning point in regional trade liberalisation across, in particular, the Asia-Pacific region. Singapore, for example, post 1999, responded by actively seeking regional and bilateral free trade agreements. With a small, highly educated population and minimal agricultural and mining industries, Singapore could expect to gain significantly from liberalised trade flows and capital\(^1\). Singapore was thus a major player in the initiative to move forward from the Seattle failure and build on the general preference for liberalised trade in the region. It actively advocated the development of bilateral and regional trade liberalisation though greater integration of existing trade deals such as the ASEAN Free Trade Area (AFTA) and the Australia-New Zealand Closer Economic Relations (CER). Subsequent development was a prime example of the ‘spaghetti effect’ of interlocking trade agreements detailed earlier in this report.

The major motives for forming PTAs are industrial and financial, rather than any concern about agricultural trade. In most agreements, with the prominent exception of MERCOSUR, gains in agricultural trade tend to be modest. The tariff reductions within ASEAN for example, with preferential concessions on all goods, including agriculture, provided a marked advantage from the MFN tariff rates – yet intra-ASEAN agricultural trade has not been all that significant.

Most of the growth in the intra-ASEAN trade had come from trade in industrial products; and where total agriculture trade has expanded, much of it has been due to trade with third countries. In AFTA, boosting intra-regional agriculture trade was secondary to development of inter-industry trade arising out of the vertically integrated network of manufacturing transnational corporations.

The recent rapid growth of PTAs is not being matched by an expansion of preferential trade flows\(^2\). Based on data from the 20 largest importers, who account for 90% of world merchandise trade in 2008, only 16% of trade qualified for preferences. In other words, despite the proliferation of PTAs, 84% of world merchandise trade still takes place on a non-discriminatory most-favoured nation (MFN) basis.

1.3 Effect on agricultural trade of PTAs

The primary question for agricultural trade in preferential alliances is how much additional market access is actually gained from the development of FTAs, PTAs, RTAs and customs unions? How far have these arrangements eliminated tariffs and removed non-tariff barriers? Has trade been facilitated in the most sensitive sectors? Have the agreements provided advantages to the participants beyond the basic requirements of the World Trade Organisation’s SPS and Technical Barriers to Trade (TBT) agreements? Have they been a significant factor in reducing market-distorting agricultural support, export subsidies and trade manipulating measures which have too often excluded agriculture from the general WTO rules?
In addition, what are the main differences between different types of preferential agreements? Do they extend the trade liberalisation process of the WTO, or do they obstruct it?

In general, while preferential agreements have tended towards greater trade liberalisation, the effect is far from uniform and tends to favour some commodity sectors more than others. Traditionally, ‘sensitive products’ continue to retain their protected status and continue to be protected by tariff lines exempted from duty elimination. Often tariff rate quotas (TRQs) are employed to minimise the liberalisation impact on domestically-produced sensitive products. Nonetheless, agreements which provide for elimination of export subsidies and limit ‘special safeguard’ protective measures are becoming more common.

The provisions governing sanitary and phytosanitary (SPS) provisions as well as technical barriers to trade (TBT) tend to reinforce those requirements operating within the WTO agreements, except in some agreements where specific side agreements or memorandums of understanding (MOUs) are included.

Agreements between emerging and developing countries appear to have had the most effect on agricultural trade flows. According to an OECD study of over 50 such agreements, South-South and Latin American regional trade agreements have made the most progress in eliminating agricultural trade tariffs. Agricultural export subsidies are now banned in over half of these agreements, signalling greater trade liberalisation in conformity with Article XXIV of the General Agreement on Tariffs and Trade (GATT). But significantly, trade in the main traditionally ‘sensitive’ sectors, such as dairy, meat, sugar and cereals, is still covered by numerous exemptions and tariff rate quotas (TRQs).

Significant liberalisation is indicated by the share of duty-free lines when agreements are fully implemented. On average, around 90% of tariff lines covering agricultural products are in fact duty-free by the end of the implementation period when averaged across individual tariff concessions and sectors. This represents almost a doubling of the share of duty-free lines compared to the situation preceding establishment of the agreements. These averages do however hide major differences between agreements and across sectors. Dairy and sugar products are generally exempted from complete tariff elimination, although there are exceptions, such as the agreements entered into by Australia, New Zealand, Hong Kong and Singapore.

Tariff reductions in current RTAs are considered by the OECD to be ‘WTO-plus’ not only because most duties are totally eliminated, but also because incomplete tariff elimination is based on reductions of ‘applied’ rather than ‘bound’ tariffs. The greatest gain in liberalisation is shown in the South-South agreements: a significant increase in duty-free tariff lines from less than 30% initially to approximately 95% when the agreements are fully implemented. There are however many exceptions, varying by country and agreement. Again, these exceptions tend to be in the dairy, sugar, cereals and processed meats sectors.

In contrast, in agreements between developed and developing countries – so-called North-South Agreements – the liberalising effect is smaller. While starting from a more substantial share of duty-free lines, this share increases less over time, reaching 87% at full implementation. Again sensitive products tend to be exempted from complete tariff elimination – these typically include dairy, sugar, beef and a wide a range of processed products, such as cereal preparations and miscellaneous processed and semi-processed foods.
Liberalisation is often further limited by frequent use of tariff rate quotas (TRQs), varying in terms of duration, quota volumes and the tariffs applied both within and over quota. Seen from a regional perspective, the Asia Pacific group of agreements appears to be the most liberalising. In this group it is the agreements signed by Singapore, Australia and New Zealand that contribute most to this result: tariffs are immediately eliminated and there appears to be a limited use of TRQs and exemptions.

The intra-Latin American agreements show significant liberalisation via both tariff reduction and the absence of TRQs and exemptions. Nonetheless, there are significant concessions to country sensitivities, which are also conditioned by agreement partners. Once again, these exceptions tend to be in the product sectors of sugar, dairy, meat and fish preparations, and cereals.

Almost 60% of current agreements prohibit agricultural export subsidies. In this way they go beyond the WTO Agreement on Agriculture commitments (although export subsidies are hardly being used anyway at present, and the prohibition within the RTAs also applies to countries which have never used them). Because the use of special agricultural safeguards is increasingly prohibited there is some progress towards liberalisation of agricultural trade. Many participants in PTAs continue to retain the right to continue operating domestic subsidy policies, although in Latin America there are some restrictions which are concentrated in agreements by Mexico and the four Mercosur agreements (see below).

Major conclusions on the 55 regional trade agreements which the OECD has surveyed are:

- The level of tariff elimination commitments indicates a significant move towards agricultural trade liberalisation in the RTAs which were examined as required by GATT/WTO Article XXIV. Most progress has been made in tariff elimination in South-South agreements. The share of tariff lines attracting zero duty has, on average, moved from 28% to 92%, while the North-South agreements show a smaller share - only 87% at the end of implementation.

- Large numbers of exemptions and TRQs continue to characterize tariff schedules. Sensitive sectors remain, most notably dairy, meat, sugar and cereals.

- There is little evidence of progress in dismantling SPS and TBT measures. Although a substantial number of RTAs have established specific commitments to apply the ‘transparency principle’, this is more notable in the agreements of Mexico and Chile than elsewhere. The new institutional framework of SPS joint committees does however provide a foundation for future progress.

- Prohibition of agricultural export subsidies in over half of the agreements reviewed by OECD is seen as a definite move towards less distorting trade.

- Rules of origin remain restrictive, mainly relying on ‘wholly grown or raised’ criteria, or change of chapter for imported ingredients. Given the nature of agricultural trade, however, it is unclear if this is a constraint to trade.

- Agricultural safeguards are almost all subject to ‘sunset clauses’ with implementation, indicating movement towards increased liberalisation.
The effect of trade agreements on pre-existing trade flows are significant. The OECD’s analyses indicate that total bilateral exports will have increased by 18% on average for products benefiting from a preferential margin between 5 and 10%, and by 48% for products where the margin exceeds 10%. The share of global trade in agricultural commodities and food between countries with regional trade agreements (RTAs) rose from slightly over 20% in 1998 to nearly 40% in 2009.

Preferential margins (the gain from tariff reduction or elimination), as measured through their impact on tax-inclusive consumer prices, have shown to nearly double within eight years of entry into force, rising from 4.7% to 8.9% on average. For South-South agreements the preferential margin is close to this average, while North-South agreements display important asymmetries. Exports from developing South countries to the high-income OECD countries gain an average preferential margin of nearly 15% after eight years, while North exports to the South receive only a 4.2% preferential margin.

The estimated impact of RTAs on North-South trade is found to be less for the North’s exports. The impact on the probability of new trade is found to be small and of limited statistical significance for North countries, but significantly higher in the case of South to North trade.

Preferential margins are a key element in understanding the effects of PTAs because of their impacts on prices of traded goods. The preferential margins for the agro-food sector as measured through their impact on tariff-inclusive prices, nearly doubled within eight years of entry into force of an agreement, rising from 4.7% to 8.9% on average for 78 RTAs analysed by the OECD. While the preferential margin for South-South agreements is close to this average, North-South agreements display important asymmetries: South exports to the high-income OECD countries gain a preferential margin of nearly 15% after eight years, while North exports to the South receive only a 4.2% preferential margin.

### 1.3.1 Three RTAs – a comparative case study

Moving from the general to the particular, the agricultural trade effects of three preferential regional trade agreements have been analysed by the OECD: the ASEAN Free Trade Agreement (AFTA), the Common Market for Eastern and Southern Africa (COMESA), and the Southern Cone Common Market (MERCOSUR).

The OECD analysis of these three RTAs indicates that there was no indication of trade diversion affecting imports from outside their regions. It was deduced therefore, that the agreements have been net trade creating. At the same time, there is little evidence of strong trade creation with non-members. But in some cases, other negative factors tended to influence trade patterns: lack of transport and communications infrastructure, in addition to supply constraints, lessens the effect of the RTA on trade flows. Significant (Continued on page 24)
Declining share of PTA groupings in agricultural trade mirrors general proportionate decline in agricultural exports in world trade

The share of food and agriculture in world trade has been declining. Exports of agricultural goods accounted for 6.3% in 2005 in total trade compared with 8.2% of world exports in 1991. This trend has been mirrored in AFTA and COMESA, but not MERCOSUR.

Exports of agricultural products have declined relative to manufacturing in the case of ASEAN countries. Agriculture accounted for 9.1% of ASEAN total exports (i.e. within as well as outside the region) in 1991 and only 5.5% of total exports in 2005.

The share of agricultural goods in total exports (i.e. within as well as outside the region) by COMESA countries also experienced a sharp decline since 2000, falling from 42% in 2001 to 21% in 2005. Although some of this decline in agricultural exports by COMESA countries can be attributed to the patchy country coverage in the available data (on average data is only available for 11 COMESA countries), it seems that COMESA countries are following the world trend in exporting less agricultural products and more manufactured goods as well as services. COMESA members continue however to be more dependent on agricultural exports than most other countries.

Figure 1.1 Shares of PTA groupings in world trade
trade costs such as transport and logistics seem to remain important factors in determining agricultural trade flows. There is also the important consideration that in some RTAs, the members have a comparative advantage in exporting many of the same agricultural products. This will inevitably decrease the impact of preferential market access. AFTA is a free trade agreement where members extend preferential duties among themselves; COMESA has eliminated tariffs on all goods exported within its free trade area; whereas MERCOSUR is a customs union where internal trade takes place duty free, in principle, and a common tariff is applied to goods emanating from non-members.

The ten members of AFTA (the ASEAN Free Trade Area) account for a small proportion of world trade – approximately 5% of total trade. Exports of agricultural commodities make up a small and declining share of exports by ASEAN countries, now equalling 5.5% of total trade. Trade within AFTA has grown relative to AFTA’s total trade, now accounting for just under a quarter of AFTA’s trade in agricultural goods.

COMESA’s exports account for less than 1% of world trade. Agricultural products form 21% of their exports. The COMESA free trade area was established in 2000 between nine of the present 19 member countries. While trade within COMESA is low, accounting for only 7% of total trade of the region, although agricultural trade has risen since its inception to equal 15% of total agricultural exports.

Agriculture represents a large and growing share of the exports of the four MERCOSUR countries – but this trade is principally with third countries, rather than among the union’s members. Agricultural products now account for close to 35% of MERCOSUR’s exports. Intra-group trade is dominated by Argentina and Brazil; 90% of trade within MERCOSUR is between these two countries. Trade among the member countries accounts for a very small percentage of agricultural exports: only 5% of MERCOSUR’s agricultural exports remain within the zone, unchanged since 1981.

In none of these three RTAs has OECD found evidence of trade diversion with respect to imports from outside the region; they are therefore deemed to be net trade creating. Trade costs such as transport and logistics remain important factors in determining agricultural trade flows. AFTA members trade intensively with large markets in the region like China and India relative to the world average. Trade in agricultural goods with China represents 9% of AFTA members’ total trade, whereas China represents 3% of world trade in agriculture. Similar figures for India are 4% and 1%. AFTA members concluded bilateral agreements with China in 2003 and India in 2004.

OECD assessments show that AFTA has generally accounted for about 5% of world trade since its formation; MERCOSUR has accounted for about 1%; and COMESA for significantly less than 1% of world trade. All three South-South RTAs are dwarfed by the importance of trade within and among OECD countries. COMESA intra-trade accounts for an even smaller, and declining, share of its members’ exports. Total exports within COMESA fell from 11% to 7% of total trade between 2001 and 2005. Intra-trade in agriculture also makes up a small percentage of trade in agriculture, accounting for 13% of total exports in agriculture in 2001 and 15% in 2005. Economic integration and the development of intra-trade within COMESA can be attributed in part to the obstacles of transport and communications originating in the wide geographical span of the RTA.
The implications for South-South RTAs drawn by OECD\textsuperscript{vii} from examining these three very different agreements are as follows:

- All three RTAs are trade-creating.
- The depth of integration within the agreement is important in determining the extent to which it is trade-creating.
- Membership of an RTA alone is unlikely to be sufficient to overcome other physical or economic barriers to trade.
- Underlying determinants of trade such as export structure which are based on factor endowments change little.
- There is no strong evidence of trade diversion from trading partners outside the zone due to the establishment of RTAs.
- Trade costs remain an important factor in agricultural trade.
- Historical trade patterns and traditional economic ties are also important determinants of trade flows.
- In some instances, RTAs encourage producers who are not necessarily the most competitive at the world level, but so do high global MFN tariff rates.
- Some of the most entrenched barriers to trade, such as subsidies and other non-tariff measures, remain in RTAs.

1.3.1.1 AFTA

AFTA countries have extended preferential access to each other at a faster rate than deadlines set in the original agreement. All goods within the region enter ASEAN-6 countries at a tariff rate of between 0 and 5% since 2003, excluding products specified on exceptions lists. In 2006, goods entered ASEAN-6 from AFTA countries with a tariff of 4.4% on average, compared to 10.9% from countries outside the zone, i.e. with a margin of preference of 6.5 percentage points.
1.3.1.2 **COMESA**

Since October 2000, duty free access has been granted to all products traded between COMESA members without exception. A safeguard mechanism is in place to temporarily levy a duty on imports of some sensitive products as needed. This temporary measure generally lasts for a period of six months.
1.3.1.3 **MERCOSUR**

The initial objective of the Southern Cone Common Market (MERCOSUR) was to create an integrated economic area similar to that established in Europe. The markets of signatories Argentina, Brazil, Paraguay, and Uruguay to the Asunción Treaty, signed in 1991, established a framework for a free trade area among the four countries. Subsequently, it was decided to form a full customs union. While MERCOSUR objectives include fully harmonizing the trade policy of the four members, in the event integration has proceeded unevenly.

Despite the closer economic union of its four members, MERCOSUR accounts for only a small part of the overall trade of its members and even less of agricultural trade; the region is principally an agricultural exporter to the rest of the world. At the inception of the MERCOSUR agreement, intra-member trade accounted for 11% of the trade of the members, and only 9% of their trade in agricultural products. Intra-trade reached a high of 17% of trade in goods in 2001, following the currency crises of 1999-2000, and fell to 13% in 2005. In the agriculture and food sectors accounts for only 5% of MERCOSUR intra-member trade in agriculture. Despite deep economic policy integration, MERCOSUR’s trade has not generated a high level of trade integration.

**Figure 1.4: MERCOSUR trade in agricultural products**

![Graph showing MERCOSUR trade in agricultural products from 1996 to 2015](source: OECD)

1.4 **The advantages and disadvantages of preferential agreements**

In principle, there are two schools of thought on preferential agreements. The first argues that these agreements are contributing to deeper global integration. The second, opposing view, questions the utility of these agreements and considers them to be dangerous for international economic relations. Although there are undoubtedly some losers from the growth of PTAs in the last two decades, it is likely that, overall, there has been a net gain to producers and consumers in countries which are signatories to such agreements. As a recent World Trade Report concluded, the proliferation of PTAs between 2000 and 2007 has, overall,
improved the conditions of market access for signatory countries. To a large extent, the improvement has been due to the reduction in economic disadvantage of the weakest countries. These were countries facing worse market conditions than trade competitors prior to the establishment of PTAs.

The World Trade Organisation argues that “PTAs have in part restored a ‘level-playing field’ for those countries that faced worse conditions of access than others”. As a result, whether or not adjusted for tariffs faced by other suppliers, the overall level of tariffs faced by exporters is lower, as is the volume of trade for which negative preference margins are significant. Given that the WTO’s conclusion is based on averages, many countries are achieving larger benefits accruing from preferential tariffs on trade. Significantly, tariff reduction has become a lesser issue in PTA formation than regulatory issues and other non-tariff barriers to trade.

The WTO reaches two main conclusions on the recent growth in PTAs:

- Where ‘WTO-plus’ provisions are encountered in PTAs, involving any combination of developed or developing countries, agreements have generally served to strengthen rules and commitment levels compared with WTO agreements. The fact that these are policy areas already covered by the WTO has facilitated the establishment of such provisions.

- Despite the apparent explosion of new provisions outside the terms of existing WTO agreements, so-called ‘WTO-X issues’ (measure not already covered by WTO rules), the areas embodying legally enforceable and therefore substantive commitments in PTAs are relatively few. Significantly, these tend not to be in the agriculture and food sectors, but in the fields of investment, competition policy, intellectual property rights, and the movement of capital.

While tariff barriers have progressively fallen, non-tariff barriers to trade have acquired more significance. Many PTAs include provisions on technical barriers to trade (TBT). A recent survey on TBT provisions in PTAs showed that of 70 PTAs examined, 58 contained TBT provisions. Provisions on WTO-X measures include technical regulations and conformity assessment procedures (i.e. harmonization or mutual recognition), improvements in transparency, institutions or mechanisms to administer the agreement and solve disputes, and the possibility of cooperation among regional partners on standards-related issues beyond trade objectives and technical assistance.

1.4.1 Harmonisation and mutual recognition

The most common provisions in PTAs (occurring in over 50% of the 58 PTAs included in the study that contain TBT provisions) are mutual recognition of conformity assessment, harmonization of technical regulations, transparency provisions, and provisions that establish administrative machinery such as a committee, a body or a network for maintaining standard-related matters. Harmonized standards, harmonized conformity assessment procedures and dispute settlement provisions were found in more than 40% of the agreements contained in the sample of 58 PTAs.

Provisions dealing with the mutual recognition of regulations and standards, common policies, technical assistance and metrology occurred in less than 40% of the agreements. Mutual recognition means that countries agree to recognize each other's regulations, standards or conformity assessment procedures as
The advantage of harmonisation, relative to mutual recognition, in terms of its effects on trade is that with harmonisation products produced in different countries are more similar (more homogeneous), and therefore better substitutes from the point of view of producers and consumers. This, in turn, may facilitate trade by improving consumer confidence about the quality of imported goods. In enhancing compatibility between imported and domestically produced goods, harmonisation makes it easier for consumers to match products. It is also likely to increase competition, reduce prices and increase trade. However, harmonisation involves more arduous negotiations and carries higher regulatory costs than mutual recognition.

Finally, strengthening cooperation on the institutional set-up for the standards regime is a step towards further trade opening because it is likely to promote the effective implementation of measures.

### 1.4.2 Rules of Origin

A major disadvantage of all preferential agreements is the need to establish the ‘nationality’ of a product. This is because participating countries continue to have diverging external tariffs. In contrast, in an entirely open world economy with no restrictions on the flow of goods, rules of origin would not matter.

Since only goods produced within the territory of any agreement qualify for duty-free trade, there have to be procedures that differentiate between goods produced within and goods from third countries. In this way, a preferential system can become complicated and expensive. This administrative burden is a particular problem for developing countries.

In addition, dispute settlement at the bilateral level can be a disadvantage compared with multilateral dispute settlement. A bilateral system offers more scope for the more powerful partners to disadvantage the weaker. The existence of an alternative to the WTO’s multilateral Dispute Settlement procedures provides more powerful countries with an additional choice, but for weaker countries this can be a drawback, as within the WTO, weaker countries can form coalitions in dispute settlement. This both reduces costs and increases the bargaining influence.

There is often a positive danger for developing countries in some PTAs because they may involve constraints on their development which is built into the agreement. Developing countries will often accept constraints on development as a condition of these agreements in order to gain trade advantages, but another is that trading agreements with a large and powerful partner can provide some with a large positive security gain, such as for example, military protection gained from agreements with the US.

However, having accepted these possible drawbacks for the weaker partners in any agreement, preferential trade agreements can give gains over time through the diversification and upgrading of production, especially in the case of developing ‘southern’ partners. Rules governing tariffs, foreign direct investment, intellectual property, the mobility of financial capital, and public procurement, can have different impacts on a country’s development than others.
Often, as one analyst has pointed out: “Preferential trade agreements involve the southern partner receiving better market access for existing exports, in return for “reforms” deep within its borders. “Reforms” mean putting the government under new constraints not to use industrial policy instruments to accelerate production diversification and upgrading – instruments of the kind that most of the now developed countries used during their rapid development phase. Hence the risk of freezing the existing division of labour between the trade partners”.

Under the WTO’s multilateral rules powerful developed ‘northern’ countries are less able to neutralise government intervention and thus neutralize the competition from southern producers than they are in bilateral or regional agreements.

The reasons why PTAs often do not yield as great advantage as the participants expect include:

- The large reduction in ‘most favoured nation’ (MFN) tariffs since the end of the Second World War – half of world trade is already subject to zero MFN tariff rates.

- PTAs tend to exempt high MFN-tariff items from preferential treatment. A recent study, involving four major trading countries and their partners, shows that about 7% of tariff lines, mainly agricultural or food items and labour-intensive manufactured products, are excluded.

- Rules of origin have reduced gains by making the costs of compliance higher than the expected worth of the underlying preference margins.

- Preferential margins are too often small. Only 2% of global imports are eligible for preferential tariffs where the preference margins are above 10%. While for most large exporters, preferential tariffs give little gain on their exports, certain smaller economies exporting a narrow set of agricultural commodities, mainly sugar, rice, bananas and fish, where preference margins may be more substantial, can expect to gain. There is a possibility though that these preferences will be eroded over time as the countries to which they export enter into more PTAs.

The proliferation of PTAs itself often means that the difference between the MFN rate and the PTA rate overstates the competitive advantage of a PTA member, since increasingly its competitors will also enjoy preferential access to the market. Once the preferential access enjoyed by other exporters is taken into account, less than 13% of preferential trade benefits from a competitive advantage exceeding 2 percentage points. The implication of these results is that one has to look beyond tariffs to explain why countries enter into PTAs.

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1 MFN: “most favoured nation” (MFN) is a status or level of treatment accorded by one state to another in international trade which must be granted to any other country with such status trading with that nation. The term means the country which is the recipient of this treatment must, nominally, receive equal trade advantages as the “most favoured nation” by the country granting such treatment. A country that has been accorded MFN status may not be treated less advantageously than any other country with MFN status by the promising country.
Deep integration may involve a trade-off between the benefits of common policies and the costs of harmonisation when policy preferences differ among member countries. Deep integration lowers trade costs and provides shared benefits, such as common rules and a stable monetary system that the market or national governments fail to offer. Deep integration with advanced economies may also create advantages for developing countries from importing best-practice institutions. However, costs may be involved if the common rules are distant from national preferences and the needs of developing countries.

Advantages of regional preferential trade agreements are claimed to include the achievement of improved trade terms with many trade partners simultaneously, enabling a more efficient use of limited negotiation resources and provides greater uniformity and consistency in trade rules amongst those trade partners. Often however, the advantages are not fully achieved due to the difficulty of achieving strong outcomes. This is because there is typically a need to ‘water down’ offers to achieve outcomes that satisfy the lowest common denominator.

Because they tend to be more specific in terms, bilateral preferential trade agreements provide greater opportunity to achieve wider and deeper trade liberalisation than regional preferential trade agreements as well as greater opportunity to address ‘WTO plus’ issues such as SPS and trade related environmental issues. However, the usefulness of bilateral agreements is often hampered by numerous factors including the cost to business of compliance with differing international trade rules.

Rules of origin are a major obstacle to the achievement of full advantage from an agreement. Rules of origin have the potential to raise compliance costs to the level which can exceed the preferential duty rate advantage. The establishment of regional preferential trade agreements has the potential disadvantage of creating separate trading blocs within regions such as the Asia-Pacific region that could result in trade diversion.
2. **Multilateral trade negotiations and the World Trade Organisation**

In the almost seventy years since the end of the Second World War, nations have increasingly collaborated to improve the conditions on which they trade with each other. Principally through the General Agreement on Tariffs and Trade (GATT), they have steadily reduced tariffs and other barriers to trade. This was achieved through a series of so-called ‘Trade Rounds’. The principal focus of all of these negotiations was the liberalisation of trade in industrial products. This emphasis meant that improving the terms of trade in farm products was largely neglected. In fact, in the period up until the mid-1980s agricultural protection and market distortion proliferated among the developed countries, with an almost unabated subsidy and tariff ‘war’ between the major agricultural producing countries. Only the last of the successfully completed round of negotiations, the Uruguay Round of 1987-94, made any serious attempt to reduce the barriers to trade in agriculture and food products. The final Uruguay Round agreement, signed at Marrakech in early 1994, succeeded in establishing a programme for the scaling down of agricultural support and protection among the member nations. It also included provision for the conversion of the GATT into the World Trade Organisation (WTO).

### 2.1 The GATT/WTO Uruguay Round and its impact on agricultural trade

The Uruguay Round Agreement on Agriculture (URAA), or the Marrakech Accord as it is officially known, established a framework for bringing agricultural trade within the scope of the same basic rules that have been applied to other areas of trade in successive post-war rounds of negotiation. The reforms instigated by the Agreement were phased in over the 1995-2000 period, with developing countries having an additional four years for application.

The 1994 agreement also provided the framework for new negotiations to continue in what was to become the Doha Development Round. The major objective of liberalising countries, within this current round, is in effect to make the principles agreed at Marrakech more effective.

The main features of the URAA were as follows:

- Existing tariffs were bound and subject to reduction commitments. Non-tariff barriers were converted to tariffs that were also bound and subject to reduction commitments through a process called “tarification”. Tariffs were generally reduced by 36%, but for developing countries the reduction was only 24%.

- Tariff rate quotas - two-tier tariff regimes with different tariffs for in-quota and out-of-quota imports - were established to provide market access for products previously protected by non-tariff barriers.
Expenditure ceilings were imposed on export subsidies on agricultural products, combined with phased reductions in the specific levels of subsidy. Developed and developing countries agreed to reduce subsidised export volumes by 24% and 16% respectively, and export subsidy expenditures by 36% and 24% respectively.

Domestic support policy reduction was probably the least successful aspect of the URAA, due to the exemptions won by the EU and the United States. The agreement distinguished three categories of subsidies to members’ domestic industries:

- The Amber Box comprised those subsidies which significantly distort trade and production because of their direct link to current production factors. Developed countries agreed to reduce expenditures on such policies by 20%, while developing countries agreed to a 13.3% reduction.
- The Blue Box comprised subsidies based on current production, but which were designed to be self-limiting through the use of set-aside and other constraining measures. These measures are not subject to reduction commitments.
- The Green Box comprised subsidies with little or no trade or production distorting effect – e.g. environmental and structural aids or fully decoupled direct support. These measures too are not subject to reduction commitments.

Domestic support is also exempted from reduction commitments if it amounts to less than 5% (10% for developing countries) of the value of production (the so-called ‘de minimis’ rule).

Because of the combined effect of the high base level of protection, support and subsidisation from which the URAA began and because of the numerous exceptions – most notably the ‘blue box’ concession - the effect of the 1994 accord has been relatively limited. Most notably, the subsidisation of agricultural production in developed countries has increased substantially since 1993. This increase has been most notable in the European Union.

The Uruguay Round also established a new Agreement on the Application of Sanitary and Phytosanitary Measures. It requires that measures to protect animal or plant life and health should be based on ‘sound science’ and on international standards, guidelines and recommendations. Where international standards do not exist or higher standards are demanded, governments should apply measures based on science or risk assessment, in order to avoid arbitrary or unjustified discrimination.

### 2.2 The Doha Development Round

Trade ministers of the member nations of the World Trade Organisation meeting at Doha, Qatar, in November 2001 agreed to launch a new, full-scale round of negotiations, the Doha Development Agenda (DDA), designed further to liberalise world trade. If successful, the Round could be expected to have most effect in the food and agriculture sectors.
Under the Doha agreement, WTO members reaffirmed their commitment to reform: “To establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions to world agricultural markets …. Building on the work carried out to date and without prejudging the outcome of negotiations, we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view toward phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.” (Ministerial Declaration at the WTO conference in Doha, Nov. 14, 2001.)

An original draft text on the basis for agricultural negotiations recommended a commitment to export subsidy elimination. The basis for the new talks finally agreed was weakened by the stand made by France on the export subsidy issue. The commitment is still only to reductions in export subsidies, with elimination as a secondary consideration (although subsequent negotiations have largely conceded the position on export subsidisation, with elimination now highly likely once a deal is done).

The commitment on domestic support is open to wide interpretation, which the EU will no doubt be able to exploit to maintain much of its current €50 billion a year expenditure on direct support of agricultural production unscathed. It should be borne in mind that the EU does not recognise most of the expenditure on its Direct Payments scheme as trade distorting.

Since the inception of the DDA, country representatives have met numerous times, but have failed to reach a final agreement. There had been little substantive progress since 2008 until the December 2015 Ministerial meeting at Nairobi where an important agreement on limitation of export subsidies was reached (see below).

Some progress was made at a ministerial meeting of the WTO in Bali in December 2013. Though potentially important for reviving the multilateral liberalisation process – if that proves to be the consequence of the ‘Bali agreement’ – it contains little of substance and certainly does not give enough in terms of tariff reduction and removal of non-tariff barriers to dissuade countries from continuing to seek direct trade deals on their own terms through deals with other countries or groups of countries. This is likely to be particularly true of developing countries.

For agriculture, the two main elements of importance in the Bali agreement were those on tariffs and export subsidies. The former is merely a set of rules for the better management of tariff rate quotas, and the latter an endorsement of the export subsidy elimination and interim limitation agreed in in principle at the WTO Hong Kong Ministerial Conference in 2005.

However, tariff reductions and removal of non-tariff barriers to freer trade are the main aims of countries looking for better trading conditions. These will only be marginally improved through the terms of the Bali agreement.

The continuing inability to successfully conclude the Doha Round talks raises the question of why countries should continue to push forward under the WTO’s large multi-country umbrella, given the proliferation of bilateral and regional agreements. There are two reasons: first, important differences exist between
multilateral agreements and PTAs. Second, a global agreement offers unique economic opportunities which can only be achieved through multilateral agreement (see below).

Within the DDA, the Cairns Group of major exporting countries – a group including Australia, New Zealand, Brazil and Argentina – along with the United States, have concentrated their efforts on getting export subsidies down and import access up. There has also been pressure to redefine the categories of domestic support so that further limitations of market-distorting production-related subsidies may be agreed.

In agriculture, the fundamental disagreement in the Doha Round is between the United States’ desire for greater market access worldwide, into both developed and developing countries, and the desire of both the European Union and the developing countries to continue to protect their agriculture through high tariffs. To a lesser extent, there is also a drive by emerging and developing agricultural exporting countries to seek US commitment to limit its subsidisation of domestic agriculture.

A draft final agreement was tabled and extensively discussed at a meeting of WTO Trade Ministers in Geneva in July 2008. However this negotiation disintegrated principally over the wide disagreement between United States and India over the issue of agricultural protection.

Specifically and principally, this dispute centred on the operation of the proposed new ‘special safeguard mechanism’ (SSM), the modern interpretation and application of the principle of infant industry protection – linked to food security concerns. India argues that this measure has to be maintained to protect poor farmers by allowing the imposition of special tariffs on specific agricultural products in the event of an import surge or price fall.

The US, which believes that this is a measure which would be used more to protect large-scale farmers rather than small peasants, argued that the threshold would be set too low and that the SSM would thus be triggered too frequently. India claimed that its position was supported by over 100 countries, although some emerging economy countries within the G20 country group, most notably Brazil, did not support the Indian position.

The package considered by WTO ministers in 2008 would have reduced average tariffs by 27% considerably less than earlier proposed reductions. Had it been agreed, the 2008 proposal from the chair would have resulted in a reduction of agricultural protection by 6 percentage points in high-income countries and 0.5 percentage points in middle-income countries.

The attractiveness of bilateral compared with multilateral agreements for developing countries can be judged from the fact that South–South trade improvements would be limited in any Doha agreement, due to the proposed generous flexibilities, which allow developing countries to maintain high levels of protection.

2.2.1 The December 2013 Bali agreement

The Ninth Ministerial Conference of the World Trade Organization in Bali, Indonesia on 3–7 December 2013 reached a very limited agreement on agricultural trade issues. In the agriculture sector, the dominating theme was the issue of subsidising and protecting farmers in developing countries. The main agriculture
items on the Bali agenda were: food security, export competition, and other tariff-related issues – in particular Tariff Rate Quota (TRQ) administration.

India’s continuing demand that it should be allowed to extend its domestic agricultural subsidies indefinitely continued to be opposed by the US. In effect, this issue was once again pushed onto the back burner of continuing Doha Round negotiation.

India and some other developing countries operate public stockholding systems where they purchase products from farmers at fixed ‘administered’ (i.e. non-market) prices. Under the 1994 URRAA this is considered as market price support which should be reduced to set limits. India would certainly be in danger of breaching this limit; negotiations have therefore focused on a time-limited (4-year) protection from being taken to the WTO Dispute Settlement panel.

Under the Bali agreement, developing countries will, for a limited period, be allowed looser public stock rules for food security purposes: they will not be challenged if they exceed their agreed limits on domestic support classed as trade-distorting. The agreement is an ‘interim’ one which will exist until a permanent one is agreed, with a work programme set up aiming to produce a permanent solution in four years. Under the memorandum on ‘Public Stockholding for Food Security Purposes’, any developing country that exceeds its agreed limits on domestic support in the process of buying up food products for poverty alleviation or food security purposes will be exempt from challenge under the WTO’s Dispute Settlement Process. This applies only to pre-existing schemes – any schemes developed subsequently will not be covered.

2.2.1.1 Tariff Rate Quota operation

Essentially this agreement aims to provide a set of remedies in cases where tariff quotas are being seriously and persistently under-fulfilled for reasons other than market conditions (for example, because of unfair or unreasonable processes for allocating licences to import under the quota). Under the new agreement, any WTO member can request trigger a consultation process if the annual ‘fill rate’ of any tariff quota is below 65%, or if the importing country has not notified the fill rate. If the underfill persists for three years, and a series of consultative remedies have had no effect in the meantime, the WTO will ultimately have the authority to compel the importing country to revert to a ‘first-come, first-served’ system for allocating quotas.

The agreement also sets out maximum periods within which governments may process licence applications, and requires WTO members to ensure that their procedures are “no more administratively burdensome than absolutely necessary to administer the measure”. It also sets out provisions requiring governments to contact those holding unused licences to ask them “whether they would be prepared to make them available to other potential users.”

2.2.2 The major issues in the continuing negotiation

While some have cast doubt on the future of the Doha Development Agenda negotiations, it is likely that the modest progress made at Bali will have given them some fresh impetus. The major agricultural proposals currently on the negotiating table remain as set out by the WTO Agriculture Committee Chair in 2008.
2.2.2.1 Domestic support of agriculture

- Overall trade distorting domestic support (OTDS) is to be reduced from current agreed maximum levels. OTDS is defined as the sum of both Amber Box and Blue Box payments (see 2.1) plus any covered by the ‘de minimis’ clause. The agreement would affect the largest subsidisers most; the EU’s OTDS would be cut by 80% over five years; the US/Japan by 70%, and all others by 55%. An immediate “down-payment” cut of 33% for the US, the EU and Japan, and 25% for the rest, would be required. Developed countries would have eight years to meet the target.

- Amber Box (AMS) payments would be reduced from current agreed maximum levels – the EU to cut by 70%, the US and Japan by 60%, and rest to cut by 45%. There would be bigger cuts from some other developed countries whose AMS represents a significant proportion of production value. Again, an initial ‘down-payment’ would apply.

- Amber Box support per product would be capped at the average for notified support in 1995-2000.

- The ‘de minimis’ clause would be adapted such that developed countries would not be required to declare aid payments if they represent 2.5% or less (developed countries) of production value. This threshold has been 5% until now. This applies to both product-specific and global de minimis payments.

- Blue Box payments would for the first time be limited to 2.5% of production value (developed), or 5% (developing), with caps per product.

- Green Box. The rules on the definition of the Green Box would be revised, particularly relating to income support, to ensure it really is “decoupled” (i.e. separated) from levels of production, and also relating to developing countries’ food stockpiling – with tighter monitoring and surveillance.

2.2.2.2 Market access

- Tariffs would in general be cut according to a formula which prescribes steeper cuts on higher tariffs. For developed countries the cuts would rise from 50% for tariffs below 20% ad valorem, to 70% for tariffs above 75%, subject to a 54% minimum average. Constraints would apply on tariffs above 100%. For developing countries, the cuts in each tier would be two-thirds of the equivalent tier for developed countries, subject to a maximum average of 36%.

- Some products would have smaller cuts in their tariffs, via a number of flexibilities designed to take into account various concerns. All countries would be able to nominate a limited number of ‘sensitive’ products; the smaller cuts in these tariffs would be offset by tariff quotas allowing more access at lower tariffs. A regime of so-called Special Products (SP) would apply for developing countries, to address specific vulnerabilities.

- Developed countries will scrap the old “special safeguard” clause. A new “special safeguard mechanism” would apply for developing countries, allowing them to increase tariffs for a limited period in case of sudden price falls or a surge in import volumes.
2.2.2.3 Export competition

- Export subsidies to be eliminated by the end of 2013 (the Bali declaration acknowledged that this timeframe was no longer practical).

- Revised provisions will apply on export credit, guarantees and insurance to ensure that any export subsidy component within such measures are also eliminated. International food aid will also be disciplined such that it does not become a ‘disguised’ export subsidy, albeit with a “safe box” to ensure that food aid is not impeded during genuine emergencies.

2.2.3 The Nairobi agreement

The WTO Ministers of Agriculture and Trade reached what many regard as an historic agreement to abolish export subsidies as a part of an interim deal on agriculture reached in December 2015 WTO Ministerial meeting in Nairobi. This agreement commits all developed countries to stop using export subsidies, or take equivalent measures, with immediate effect. Developing countries must also stop using export subsidies by the end of 2018, although marketing and transport subsidies may continue to be used by such countries until the end of 2023, or 2030 for least-developed countries.

Parallel agreements also discipline the operations of state trading enterprises, and will prevent export credits or food aid being used as disguised export subsidies.

Undoubtedly, the most significant achievement of the Nairobi meeting was the agreement to the elimination of agricultural export subsidies, generally recognized as causing the worst distortions in agricultural markets. Undoubtedly, the agreement was facilitated by the boom in agricultural commodity prices during the last ten years. Before the Nairobi agreement, 26 WTO members (counting the EU as one) were allowed to subsidize exports and could spend together many billions of dollars per year on them. Significantly, only five of the 18 developed countries entitled to use export subsidies actually did so to any extent at all in their most recent submissions to the WTO Secretariat. The handful of remaining countries such as Canada, Norway, Switzerland, Israel (and at a miniscule level the EU) have been given further time to eliminate remaining subsidies.

In Nairobi, a critical mass of 51 countries confirmed that they will eliminate tariffs on imports from each other and the rest of the WTO’s member countries. How much of a boost to trade will result is unclear since many tariffs are already low, and some experts warn that rapid technological change means the list of products will soon need to be updated again.

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The Nairobi agreement also includes an agreement in principle the right of developing country members to temporarily increase tariffs in face of import surges through operation of the Special Safeguard Mechanism.
Crucially, the conditions under which the SSM may be used have yet to be agreed – a final communique simply stated that the details for implementing the mechanism will continue to be negotiated in dedicated sessions of the Agriculture Committee. However, the agreement in principle was important in that it no longer ties a deal on the SSM to the conclusion of a global agreement on agricultural market access, as developed countries had previously been insisting. The SSM agreement was the main ‘gain’ for India, which otherwise had to be satisfied with a statement engaging the WTO to continue seeking a ‘permanent solution’ on its other main concern, namely the issue of public stockholding for food security purposes.

WTO members are already committed to settle one further issue by 2017: on public stockholding for food security in developing countries. They agreed to negotiate a more permanent solution than the one agreed in Bali in 2013. The ministers’ Nairobi declaration specifies other topics to be pursued, including “all three pillars of agriculture, namely domestic support, market access and export competition, as well as non-agriculture market access, services, development, TRIPS [intellectual property].

2.2.3.1 Export subsidies

The export subsidy ‘pillar’ of the Doha negotiations on agriculture had been floated prior to the meeting as one area which may possibly be ‘ripe’ for a deal, but few had confidently predicted the conclusion of an agreement on the subject, because of the complex political interplay between export subsidies and the other components of the putative deal on agriculture, namely market access and domestic support. Even fewer had forecast that the elimination of export subsidies would be immediate (for developed countries), with only a two-year time-lag for developing countries. According to the text of the agreement: “Developed Members shall immediately eliminate their remaining scheduled export subsidy entitlements as of the date of adoption of this Decision” (i.e. to all intents and purposes, with immediate effect).

The only exemptions are contained within two footnotes. Firstly, it is specified that the trade-law technicality under which all EU sugar exports are counted as “subsidised” for the purposes of WTO accounting will not prevent the EU from exporting sugar at its current levels until 30 September 2017, when the EU sugar quota regime ends (and at which point the limitations on EU sugar exports will in any case expire).

A second footnote states that developed countries which have recently notified export subsidies on “processed products, dairy products, and swine meat” may continue to subsidise those exports until 2020. It is understood that this derogation covers Switzerland, Norway and Canada. All export subsidies for cotton have to be eliminated as from January 2016 for developed countries, and one year later for developing countries.

2.2.3.2 Export Credits

A section in the agreement covers government export credits, which the US has tended to use to support its agricultural exporters, and which the EU has consistently alleged to have an effect equivalent to export subsidies. Under the terms of the new deal, the maximum repayment term for export financing support is set at 18 months. (This is a more generous settlement than under the original 2008 negotiating text, which had called for a maximum period of 180 days). The new rules apply as from the last day of 2017 - existing contracts already entered into would not have been affected.
It has also been established that all such credit guarantee programmes must be "self-financing", i.e. full repayment must be made by the beneficiary.

2.2.3.3 State Trading Enterprises

The agreement to prevent state marketing boards and similar bodies operating in a way which has an effect equivalent to export subsidisation was much simplified from earlier drafts. The new deal simply commits such bodies not to "operate in a manner that circumvents any other disciplines contained in this Decision," and commits governments to "make their best efforts to ensure that the use of export monopoly powers by agricultural exporting state trading enterprises is exercised in a manner that minimizes trade distorting effects and does not result in displacing or impeding the exports of another Member".

2.2.3.4 Food Aid

To prevent food aid from being used as a disguised form of export subsidy, members must ensure that all international food aid is:

- needs-driven
- in fully grant form
- not tied directly or indirectly to commercial exports
- not linked to the market development objectives of donor Members

The agreement does not insist on the provision of food aid in cash form, although this is identified as the preferred option. It instead calls on WTO members to "refrain from providing in-kind international food aid in situations where this would be reasonably foreseen to cause an adverse effect on local or regional production," and to "seek to increasingly procure international food aid from local or regional sources to the extent possible."

The practice of "monetizing" food aid – selling supplied goods locally to raise money for other development projects – will be allowed "only where there is a demonstrable need for monetization for the purpose of transport and delivery of the food assistance, or ... to redress short and/or long term food deficit requirements."

2.2.3.5 Special Safeguard Mechanism (SSM)

A very brief ministerial declaration on this subject notes that “the developing country Members will have the right to have recourse to a special safeguard mechanism (SSM) as envisaged under paragraph 7 of the Hong Kong Ministerial Declaration." Details of how the SSM would work will be subject to further negotiation.

The significance of the statement is that the SSM has now been "promoted" to special status within the WTO negotiating process, and an agreement on its operation is no longer tied to a broader accord on the market access ‘pillar’ within the Doha process. This makes it more likely that such an accord will come into
effect, although there is still no agreement on exactly how such a SSM would operate, or any deadline for bringing it into effect.

2.2.3.6 Food stockholding

There was no permanent solution reached at Nairobi for the continuing issue of how to deal with food stockpiling programmes – a thorny issue for India in particular. The temporary deal provisionally exempting developing countries from the threat of discipline under WTO rules on agricultural domestic support – one of the understandings from the Bali WTO Ministerial – will remain in place for the time being. Members have committed to continue negotiations towards a permanent solution, in a discussion stream separate from the agriculture negotiations under the Doha Round (and thus ensuring that these talks continue even if the Doha process were to be halted).

2.2.3.7 Cotton

Another issue of totemic importance for the WTO, in that it addresses a situation where developed country subsidies have historically impacted on the economic welfare of least-developed countries (LDCs), is cotton. The Nairobi deal commits all developed countries to offer duty-free, quota-free market access for cotton produced and exported by LDCs with immediate effect. The same action will be taken by developing countries “declaring themselves to be in a position to do so”.

However, the core political issue – namely the extensive domestic subsidies paid to cotton producers in the US in particular – has been sidestepped. The declaration “acknowledges” the reforms which have been made in domestic cotton policies, but also emphasises that “more efforts remain to be made and that these positive steps are not a substitute for the attainment of our objective.” There is no specific commitment, however, to any reduction in the level of cotton subsidies, or any timeframe for making such a decision.

2.2.3.8 The continuing Doha Round process

The question of whether or to what extent the 14-year-old Doha Round process will continue to form the basis for ongoing multilateral trade negotiations remained unanswered at Nairobi. A carefully-crafted communiqué re-emphasised the “pre-eminence of the WTO as the global forum for trade rules setting and governance”, and recognised the contribution which the rules-based multilateral trading system had made to the strength and stability of the global economy.

It also underlined that “Regional Trade Agreements (RTAs) remain complementary to, not a substitute for, the multilateral trading system” – a rebuff to those who have claimed that the growth of regional trade deals like the Trans Pacific Partnership (TPP) and the putative Transatlantic Trade and Investment Partnership (TTIP) makes the multilateral trade agenda obsolete.

Ministers underlined the “strong commitment of all Members to advance negotiations on the remaining Doha issues”, but acknowledged that members “have different views” on how to address the future of the Round. Negotiators were instructed to “prioritise” work where results have not yet been achieved, although the declaration acknowledged that “some wish to identify and discuss other issues for negotiation; others do
Any decision to launch negotiations multilaterally on new issues “would need to be agreed by all Members.”

Despite the progress made at Nairobi in 2015, those most anxious about market access are increasingly rejecting multilateral negotiations, preferring instead to pursue it through bilateral and regional trade initiatives. Plurilateral agreements within WTO rules between groups of likeminded countries are appearing to be the more attractive option. There is also a view that the Doha agenda focuses too much on the traditional agricultural protection issues, instead of on the major current concern of non-tariff barriers. A new focus for continuing multilateral agreements is needed, it is argued. The alternative view is that the traditional protection mechanisms have got to be reduced, if not eliminated, before the further more specific issues can be tackled at the multilateral level.

2.3 The benefits of multilateral trade agreements compared with bilateral arrangements

In the light of the glacial progress currently being made in the Doha Round, bilateral trade agreements can have several apparent advantages to countries anxious to widen their markets. First, they are certainly quicker to conclude. With fewer parties involved in a negotiation, preferential trade agreements can be concluded within a much shorter period of time. The potential advantages are also more easily identified. This is a positive advantage to both politicians and businesses looking for quick results.

Bilateral agreements can also be extended beyond the limits of multilateral arrangements. Similarities of interests among partners and common values, can offer bilateral trade agreements on new areas such as investment, competition, technical standards, labour standards or environment provisions, where there is no consensus among WTO Members.

Political or geopolitical considerations figure in many of the recent FTAs. For developing countries negotiating with more powerful developed countries, there is usually the expectation of exclusive preferential benefits, as well as expectations of development assistance and other non-trade rewards. They are also viewed as an instrument to gain a commercial or political advantage over other WTO Members.

Having stated the most obvious advantages of bilateral agreements, it has to be conceded that the multilateral approach does offer longer-term permanent advantages. Conclusion of preferential trade agreements can create an incentive for additional discrimination, which will eventually hurt all trading partners. Countries outside an agreement will try to conclude agreements with one of those that are inside to avoid exclusion, thus creating a “domino” or “bandwagon effect”. The consequence is that the preferences obtained through forming a preferential agreement against competitors tend to be short-lived. The more agreements there are, the less ‘preferential’ the preferences become.

It is also extremely difficult for bilateral agreements to solve systemic issues such as rules of origin or antidumping measures. Also at the bilateral level, negotiations to eliminate or reduce trade distorting agricultural subsidies are unlikely.
Probably the most important issue is that proliferation of regional trade agreements can greatly complicate the trading environment, creating a web of incoherent and often conflicting rules. Rules of origin are an outstanding example. An increasing number of WTO Members are party to ten or more regional trade agreements, most of which, for any given member, contain agreement-specific rules of origin which are necessary to ensure that the preferences go to partners and not to third countries. This complicates the production processes of business who may be obliged to tailor their products for different preferential markets in order to satisfy rules of origin. It also complicates life for customs officials who are obliged to assess the same product differently depending on its origin, thus compromising the transparency of the trading regime.

This type of proliferation of agreements has been termed a “spaghetti bowl” because there are so many overlapping bilateral arrangements among nations. Such a complex mesh of relationships could have the unintended effects of raising the cost of trade and distorting production patterns across countries.

And for many small and weak developing countries, entering into a bilateral agreement with a powerful big country means less leverage and a weaker negotiating position than they would have in multilateral talks. It might not be the case for India, China, Brazil, the US and the EU; but it certainly would be true for the likes of Mauritius, Sri Lanka, Cambodia or Ghana.

The worldwide proliferation of PTAs raises the question of whether they help or hinder progress on a multilateral deal.

PTAs may be hindrances for a number of reasons. Most countries lack the administrative resources to pursue both regional and global negotiations. And they may hold back on reducing tariffs in multilateral negotiations so that reductions can be offered as bargaining chips in bilateral or regional trade talks.

Alternatively, it can be argued that PTAs are in fact building blocks. Countries may feel pressured to participate in a broad agreement because they could lose out if their PTA partners shift trade toward countries involved in global negotiations. PTAs may also boost support for a broader free trade agreement when businesses manoeuvring through a “spaghetti bowl” of rules and requirements recognize the benefits of a unified set of rules.

To summarize, it is generally argued that multilateral negotiations and agreements are preferable, especially between a developing and a developed country, because:

- Bilateral agreements usually lead to “trade diversion”, in that the partners divert away products that may be more cheaply priced in favour of products from the FTA partner, even if these are not cheaply priced, thus resulting in inefficiency.

- In an FTA between a developed country and a developing country or countries, the latter are usually in a weaker bargaining position due to the lack of capacity of their economies, their weaker political situation, and their weaker negotiating resources.

- In the WTO, the principles of special and differential treatment, and less than full reciprocity, are recognized. Thus, developing countries are better able to negotiate on the basis of non-reciprocity
and for non-reciprocal outcomes, in which they are not obliged to open up their markets (or undertake other obligations) to the same degree as developed countries. However, these “development principles” are usually absent in FTAs, or they are only reflected in longer implementation periods for the developing country. As FTAs are generally set up on the basis of reciprocity, this “equal treatment” of parties that are unequal in capacity is likely to result in unequal outcomes.

- The FTAs contain many items that are not part of the rules of the WTO. Many North-South FTAs include rules on investment, government procurement and competition law, which have so far been rejected by developing countries as subjects for WTO negotiations or rules. Developing countries also refused labour standards and environment standards as subjects of discussion in the WTO. All these topics are now entering “by the side-door” through the FTAs, even though the same reasons why developing countries may wish to reject rules on these issues should apply in FTAs as they do in the WTO.

- Even where issues are already the subject of rules in the WTO (e.g. intellectual property and services), there were many “flexibilities” and options open to developing countries in interpreting and in implementing obligations in these areas. However, there are attempts by developed countries to remove these flexibilities for developing countries in the FTAs. If these attempts succeed, the “policy space” for developing countries to pursue development and socio-economic goals would be significantly reduced. The proliferation of so many agreements also puts pressure on personnel and financial resources in developing countries and requires a lot of technical expertise which may be not adequately available, given the large number of agreements and the limited resources.

2.4 The role of supply chain development in RTA growth

There is clearly a significant difference between what may be regarded as the initial development of PTAs and RTAs in the period up to 2000-02 – largely concerned with tariff reduction- and the current post-non Doha period evolution. Twenty-first century RTAs, or “deep” RTAs, are quite different. While clearly including tariff preferences, they are not now primarily about preferential market access. Rather, they are much more concerned with creating international supply chain systems. Industrial enterprises in developed countries are seeking secure and fertile bases for their expansion and development usually in less developed countries. This has undoubtedly led to the creation of preferential trade agreements and areas which guarantee these conditions. This has led to the development of basically two main types of international production sharing, each of which creates a need for new types of disciplines.

The first is related to:

- The co-ordination of internationally dispersed production facilities, which demand the disciplines necessary to assure this can be thought of as “supply chain disciplines.” The point is that bringing high-quality, competitively priced goods to customers in a timely manner requires international co-ordination of production facilities via the continuous two-way flow of goods, people, ideas and
investments. Certain policies or national practices threaten these flows, so 21st century RTAs include provisions to restrict such policies.

The second is related to:

- Producing abroad. The disciplines that underpin this can be thought of as “offshoring disciplines”. When firms set up production facilities abroad, or form long-term ties with foreign suppliers, they typically expose their capital and technical, managerial and marketing know-how to new international risks. Policies that reduce or eliminate risk to these forms of tangible and intangible property are typically included in 21st century RTAs.
3. Prospects for the EU-US Transatlantic Trade and Investment Partnership

3.1 The TTIP in its economic context

The planned Transatlantic trade and investment agreement between the 28-nation European Union and the United States of America represents potentially the largest free trade area ever created. The Transatlantic Trade and Investment Partnership (TTIP) is estimated to involve 46% of the world’s total Gross Domestic Product (GDP), or 51.3% if all members of the North American Free Trade Association (NAFTA) and the European Free Trade Association (EFTA) are included, and would thus account for a dominant share of world trade and foreign direct investment. Were a full agreement to be achieved, the European Commission estimates that the TTIP could create 400,000 new jobs. Needless to say, this estimate is not accepted by all sources – expert or otherwise.

It is however very likely that establishment of the TTIP would result in major economic gains as a whole for both the European Union (€119 billion a year) and the United States (€95 billion a year). This is the assessment of a detailed 2013 study for the European Commission by the Centre for Economic Policy Research. The CEPR says that this would represent €545 in disposable income each year for a family of four in the EU, on average, and €655 per family in the US.

This study is anxious to stress that, in general, there would be no major trade diversion resulting from this agreement and that “… the benefits for the EU and US would not be at the expense of the rest of the world”. In contrast to many PTAs, the prospective TTIP is expected to have a positive impact on worldwide trade and incomes. However, this view is not necessary the consensus among analysts that have studied the effects (see below). The CEPR calculations indicate an increase in global income of close to €100 billion as a result of TTIP.

The expected income gains would come from the resulting increased trade. Overall, total exports could increase by 6% in the EU and by 8% in the US. CEPR calculates that EU exports to the US would go up by 28%, equivalent to an additional €187 billion worth of exports of EU goods and services.

The CEPR forecasts the impact of a TTIP on prosperity for various liberalisation scenarios, expressed in terms of change in gross domestic product (GDP). If only tariffs were to be eliminated, it is expected that this would achieve an annual growth stimulus of 0.1% (€23.8 billion) for the European Union and 0.04% (€9.4 billion) for the United States. CEPR’s “comprehensive/ambitious” scenario is more radical, assuming the abolition of 98% of tariffs, 25% of non-tariff barriers (NTBs) on goods and services and 50% of procurement NTBs. Here, the European Union’s GDP would rise by 0.48% (€119.2 billion) and the United States’ by 0.39% (€94.9 billion Euro) – a welcome boost for both economies. Most of this gain would be expected to come from the removal of NTBs.
It can be expected that the elimination of trade barriers would have significant effects both on the involved economies as well on third countries, a report from the Konrad Adenauer Stiftung indicates\textsuperscript{xvii}. The main drivers of economic integration between the two economies are foreign affiliates, resulting in a considerably high degree of intra-firm trade. Intra-firm trade represents about one third of total transatlantic trade; 50% of all US foreign affiliates are located in Europe, while 75% of all European affiliates are located in the US. This is particularly significant for the German automotive and chemicals industries for example, where over 50% percent of German exports are accounted for by intra-firm trade. In addition, the enormous extent of intra-industry trade is decisive; with for example motor vehicles, engines, machinery, medical instruments and television apparatus among the sectors recording the highest shares of intra-industry trade.

Stronger Transatlantic integration would also improve both partners’ competitiveness against emerging economies like China and India. According to the IMF, the EU-27’s share of global GDP fell from 34.1% in 1980 to less than 25% in 2015. The situation with exports is similar. In 1980, the European Union accounted for 22.7% of global goods exports (counting the EU-27 states), but by 2011 its share had fallen to 13.9%. The United States’ shares of global GDP and trade have also fallen steadily.

While a TTIP is unlikely to reverse that trend, it could slow it, partly through the economies of scale businesses can achieve through improved access to the partner country’s markets and consumers, and partly by reducing costs for businesses trading with or investing in the transatlantic partner.

But there are dissenters from this generally rosy conclusion. Most criticised is the claim that the TTIP will not result in trade diversion. Critics say that the agreement is in fact likely to harm the weakest third countries most. The Ifo Institute of Munich argues that that the volume of world trade will not see a rapid increase, but rather will just be redirected\textsuperscript{xviii}. It believes that the large trading blocs will only end up dealing more with each other, while exports to other world regions and especially imports from Latin America, Asia and Africa into the new ‘super free trade zone’ could decrease (see also Chapter 3.1.1).

The Ifo study says that if tariffs between the US and Europe were eliminated, then states in West Africa, for example, which traditionally trade with France or Belgium, will be at a disadvantage. Suppliers from the developing countries would be displaced by American companies. Even Canada and Mexico, which have joined the North American Free Trade Agreement with the US, would lose out, with their market shares taken over by Europe. Other losers would be China and Australia, as products exported from these countries into the new free trade zone would become more expensive.

Other analysts and commentators are less optimistic on the benefits of TTIP than the EU Commission. The ECORYS economic think tank in the Netherlands calculates that yearly change in national income in the EU would be around €36 billion, and €24 billion for the US in the long run\textsuperscript{xx}.

Its modelling of the proposed FTA indicates that both import and export in value terms of the EU and the US will increase. Relatively, US exporters and importers are expected to experience the biggest impact, with the value of exports and imports increasing by 5.7 and 3.7%, respectively, in the longer run. For the US, the value of exports is expected to grow relatively more than the value of imports. It also expects that the increased trade flows between the EU and US will have a slight trade diversion effect with respect to the rest of the world, showing small decreases of all indicators for Japan and the BRIC countries (Brazil, Russia, India and China).
Economic barriers between the EU/EFTA and the US/NAFTA are now relatively low and some efforts to ease trade have already been made, such as the single sky aviation agreement (EU–US Open Skies Agreement), and the establishment of the Transatlantic Economic Council. However, economic and sometimes also political relations between Europe and America are tense, and there are frequent trade disputes between the two economies, many of which feature in World Trade Organization dispute proceedings.

### 3.1.1 Areas of contention

Probably the most controversial element of the TTIP negotiation is the US demand for inclusion of the **Investor State Dispute Settlement (ISDS) measure.** These provisions allow investors to bring proceedings against foreign governments that are party to the treaty. These cases are heard in tribunals outside the domestic legal system. The concern is that the ISDS provisions might affect governments’ ability to determine public policy if they are concerned they might be sued by corporations. In the UK, the main area of concern has been the National Health Service (NHS) – in particular, whether any future measures to reduce the private sector’s involvement might be challenged under these provisions. The UK Government and the European Commission have sought to allay these concerns – including through a new proposal for an Investment Court System, put to the US in November 2015 – but critics remain to be convinced.

Besides ISDS, there are a number of other areas of concern with TTIP including the extent to which standards can be harmonised between the EU and US (food standards, for example) and public procurement.

#### Food standards

GM crops are strictly regulated in the EU, while a number of EU directives prohibit the importation and sale of meat treated with certain growth hormones and chicken washed with chlorine. The US has disputed these rules at the WTO; the EU has argued that the restrictions are necessary for the protection of human health while the US has called the bans ‘unscientific’, and part of a protectionist strategy to shut US agriculture products out of EU markets. The Commission has offered assurances to domestic interests that EU regulations on GM and hormones are not up for negotiation (changes to these would have to separately be approved by Council and the European Parliament), while the negotiating mandate states that any agreement must recognise ‘the right for the Parties to appraise and manage risk in accordance with the level of protection that each side deems appropriate’. On the US side, in his notification to Congress on the commencement of negotiations, President Obama noted that one of the major objectives for the US was the elimination of food standards ‘not based on science’.

#### Regulation of Pesticide Use

It has been claimed that TTIP could water down EU regulations on pesticides. According to the Centre for International Environmental Law (CIEL), proposals put forward by industry would reduce standards currently in force in the EU and some US states by moving to a risk assessment approach, rather than the precautionary approach used in the EU. In response, CropLife America, a trade association, was quoted as saying that its proposals “will ensure the highest levels of consumer and environmental protection while promoting international trade, creating jobs and enhancing social and economic viability.”
Geographical indications

There is concern in the EU food industry that TTIP could lead to the erosion of protection offered to European regional food specialities through the Geographical Indication system. To quote an article on the Euractiv website: “Some EU farmers say changes to the European system would see Europe importing Nuremberg pork sausages from Kentucky or allowing US food companies to export parmesan cheese even when the milk has not been produced in Italy. But the US argues that terms such as feta, prosciutto and bratwurst are generic, highlighted by the fact that Denmark can sell Greek-style feta [but is not allowed to describe it as ‘feta’] in Europe. The European Commission responds: “We have made clear to our American counterparts that the protection of geographical indications is one of our main priorities.

3.1.2 Risks of a potential EU-US FTA

The planned TTIP is not without its risks for global trade and the multilateral trade system, as researchers at the German Institute for International and Security Affairs point out\textsuperscript{xxi}. Discrimination against third countries is a central problem of preferential agreements. Selective tariff abolition can eliminate protectionism and distortions between the signatories of such an agreement and can create trade-generating and growth-boosting effects. The bilateral or plurilateral abolition of trade barriers can increase trade if domestically produced goods and services or imports from third countries are substituted by cheaper (i.e. more efficiently produced) goods and services from the partner country.

But frequently such an agreement leads to discrimination against third countries with trade-diverting effects. Trade diversion occurs when the dismantling of trade barriers gives goods and services from the partner country a competitive advantage and consequently trade with third countries is diverted to the partner country, even if the third country can produce the relevant goods and services more efficiently.

A particular problem of preferential trade agreements is that they contain many different and contradictory rules. This applies above all to the rules of origin in free trade agreements (FTAs), which define which goods are granted preferential treatment. To enjoy preferential market access a particular proportion of the product must be produced in one of the FTA signatory countries. This is intended to prevent non-signatories from profiting from preferential treatment without themselves making concessions. Cumulatively, the multiplicity of preferential trade agreements around the world has produced a confusion of different rules of origin that tangibly obstruct trade. Small and medium-sized enterprises in particular suffer from high transaction costs.

3.1.3 Approach to the negotiations

The TTIP is divided into 15 specific trade areas. The scope is likely to be vast. The most important features are:

- Elimination of all trade tariffs and the reduction of all tariff barriers;
- More close structured cooperation between EU and US regulatory bodies;
- Intellectual Property Rights protection;
• Restriction of subsidies to state-owned enterprises.

Unsurprisingly, considering the number and scale of trade disputes between Brussels and Washington – many of them in the agricultural sector - the reduction of non-tariff barriers will be a key part of this transatlantic trade liberalisation process. Since the creation of the WTO dispute settlement process in 1995, the EU has lodged no fewer than 32 complaints against US trade policy – more than one-third of the total of 90 cases which it has brought in that period – while 19 out of the 106 cases brought by the US have been directed against the EU.

It is estimated that as much as 80% of the total potential trade gains would come from cost-cutting gained from reduced bureaucracy and regulation, as well as from liberalising trade in services and public procurement.

The increased level of economic activity and productivity gains created by the agreement is expected to have a beneficial effect on EU and US labour markets, both in terms of overall wages and new job opportunities for high and low skilled workers. The agreement is not expected have any abnormal impact in terms of labour market movements and economic trends.

In terms of gains from bilateral trade, EU processed foods, chemicals, electrical machinery, motor vehicles, other transport equipment, metals and metal products exports are expected to increase the most, with exports of motor vehicles (up €59bn) and chemicals (up €22bn) benefitting the most in nominal terms, according to a European Commission impact assessment.

At the same time however, the EU's global imports are forecast to rise substantially in a number of sectors, including some of the same sectors which will see increased exports. These include the processed food, chemicals, electrical machinery, motor vehicles, other transport equipment, metal and metal products, wood and paper products and communications sectors.

3.1.4 The trade regulatory issue

The harmonisation, or at least the ‘mutual recognition’, of non-tariff barriers is likely to be the major area of negotiation in the achievement of any agreement; it could also prove to be the cause of breakdown. As in trade agreements generally, the addressing of so-called ‘beyond the border’ issues such as regulatory trade barriers have been major objectives for the EU and US. In the TTIP talks, the trade effects of mutual easing of domestic regulation have been emphasised as an area of great potential economic growth, with large potential gains being claimed—some citing a 2.5% to 3% increase in GDP to be gained from the total elimination of regulatory trade barriers. Independent analyses indicate that the cost of regulatory barriers to trade are currently affecting US exporters more than their European counterparts.

For example, while European alcohol and tobacco exporters to the US face additional costs averaging about 14%, US companies can expect additional costs of more than 50% on their exports to the EU. Similarly, Europe operates chemical industry NTBs amounting to additional costs of 112%, more than three times as much as in the US. For the European machinery sector on the other hand, exports to the US face NTBs that increase costs by 46%.
Compared to tariff duties, NTBs are quantitatively a much more important barrier, probably more than twice as great. They therefore play a much stronger trade-restricting role. What is more, they take a much more asymmetric shape between the US and the EU than tariffs.

A major problem for the US in the negotiations is that its focus is on applying its own domestic regulatory reform approach on a global basis. In 2013 US Trade Representative Michael Froman adumbrated the US version of regulating, and urged the EU to take into account the principles of “transparency,” “participation,” and “accountability” – as though such concepts were something not already well understood in Brussels and Strasbourg. He stressed that the US process promotes these principles by providing: “advance notice of specific regulatory measures” (transparency); “meaningful opportunities for input from a broad range of stakeholders” (participation); and “responses to that input” (accountability). All three of these requirements are already met under the EU’s legislative process, in the form of Commission-specialist committee consultation, European Parliament scrutiny, and Commission-Parliament-Council consultation, respectively.

The EU for its part, does not see domestic regulatory reform as the central issue in the elimination of Transatlantic non-tariff trade barriers. Furthermore, the EU does not view national discrepancies in the rulemaking process as a problem for cooperation more generally, and has also argued that the EU system is, in fact, transparent. They, too, get both public and private input, but at an earlier stage, and allow for the participation of a wide range of stakeholders during the rulemaking process, Brussels argues.

The joint EU-US High Level Working Group has emphasised that a significant proportion – if not the largest proportion - of the potential benefit of a transatlantic agreement depends on the ability of the United States to reduce the adverse impact on trade and investment of non-tariff barriers. The HLWG recommends that the two sides “explore new means of addressing these “behind-the-border” obstacles to trade, including, where possible, through provisions that serve to reduce unnecessary costs and administrative delays stemming from regulation, while achieving the levels of health, safety, and environmental protection that each side deems appropriate, or otherwise meeting legitimate regulatory objectives”.

Both sides agree on the importance of establishing processes and mechanisms to reduce the costs associated with regulatory differences by promoting greater compatibility, including, where appropriate, harmonisation of future regulations, and to resolve concerns and reduce burdens arising from existing regulations through equivalence, mutual recognition, or other agreed means, as appropriate.

The HLWG thus recommends that the two sides should seek to negotiate:

- An ambitious “SPS-plus” chapter, including establishing an on-going mechanism for improved dialogue and cooperation on addressing bilateral sanitary and phytosanitary (SPS) issues. The chapter will seek to build upon the key principles of the World Trade Organization (WTO) SPS Agreement, including the requirements that each side’s SPS measures be based on science and on international standards or scientific risk assessments, applied only to the extent necessary to protect human, animal, or plant life or health, and developed in a transparent manner, without undue delay.

- An ambitious “TBT-plus” chapter, building on horizontal disciplines in the WTO Agreement on Technical Barriers to Trade (TBT), including establishing an ongoing mechanism for improved dialogue and cooperation for addressing bilateral TBT issues. The objectives of the chapter would be
to yield greater openness, transparency, and convergence in regulatory approaches and requirements and related standards development processes, as well as, at the same time reducing redundant and burdensome testing and certification requirements and enhance cooperation on conformity assessment and standardization issues globally.

- Cross-cutting disciplines on regulatory coherence and transparency for the development and implementation of efficient, cost-effective, and more compatible regulations for goods and services, including early consultations on significant regulations, use of impact assessments, periodic review of existing regulatory measures and application of good regulatory practices.

- Provisions or annexes containing additional commitments or steps aimed at promoting regulatory compatibility in specific, mutually agreed goods and services sectors, with the objective of reducing costs stemming from regulatory differences in specific sectors, including consideration of approaches relating to regulatory harmonization, equivalence, or mutual recognition, where appropriate.

- A framework for identifying opportunities for and guiding future regulatory cooperation, including provisions that provide an institutional basis for future progress.

3.2 Agricultural Issues and Impacts

3.2.1 EU-US agri-food trade

Trade in agricultural products between the EU and the US is substantial and has grown steadily in value over the last two decades. The most important feature of this trade has been the increasing proportion represented by intermediate and processed products; staple commodity exports form a decreasing proportion. It is for this reason that the EU’s exports to the US are significantly larger in value terms than US exports to Europe.

Trade between the EU and US represented some €616 billion in 2015, of which agriculture accounted for €31 billion; the EU had a total surplus of €123 billion with the US for trade in goods and a surplus of over €7 billion in agricultural goods, thanks to exports of EU high-value added products, such as wine, spirits and other beverages.
Over the past 20 years, the annual value of total EU agricultural exports (including forestry and fisheries products) to the US has grown from $5.7 billion in 1992 to a high of $17.8 billion (around €14bn) in 2012 – see Fig 3.1. Close to two-thirds of the EU total value has consisted of consumer-oriented products, with the largest components being beverages and snack foods. An additional 27% of the total EU export value has resulted from intermediate products, with the largest categories being essential oils and vegetable oils. Bulk commodity shipments now account for only 2% of the total.

**Figure 3.2: EU28 agri-food imports from US (€bn)**
Chapter 3 EU and Global Preferential Trade Agreements Review 2016: Implications for agricultural trade

The corresponding annual total value of US agricultural exports to the EU has grown from $9.7 billion in 1992 to $12.1 billion in 2012 (see Fig 3.2). In recent years, consumer-oriented products, with tree nuts the most important, have made up approximately 40% of the US export total. Intermediate products, such as animal feed and vegetable oil, have been roughly a quarter. Bulk commodities have accounted for about one-fifth of the US total value of exports to the EU.

But despite these increases, for both potential partners the value of agricultural exports has increased substantially more to other destinations than to each other, particularly in recent years. From 2002 to 2011, EU food and agricultural exports to the US increased by almost a third in value, but while the €12 billion in EU exports in 2002 accounted for 20% of the nearly €58 billion of total global exports in that year, the €14 billion in exports in 2011 represented only 13% of total exports of €105 billion.

For the US, the trend is similar; the value of agricultural exports to the EU in 2002, at $8 billion, was 13% of global exports of $61 billion. But by 2012, US agricultural exports to the EU, of $12 billion, were only 8% of global exports (including to the EU) of $154 billion.

However, while shares of total agriculture and food trade in each other’s markets as compared with the rest of the world may have declined in recent years, they do both remain large outlets for each other’s food and agricultural exports. The US continues to remain the EU’s biggest market for agricultural exports, while the EU is the fifth biggest market for the US. Significantly, the gains of recent years have been in finished foods – the area where both blocs have the most to gain from removal of NTBs.

Finished products form close to 80% of total EU main agricultural exports to the US. In 2012 the EU sold €11.6 billion worth of final goods and €2.1 billion worth of intermediate products to the US market. Commodities have only a minor share in EU exports to the US - only €0.6 billion in 2012.

Alcoholic beverages lead the export totals. Wine was the major EU export product in 2012 with a total value of €1.9 billion (€2.5 billion when sparkling wine is included). It was followed by beer (€1.2 billion), whiskies (€1 billion) and vodka (€0.8 billion). Other important major finished food products were cheese, spirits, olive oil, liqueurs and certain food preparations.

3.2.2 Tariffs

Despite the emphasis of the TTIP negotiations on ‘behind the border’ issues, tariffs are still important in the agriculture and food sectors. Unsurprisingly, it is the so-called ‘sensitive’ commodities which are likely to form major bones of contention.

The combined EU-US High Level Working Group (HLWG) on the negotiations did propose a comprehensive trade agreement that would eliminate a substantial number of duties as from the date of implementation. According to the WTO’s tariff profiles, the average final bound duty on agricultural products currently entering the US is 4.9% ad valorem. Nearly 33% of US agricultural tariff lines are duty free already and an additional 43% are between zero and 5%. Thus, 76% of US agricultural tariff lines are at 5% or less. Tariff-rate quotas affect 4.5% of US agricultural tariff lines, and 2.9% have special safeguard measures in place.
Table 3.1: Analysis of US & EU tariffs on food and agricultural products

<table>
<thead>
<tr>
<th>Product Group</th>
<th>US</th>
<th>EU27</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average final bound duties</td>
<td>Duty free</td>
</tr>
<tr>
<td></td>
<td>% ad valorem</td>
<td>% total tariff lines</td>
</tr>
<tr>
<td>Animal products</td>
<td>2.4</td>
<td>31</td>
</tr>
<tr>
<td>Dairy products</td>
<td>19.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Fruit &amp; veg</td>
<td>4.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Coffee, tea</td>
<td>3.2</td>
<td>53.5</td>
</tr>
<tr>
<td>Cereals + products</td>
<td>3.5</td>
<td>20.8</td>
</tr>
<tr>
<td>Oilseeds, fats, oils</td>
<td>4.2</td>
<td>27.6</td>
</tr>
<tr>
<td>Sugars &amp; confect.</td>
<td>16.9</td>
<td>2.9</td>
</tr>
<tr>
<td>Beverages &amp; tobacco</td>
<td>16.3</td>
<td>27.0</td>
</tr>
<tr>
<td>Cotton</td>
<td>4.7</td>
<td>38.3</td>
</tr>
<tr>
<td>Other ag. products</td>
<td>1.1</td>
<td>62.0</td>
</tr>
</tbody>
</table>

Source: World Trade Organisation

The EU’s tariff incidence is greater. Average final bound tariff rates on agricultural imports is 13.8% ad valorem. Duty-free lines are however similar to those of the US. Approximately 32% of the EU’s agricultural tariffs lines are at zero, and an additional 10% of tariff lines are five percent or less. Therefore, roughly 42% of the EU’s agricultural tariff lines are at 5% or less. Tariff-rate quotas are more prevalent, affecting 11.3% of EU agricultural tariff lines, and 23.9% have special safeguard measures in effect.

Table 3.1 provides more specific information on average tariffs and the percentage of lines that are duty free for the EU and US for various agricultural product groups. Tariffs are relatively high for dairy products, sugars and confectionery, and beverages and tobacco. The EU also has relatively high rates applied to the categories of animal products and cereals and preparations.

3.2.3 Domestic Agricultural Policy and Market Access

Although there is an unwritten agreement that the TTIP negotiation is not the forum for any fundamental reform of agricultural support policy, it would be surprising if there were not considerable argument on this issue.

While it is generally acknowledged that support policy reforms can only be achieved effectively on a multilateral basis, the underlying support policies operated by the EU and the US are likely to influence the FTA negotiations, especially in the area of market access. What is most important is that the farm support policies operated on both sides of the Atlantic are no longer dependent upon border protection for their effective operation. The support of farm incomes has been largely decoupled from the market.
3.2.3.1 US Domestic Support and Protection

As a result of the policy changes of the last two decades, most of US agricultural production is not directly government subsidized. According to the US Department of Agriculture, only about 37% of all US farms now receive government payments. The entire sectors for meat and fruit and vegetable production receive virtually no federal government support. For most of the subsidized staple products there is one basic structure, which covers primarily grains, soyabeans and cotton. Under this structure the US Government makes payments if the price of a crop falls below certain levels.

In addition to the US system of price-triggered payments, most of the producers of major crops receive the so-called direct payment, which is decoupled from current production. The major programme for supporting crop production does not oblige the government to intervene in the market and thus acquire stockpiles of surplus commodities. Production of these government-supported commodities is so large and regarded as so efficient that they can be produced more cheaply than potential imports.

The two notable exceptions to this approach are dairy products and sugar. Each of these benefits from what has come to be regarded as the ‘traditional’ approach to market price support. The US Government sets a market price for milk and for sugar, and is committed to intervene in the market and acquire stocks if the domestic market price falls to the support price level. In the case of milk this is done through purchases of butter, cheese, and skim milk powder. In practice, the government has many times purchased and held stocks of dairy products or sugar over the last several decades.

This manipulated domestic market for both dairy and sugar is protected from dilution by imports through tariff-rate quotas with very high over-quota duties. Thus import protection for dairy and sugar products remains an essential element of US agricultural policy. Substantial increases in imports would be likely to lead to significant government outlays and could even make the support programmes completely unsustainable. The dairy and sugar sectors are supported by powerful agriculture lobby groups, traditionally highly effective in pursuing their policy objectives with Congress and the Administration.

In line with the 1994 URAA commitments, the US provides access through tariff-rate quotas for many dairy products, sugar and sugar-containing products. However, it is interesting to note that in recent years, the US tariff-rate quotas for many dairy categories have not been filled. In its FTAs, the US has usually expanded the quantity of duty-free access through a tariff-rate quota over an extended time period, ending with either unlimited access, a specific annual growth factor for perpetuity in the duty-free quantity or a provision to discuss additional market access.

With regard to other products, US officials in the agricultural trade policy area have not been greatly concerned about import protection beyond the dairy and sugar sectors. There are some other individual tariffs that have been considered to be important (and politically) sensitive. These include the import duties on orange juice, canned fruit and similar items.
Concerning the future of US agricultural policy, it is likely that it will take the form of continuing state-financed bolstering of farm incomes. Significantly however for international acceptability or otherwise, the 2014 Agriculture Act concentrates on income support rather than production support. This approach is similar to the EU’s single farm payment, but instead of taking the form of a fixed payment, it will fluctuate with the rise and fall of market returns from year to year. It is to that extent less ‘decoupled’ than the EU income subsidy, and therefore more vulnerable to attack in any multilateral negotiation.

The most recent US Farm Bill repeals the existing crop subsidy programmes, including direct and countercyclical payments, and redirect substantial funds – an average $9 billion or more a year for the next ten years - to an expanded crop insurance programme. While operated by private companies, the insurance will be bolstered by a massive contribution from the US Treasury.

The direct and countercyclical payments to farmers paid under previous Farm Bills have been abolished. The direct payment programme provided subsidies based upon historical acreage and yields, while the countercyclical payment programme provided support to counter the rise and fall of farm prices. These mechanisms are replaced with two new programmes involving an expanded federally-subsidised crop insurance.
For eligible crops, farmers will be required to choose between two new programmes, Price Loss Coverage or Agricultural Risk Coverage. There will be an irrevocable choice that will apply for the full five years of the new farm bill. Price Loss Coverage will provide payments if market prices fall below established reference prices. Agricultural Risk Coverage will provide payments if actual crop revenue falls below established revenue guarantee. Payments will only be made when market prices or crop revenue fall below threshold amounts.

Payments will be capped. The most a person or farm business can receive is $125,000 per year or $250,000 for a married couple. A person or entity is not eligible if their three-year average adjusted gross income exceeds $900,000.

A similar policy rearrangement will apply in the dairy sector. The 2014 Act repeals the Dairy Product Price Support and Milk Income Loss Contract (MILC) programmes. These will be replaced with a new Margin Protection Programme for Dairy Producers, which will be managed by the Department of Agriculture and operate like an insurance policy. Payments will be made to dairy farmers based on the difference between the price of milk and the cost of feed to produce the milk. Dairy farmers will be able to elect different coverage levels between $4 and $8 per hundredweight.

Given the clear market distorting effect of this latest policy and the substantial taxpayer contribution to its operation, it is difficult to see how the US can justify its intransigent attitude in the Doha negotiation to the Indian Government’s relatively modest support for its peasant farmers.

3.2.3.2 EU Domestic Support and Protection

In the EU, agricultural policy has traditionally been characterised by high price support and intensive market intervention. Domestic markets were shielded from international price developments through variable import levies and export subsidies. In a purely technical sense this regime worked reasonably well as long as the EU was a food importer. This policy inevitably brought the EU into conflict with other food exporting countries. The level of price support was so high, and productivity in agriculture grew so rapidly, that the EU soon became an agricultural exporter of major temperate zone agricultural products, in many cases incorporated in processed foods. As surpluses on EU markets expanded, the CAP imposed a rapidly growing burden on the EU budget, for heavy expenditure for both domestic market intervention and export subsidies.
The beginning of the end for this policy approach was reached with the 1994 Marrakech WTO agreement. In the subsequent policy adjustment, the level of price support was reduced for a growing number of products, farmers were compensated through direct payments, and these payments were increasingly decoupled from production decisions.

While a large part of EU agriculture still operates behind relatively high levels of import protection through tariffs, they do not provide the high level of protection provided by the variable levy system which operated prior to 1994. Due to the alignment of EU prices for most agricultural products with those on the world market in recent years, export subsidies have virtually disappeared, although the legislation enabling their payment if market conditions require remains in place. Direct payments now provide the main official support to farm incomes in the EU. The balance in the CAP has now shifted from market price support to direct income support. It is now generally accepted that market forces should be allowed to operate more or less freely on the EU market, provided that farm incomes are supplemented through direct payments. In the recently concluded negotiations on the CAP for the period 2014-20, the focus was on the future of direct payments – their distribution regionally and across income groups.
The combination of CAP reforms and higher world market prices for major food commodities has resulted in a marked reduction in the level of farm support in the EU, (as measured by the OECD’s Producer Support Estimate (PSE – see Fig 3.4)). At the same time, however, farm support in the US has also declined. In 2011, the EU’s PSE (18%) was still a little more than double that in the US (8%), although data from 2012 showed that agricultural support as a percentage of GDP was actually lower in the EU than in the US (see Fig 3.5).

Figure 3.5 Total support estimate as a percentage of gross farm receipts

![Graph showing total support estimate as a percentage of gross farm receipts]

SOURCE: OECD Notes: 1. EU27 for 2013 and EU28 from 2014 when available. 2. The OECD total does not include the non-OECD EU member states.

*The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Meanwhile, the share within the overall PSE of policy mechanisms that can be considered as having the potential to distort production, markets and trade, such as support based on output and input quantities and payments requiring production, in the overall PSE is now smaller in the EU than in the US, according to the OECDxxv. Other policies that can be described as being more ‘decoupled’ from production and hence less distorting have a larger share in the EU’s overall farm support than in the US (see graph) A number of product sectors still benefit from high import protection. This is particularly true for beef and veal, and for sugar. Support to the sugar sector in the US is however, even higher than in the EU.

In the TTIP negotiations with the US, the EU may expect particular difficulties on beef, while the US is potentially vulnerable on sugar. It should also be noted that the level of product-specific support for milk is higher in the US than in the EU. Potential conflict lies in the EU’s interest in opening up US markets for dairy products, in particular cheeses, where the EU also feels it has quality advantages.
In addition to a number of rather high tariffs, reflecting the sensitivity of the respective product sectors, the EU is also still currently engaged in market management for milk and sugar through production or marketing quotas, although both schemes are now set to disappear. The EU’s domestic milk quota system will be abolished from March 31, 2015, which will lead to increased production and possibly pressure to export more to third countries. However, the EU’s internal prices for dairy products are now fully linked with international prices, which are likely to remain strong in the coming years.

Meanwhile, EU sugar quotas will end in 2017. If world prices for sugar return to their recent high levels there is the possibility that the EU will move from its current position of being a net importer to being once more a significant net exporter. For this reason, the EU could well be pressing the US to open up its sugar market during the negotiations. The problem for the EU would however be the significant pressure of high-fructose corn syrup (HFCS) on the US sweetener market.

3.2.4 The regulatory obstacle to agricultural trade liberalisation

It is generally acknowledged – indeed it is glaringly obvious from the outset – that there will be no transatlantic trade agreement unless the thorny issues of non-tariff barriers to trade in food and agricultural products between the two regions can be settled in some way. Beef production hormones, genetically modified crops and sanitary treatments for poultry meat are only the most prominent of the issues that have dominated Brussels and Washington disputes over the last two decades.

The regulatory area is where the highest potential economic benefit is expected to be gained in the trade and investment negotiations; it is also the area where the greatest differences lie between Brussels and Washington. In today’s transatlantic trade relationship, the most significant trade barrier is not the tariff paid at customs, but so-called ‘behind-the-border’ obstacles to trade, such as different safety or environmental standards. Currently, producers who want to sell their products on both sides of the Atlantic often have to pay for and comply with procedures twice to get their products approved. A primary goal of this trade deal is to reduce unnecessary costs and delays for companies, while maintaining high levels of health, safety, consumer and environmental protection.

Sanitary and phytosanitary (SPS) issues and their impact on trade are the most difficult part of the FTA agriculture negotiations. Both the EU and US are party to the World Trade Organization’s (WTO) SPS agreement, which states that measures taken to protect human, animal or plant life or health should be science-based and applied only to the extent necessary to protect life or health. However, EU policy is guided additionally by the ‘precautionary principle’ and the concept of “other legitimate factors.” The definition and application of the ‘precautionary principle’ remains a major bone of contention between Washington and Brussels.

Though less specific, US interpretation can also be modified by national pressures. Internationally agreed conditions can be interfered with by political considerations in scientific decision making on both sides of the Atlantic. US industry interests are pressing the Administration to concentrate on regulatory issues in the negotiations. US officials emphasise that the scope of the agriculture negotiations must be comprehensive and that the FTA should effectively address the many outstanding issues in the SPS area as well as create a foundation for avoiding future problems. For EU agriculture, top priorities will include the protection of geographical indications (GIs) and better access to the US market for dairy products. Negotiators are under
constant pressure from non-agricultural constituencies in the EU on issues such as animal welfare, sustainable development and biotechnology.

The seriousness of the pressure on the US Government to concentrate on the non-tariff barrier issue may be judged from the fact that seventy-six members of the US Congress, representing agribusiness constituents, have lobbied the US Trade Representative (USTR) to make SPS standards “fully enforceable” in TTIP through a dispute settlement mechanism that would “go beyond” the dispute settlement mechanism of the WTO. In their letter to the USTR, the representatives make clear that they want the principle that agribusiness companies should have legal rights of recompense built into the agreement. They want the right to sue EU member state governments (or the US government) over SPS regulations and implementation measures through the investor-state mechanism. It should be noted however that hitherto the USTR has been unwilling to apply an investor state mechanism to SPS disputes in other trade agreements.

Were this principle to be accepted, it would create considerable problems for several EU countries. EU member states are required to accept the scientific opinions of the European Food Safety Authority (EFSA) as binding, unless a government can show that EFSA has failed to consider relevant science in any particular case. NGOs and some EU member states often argue that EFSA risk assessments are incomplete, since they do not review the ecological effects of, for example, GMOs, such as the rise of pesticide-resistant “superweeds,” but instead only review toxicological literature and data supplied by the companies involved.

On many of the ‘behind the border’ issues in agriculture there is considerable difference between the member states. GM crops and organic standards are a good example. Countries such as Italy and Austria, which claim to have invested heavily in certified organic agriculture, are concerned that it will be undermined by the failure of the European Commission and the United States to develop enforceable rules to ensure that organic crops will not be ‘contaminated’ by transgenic crop types. Conversely, the United Kingdom is keen to see the approval and commercialization of GM varieties.

Another area of dispute between EU member states where a common front in the TTIP negotiations will be difficult to maintain is so-called ‘Novel Foods’. Since the failure in 2011 of the Commission, Council of Ministers and the European Parliament to agree on the terms to revise the 1997 Novel Foods Regulation, EU law on new food technologies food has been split between the positions of agribusiness and consumer group interests. Because of this, the Commission has not advanced any product-specific SPS related proposals. Instead, its strategy appears to be to use “horizontal” SPS rules applying to all products to circumvent the Novel Foods debate for Transatlantic agribusiness firms.

In the US there are similar conflicts complicated by inter-institutional rivalry. For example, in the US, food safety is regulated by a patchwork of over thirty laws administered by fifteen different agencies. Because of the inefficiencies and vulnerabilities in this structure, the General Accountability Office (GAO) has made scores of recommendations for consolidating the system to reduce US vulnerability to foodborne illness. Recommendations for consolidating all food safety authority in an agency with no statutory authority for marketing have been staunchly resisted by vying interest groups.
3.2.5 The proposed agricultural chapter

TTIP aims to facilitate the export and import of agricultural goods between the EU and the US, and is due to reduce customs duties and other barriers to trade where possible. In doing so, the EU's objective is that the TTIP outcome respects any divergence between the US and EU agricultural models and standards. The EU is insistent that it will not affect the parties' right to regulate, and to set their own standards where this is seen as politically appropriate or necessary.

Trade in agricultural goods will be covered by general TTIP provisions, such as those on dispute settlement, technical barriers to trade (TBT), and sanitary and phytosanitary (SPS) measures. It is hoped that the application of these rules to agricultural products, wine and spirit drinks, and geographical indications will create a better legal framework for bilateral trade between the EU and the US. But there will also be a specific regulatory framework for the agriculture sector.

The EU proposes that the Chapter on Agriculture includes three main elements, namely:

- Provisions on general disciplines related to agriculture;
- Provisions on trade in wine and spirit drinks;
- Provisions on non-tariff issues.

The EU has been stung by the vehement criticism of the TTIP negotiating process by civil society groups who have seen the talks as a possible precursor to a weakening of the EU’s environmental and food safety standards under pressure from US ‘big business’. In response, it has set out a number of key principles which it says must govern EU-US cooperation on existing or future regulations. This includes maintenance of the EU’s precautionary principle, acknowledgement of the principle that any regulatory cooperation must respect the EU’s legislative processes and regulatory autonomy, and transparency at all levels.

In terms of market access, the overall objective is to eliminate or reduce barriers on EU exports of goods to the US, and vice-versa, with a view to lowering the cost doing business with the US.

The majority of tariffs in all sectors, including agriculture, will be eliminated on Day 1 of the agreement's entry into force. Critically however, some tariffs on products deemed ‘sensitive’ will be eliminated over a longer time frame, or limited via tariff-rate quotas. It is understood that 3% of all agricultural tariff lines will be treated as ‘sensitive’, although the products concerned have yet to be clearly identified, and the parties have yet to determine what treatment these products should be afforded.

The parties will also be obliged not to impose any export taxes.

Geographical Indications

Geographical Indications (GIs) are one of the most contentious elements in TTIP. The EU is insisting on extending recognition of domestic GI system as part of TTIP, so as to provide adequate product name protection for producers of regional speciality foods, whereas the US is rather sceptical and sees the risk of compromising the interests of some US food producers.
At the moment, the EU and the US protect names of origin differently: the EU as ‘geographical indications’, or GIs, the US as trademarks. The issue is important because the United States is by far the leading destination country for EU GIs, accounting for 30% of total food and beverage imports from the EU. But the EU believes that the current US system, and the way it is enforced, means products may be sold in the US using names of origin from a particular region in the EU even if they were not actually produced there.

The EU has included clauses relating to GIs in many of its most recent agreements, including the EU-Canada deal, and it is hopeful that it will be able to do the same under TTIP.

**Wine and spirits**

The EU has tabled provisions related to wine and spirit drinks, that are meant to be integrated into the overall Chapter on Agriculture. Some basic rules (such as protection of names, labelling) should apply to both wine and spirits, while some articles (e.g. on winemaking practices) only apply to wine.

In 2015, the EU exported €3.3 billion worth of wine to the US and €5.3 billion in spirit drinks (including beer), recording a positive trade balance in these products of €7.3 billion. The EU and the US have already concluded two bilateral agreements on wine and spirit drinks.

However, the EU wants to include a specific wine and spirits agreement within TTIP, mainly in order to ensure that such rules would be covered by general TTIP provisions such as those on dispute settlement, technical barriers trade (TBT) and sanitary and phytosanitary (SPS) measures. The application of these rules to wine and spirit drinks would create a better legal framework for bilateral trade of wine and spirit drinks products.

It also wants to build on the existing agreements by extending the scope of these agreements, and the number of EU wine and spirit drink names protected in the US.

### 3.2.6 Conclusion

The planned TTIP offers a significant opportunity for agriculture and food trade expansion for both EU and US traders - in a free trade area covering almost half the global GDP. At the same time, it is probable that the establishment of the TTIP would be unlikely to harm the level of food and agricultural imports from other exporting countries to either Europe or the US. Indeed, the new FTA could well stimulate increased trade from these third countries. Increased economic growth resulting from formation of the FTA would be likely to increase demand for quality finished food products - particularly those having greatest elasticity of demand - EU speciality cheeses and Californian wines, for example.

A major objective of the TTIP is to increase acceptance by both parties of each other’s trade definitions and rules of origin; this will be a major gain for the food and agriculture sectors of both partners.

The principle objective of the establishment of the new trading relationship will be the elimination of non-tariff barriers, a prime issue for the food and agriculture industries on both sides of the Atlantic. Processed food trade in both areas will be major beneficiaries of any such removal of barriers. It is however probable
that achievements in this area will be of greater benefit to US exporters than to their European counterparts. US alcohol and tobacco exports, for example, face more than three times the transaction cost of NTBs than EU exports of similar products to the American market. Gains in this area are more important for the US than for the EU.

A major objective, if not the major objective of the establishment of the TTIP, according to the Joint High Level Working Group is to achieve what has become to be described as a ‘WTO-plus’ agreement, giving greater advantages in unhampered market access than currently provided under WTO rules. The HWG is aiming to establish an ambitious “SPS-plus” chapter, including mechanisms for continued improved dialogue and cooperation on addressing bilateral sanitary and phytosanitary (SPS) issues. This will be intended to extend the key principles of the World Trade Organization (WTO) SPS Agreement, including the requirements that each side’s SPS measures be based on scientific international standards.

Removal of barriers to trade is probably more important to the EU than to the US - despite the rhetoric from Washington on the issue. This is because the EU’s exports of finished food products to the US dominate its transatlantic food trade. EU exports of finished and processed products, at around €14 billion a year, are close to three times as great as the trade in finished products in the other direction. Apart from feed grains, EU imports of basic agricultural commodities form a very small proportion of total trade.

Despite the predominance of the ‘behind the border’ issues in the TTIP, in the agriculture sector tariffs remain important. While the US has much lower tariffs on agriculture and food products than the EU, both sides maintain high tariffs on dairy products and sugar. About a third of agrifood tariff lines for both the EU and the US are tariff free. The reduction in tariffs on dairy products entering the United States is a particular issue for the EU.

While government agricultural support is theoretically not up for negotiation in the FTA, there is little doubt that there will be contention over the nature of support for some commodities. Both the EU and the US have substantially changed the nature of agricultural support over the last decade in response to multilateral agreements. Both, however, substantially support their agriculture and food sectors; this is likely to be an area of weakness in negotiations of trade deals with third countries. Support and market manipulation remain significant in both the dairy and sugar sectors. Changes in the EU sugar regime could lead to the Union becoming a significant sugar exporter in the later years of the current decade. This is likely to bring the EU into conflict with the US on the issue of the protection of high fructose corn syrup production in the US.

Undoubtedly, regulatory issues are likely to be the biggest obstacle to agreement in the food and agriculture sectors. For the agriculture sector, negotiations are likely to centre on sanitary and phytosanitary (SPS) issues and their impact on trade. While both the EU and US are in agreement with the WTO’s SPS agreement, their interpretations differ.

The WTO SPS agreement emphasises that all measures should be science-based, but the definitions and interpretations of science differ. In particular, the EU’s operation of the ‘precautionary principle’ is a deeply disputed issue between Washington and Brussels. Both sides will have to deal with the issue of political interference with the interpretation and administration of SPS matters. The US administration of these NTBs is complicated by the intervention of political interest groups, while in the EU the tendency of member state governments to follow their own interpretation of EU rules is a further complication. Restriction of the production and marketing of GM crops is an outstanding example of the continuing areas of transatlantic disagreement.
4. **EU bilateral agreements with third countries**

The European Union already has in place preferential trade agreements with nearly fifty partners. At the end of 2013 the EU had eleven trade negotiations in force and several more trade and development negotiations (EPAs) in progress. At that same time, the EU had also completed negotiations on eleven further trade agreements that had yet to enter into force.

The EU’s Free Trade Agreements can vary according to the partners’ preferences - for example, a Comprehensive Economic Trade Agreement or an Economic Partnership Agreement. Some trade agreements are part of broader political cooperation agreements, where trade is one of several economic and political areas covered: for example, the recently concluded Association Agreement with Central America. If the EU already has an overall agreement framework for political cooperation with the country concerned, it is more likely that the Free Trade Agreement will be a stand-alone arrangement.

Typically, a free trade agreement contains chapters on each topic and has a number of annexes. These include the schedule of tariff liberalisation tariff-line by tariff-line, as well as sectoral agreements and Protocols.

In addition to a large number of ‘classic’ free trade pacts, Free Trade Agreements are a core component of many Association Agreements and Customs Unions (Andorra, San Marino, Turkey). Hence the EU also has free trade deals in force with a number of countries and territories in Europe (Faroe Islands, Norway, Iceland, Switzerland, the former Yugoslav Republic of Macedonia, Albania, Montenegro, Bosnia and Herzegovina, Serbia), and the Southern Mediterranean (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia), as well as three with African, Caribbean and Pacific countries. Trade provisions of the agreement with Syria are currently not applied.

Trade in agricultural products is far from being completely liberalised in the EU’s FTAs. The EU and its trading partners retain many tariff barriers concerning market access. The agricultural parts of EU FTAs are thus the result of a conflict between a push for trade liberalisation on the one hand, and pleading by national and sectoral interests to limit market access on the other hand.

Analysis of the different EU FTAs shows that the EU excludes, wholly or partially, important products from the targeted free trade. The EU’s domestic protection and support pattern for certain agricultural products is the key factor determining these exceptions. However, for those products that are excluded from liberalisation, the EU grants important concessions by admitting market access within the limits of tariff rate quotas (TRQs).

Two different approaches for liberalisation of agricultural trade can be discerned:

- Defining the products that benefit from preferential market access (e.g. the Mediterranean agreements). This ‘positive list’ approach limits the overall coverage of products. It defines the first steps of the liberalisation process, though an overall roadmap is lacking. Flexibility with respect to further steps to an advanced liberalisation is granted by a review clause.
Defining timetables for the overall liberalisation process (e.g. South Africa, Mexico, Chile and Lebanon for imports into the EU). These FTAs define timetables with differing start dates and lengths of the liberalisation process. Again, important products are excluded and these are favoured by concessions within the limits of TRQs. Allocating agricultural products to different timetables or exemptions from free trade and restricting market access to TRQs increases the controllability of the liberalisation process. Additional flexibility is achieved by review clauses concerning products that are (still) exempted from free trade.

The agreements with South Africa, Mexico and Chile cover a wider range of issues and products than is typical, especially those connected to trade of wine and spirits. The Chile agreement includes additional provisions concerning cooperation to enhance sustainable agriculture and capacity building, possibly providing ways to intensify bilateral relations beyond trade liberalisation.

4.1 The EU approach to agricultural trade liberalisation in FTAs

The preferences granted to agricultural products in EU Free Trade Agreements are likely to be similar to WTO provisions. In recent EU free trade agreements (FTAs) with developing countries, agricultural liberalisation is still limited compared to that of industrial products. For agricultural produce, the general aim of free trade is subject to numerous exceptions, and any advanced concessions are strictly defined for individual products and countries.

In the seven Mediterranean (MED) agreements and the FTAs concluded with South Africa, Mexico and Chile, the following six instruments are applied, separately or in combination, to achieve trade preferences for the countries concerned beyond the provisions of WTO most-favoured-nation (MFN) status:

1. Tariff concessions offering either complete or partial tariff reductions. For those products charged with both ad valorem and specific duties, a partial reduction is often achieved by simply abandoning the ad valorem component. For the EU, specification of the tariff reduction is usually related to WTO MFN rates. For the EU’s trading partners, a tariff reduction normally refers to actually applied tariffs. These applied tariffs may be lower than the maximum (bound) tariffs agreed in the WTO. Some FTAs do not specify the tariff reduction itself but rather the final duty that is charged on imports from the EU.

2. Tariff rate quota concessions: these are tariff reductions for defined quantities of certain products. In order to tailor them to the individual needs of the parties, there may be seasonal limitations of favoured imports, or adjustments of quantities by a fixed annual growth rate or by a rate to be decided flexibly based on an annual review.

3. Safeguard clauses can be common for all products, or special safeguards may be defined for agriculture. Safeguards can be applied to both imports and exports. On imports, safeguard measures can be triggered based on quantity or price. For instance, the EU can make concessions for certain fruits and vegetables by lowering the entry price. On exports, shortage clauses similar to GATT Art. XI define criteria for possible export restrictions, such as a decrease of domestic food availability.
Specific rules of origin for agricultural products ensure the exclusive application of preferences only to FTA members. Criteria are defined for determining whether a product is “wholly obtained”, i.e. if plant products are harvested and animals are born and raised completely within one partner country. For processed products, the “import content rule” defines ratios for the value of imported inputs that are tolerated within “originating” products. In most EU FTAs, this ratio is set at below 10% of the ex-works price. For some processed agricultural products, thresholds larger than the standard 10% apply. Working and processing, such as transporting, sorting and classifying, packaging, affixing marks, labels or logos, mixing products, and slaughter of animals, are considered insufficient for conferring originating status to products with imported content. Bilateral cumulation allows the contracting countries to cumulate origin. This encourages bilateral trade in intermediate products between the EU and the contracting partner.

Only limited provisions on protecting certain Geographical Indications (GIs) are found within certain FTAs, since this is still under negotiation at the WTO level.

Options for flexible adjustments to a partner’s market access are offered by two clauses:

- the ‘review clause’ commits the parties to examine in Association Committees further opportunities to enhance liberalisation in agricultural products, taking into account the sensitivities of trade in agriculture and domestic agricultural policies.

- the ‘flexibility clause’ allows partners to modify the agreement if one of the parties changes its domestic agricultural policies.

Other specifics summarise topics that are not common to all agreements. Domestic support is not part of the FTAs and therefore no domestic-support related provisions are found. In all agreements, the pattern of product coverage of liberalised imports into the EU reflects the degree of EU domestic protection and the risk, or existence, of internal surpluses for the respective products.

Here, three general rules apply: i) high domestic protection leads to a low willingness for tariff reduction, as this could undermine high domestic prices; ii) high domestic protection supplemented by risks of internal surpluses leads to additional restrictions on imports by not extending TRQs; iii) existing surpluses increase EU interest in improving its access to the markets of the contracting partner. These general statements define not only the EU’s strategic position but also the scope for bargaining for contracting partners.

### 4.2 The European Economic Area (EEA)

The European Economic Area agreement may be regarded as an extension of the customs union features of the European Union to its nearest European neighbours, namely Iceland, Liechtenstein and Norway. It therefore goes beyond the scope of free trade agreements. Significantly however, the EEA agreement does not include trade in agriculture and fisheries products.

The agreement entered into force on 1 January 1994. The EEA allows the EFTA States (other than Switzerland, which is not party to the EEA) to participate in the EU Internal Market on the basis of their application of Internal Market relevant acquis. All new relevant Community legislation is dynamically
incorporated into the Agreement and thus applies throughout the EEA, ensuring the homogeneity of the EU-
EFTA internal market.

The EEA Agreement is concerned principally with the four fundamental pillars of the Internal Market, ‘the
four freedoms’, i.e. freedom of movement of goods, persons, services and capital. But also ‘flanking
policies’, such as social policy, consumer protection, and environment policy, may be covered. The EEA
Agreement does not cover agriculture and fisheries. The Agreement allows for EEA-EFTA participation in
Community programmes and agencies related to the Internal Market, albeit with no right to vote. The EEA-
EFTA states also make financial contributions towards the reduction of economic and social disparities in
the EEA.

The Agreement covers most of the substance of the EU's economic relations with the EEA-EFTA States.
The updating of the Agreement through the incorporation of new relevant Community legislation generally
runs smoothly and thousands of legal acts have been extended to the EEA to date.

4.3 Free Trade Agreements already in place

4.3.1 Andean region FTA

The FTA with members of the Andean region, Colombia and Peru, has been provisionally applied with Peru
since 1 March 2013 and with Colombia since 1 August 2013. The EU is the second largest trading partner
of the Andean region after the US. It is expected that, once fully implemented, the deal with both Andean
partners will result in total tariff saving for European and Andean companies of more than €500 million per
year. The improved, more stable conditions for trade and investment are expected to boost trade and
investment between the two regions. The aim of the agreement between the EU and Colombia and Peru is
also intended to foster regional integration. Therefore, the door is still open for the other Andean countries –
Ecuador and Bolivia – to enter into the partnership.

4.3.2 EU-Korea Free Trade Agreement

The EU-Korea Free Trade Agreement entered into force in July 2011. This has been the first of a new
generation of free trade agreements that went further than ever before in lifting trade barriers and making it
easier for European and Korean companies to do business together. As the FTA has lowered import tariffs
for European products at the Korean border, EU exports to the peninsular country have grown strongly,
giving the EU a trade surplus with Korea for the first time in 15 years.

4.3.3 EU-Mexico Free Trade Agreement

Since the entry into force in October 2000 of this comprehensive agreement, total bilateral trade has
doubled, passing from €21.7 billion in 2000 to €47.1 billion in 2012. Subsequently, in the margins of the EU-
CELAC1 summit in Santiago in January 2013, the EU and Mexico agreed to explore the options for a
modernisation of the EU-Mexico Agreement. The new negotiations are expected to deepen the existing
provisions, but also cover areas not included in the existing agreement, such as services, investment, public
procurement, trade rules, etc.
4.3.3.1 Agricultural aspects of the EU-Mexico agreement

Mexico’s agricultural sector is characterised by a low share in GDP (4%) but a high share in overall employment (45%). The main Mexican products exported to the EU are coffee, vegetables and spirits. The major imports from the EU are oilseeds, dairy products and wine. Mexico initiated a major agricultural policy reform in the early 1990s affecting its most important crops, i.e. copra, cotton seed, barley, rice, soy, sorghum, sunflower, and wheat. Import controls and government direct price supports to producers were abolished, and subsidies to agricultural inputs, credit and insurance were drastically reduced.

The Global Agreement sets out a transition period of ten years for the implementation of all liberalisation commitments. For products subject to tariff concessions, as many as eight different liberalisation schemes (both complete and partial) are defined for both the EU and Mexico. In schedules which foresee complete liberalisation, the longest transitional periods for the EU and Mexico are nine and ten years, respectively. Products whose denomination is protected within the EU are excluded from trade liberalisation. This pertains especially to cheese and wine.

(2) Tariff rate quotas are conceded by the EU for imports originating in Mexico. No annual growth rate is defined, but the contracting parties can make further concessions according to a review clause. As for imports into Mexico, there are no concessions for those products that are excluded from trade liberalisation.

(3) A common safeguard clause exists, describing the requirements for implementing safeguard measures, timeframes for consultation and the need for compensation. A shortage clause defines conditions for justifying export restrictions similar to GATT Article XI.

(4) As for agriculture-specific rules of origin, general provisions for qualification as originating product apply and bilateral cumulation is valid. Geographical indications are tackled by the separate Agreement on the Mutual Recognition and Protection of Designation of Spirit Drinks. Mexico protects all European designations and the EU protects Tequila and Mezcal in accordance with existing domestic law.

(5) Options for flexible adjustments are offered through a review clause. This review clause is much more precise than those in other agreements. The clause provides for further liberalisation of agricultural trade after an evaluation by the Joint Council within the first three years of the agreement’s enforcement. The Global Agreement also explicitly mentions a review of the TRQs (also within three years), as well as of the EU’s protection of denomination (in accordance with developments in intellectual property rights). It further specifies that ‘where appropriate’ the relevant rules of origin shall be reviewed as well. No flexibility clause is defined.

(6) Other specifics concern the supplementing Agreement on the Mutual Recognition and Protection of Designation of Spirit Drinks.

In the Global Agreement the transition period for tariff reduction is ten years. But again some important products are excluded from tariff reduction. For some of the excluded products the EU concedes preferential market access within the limits of tariff rate quotas, whereas Mexico grants the EU no such preferential access. The problems of geographical indications are covered by an additional agreement wherein Mexico commits to protect all European designations and the EU commits to protect Tequila and Mezcal.
4.3.4 EU-South Africa Trade, Development and Co-operation Agreement

South Africa is the EU’s largest trading partner in Africa. The EU and South Africa concluded their Trade, Development and Cooperation Agreement (TDCA) in 1999, and the TDCA has been provisionally in force since January 2000. The Agreement established a free trade area that covers 90% of bilateral trade between the EU and South Africa. Liberalisation was completed by 2012. South Africa is now involved in further negotiations with the EU as part of the South African Development Community (SADC) EPA Group.

In South Africa the agricultural sector plays a minor role compared to the industrial sector in terms of GDP and employment (contributing 3% and 4%, respectively). South Africa’s main agricultural product is maize, followed by sugarcane and wheat. Major export commodities are citrus fruits, cane sugar and wine. Over half of the country’s agricultural exports originate from the Western Cape. Since 1994, several comprehensive reforms have affected the agricultural sector, including land reforms, labour market reforms, marketing policy and trade policy reforms. Trade in agriculture has increased through general deregulation and a further opening of the domestic market.

4.3.4.1 Agricultural aspects of the EU Agreements with South Africa, Mexico and Chile

Unlike the MED agreements, the agreements with South Africa, Mexico and Chile are characterised by the assumption of a general liberalisation within a predetermined period of time. Exceptions from liberalisation are accepted for sensitive products. For most agricultural products, tariff elimination is not achieved immediately but according to tariff reduction schedules. Each agreement defines a set of schedules with different starting dates for the elimination process and with different phase-out periods. Detailed annexes assign individual products to the different tariff reduction schedules and respectively to the exemptions. These three agreements cover a wider range of products than the MED agreements.

(1) Tariff concessions are characterised by an asymmetric and differentiated reduction of tariffs aimed to establish a free trade area for agricultural products. In the case of the TDCA:

- The transition period for the completion of the tariff reduction schedule is twelve years on the side of South Africa and ten years on the EU side.

- The reduction of duties takes place in six different reduction schemes in the case of the EU and four reduction schemes in the case of South Africa. Duties on the more sensitive products of the two parties are liberalised either partially or more slowly.

Products whose denomination is protected within the EU are excluded from trade liberalisation. This pertains especially to cheese and wine.

(2) Tariff rate quota concessions are implemented for some of the products that are excluded from the overall liberalisation process. Additionally, some quotas are established for those products that do not benefit from immediate liberalisation. Annual growth rates are defined.

(3) Specific agricultural safeguard clauses emphasise the sensitivity of agricultural markets and the right to take provisional measures in exceptional circumstances. Beyond that, agriculture is integrated into a
common safeguard clause which lays down requirements for applying the safeguards, applicable safeguard measures and procedures. Compared with the other agreements, South Africa has achieved more flexibility to initiate so-called “Transitional Safeguard Measures” during a transition period of twelve years.

(4) Regarding agriculture-specific rules of origin, some provisions concern the extension of “origin” to countries which are not joining the FTA. Products containing components from other African, Caribbean and Pacific (ACP) countries are defined as originating in South Africa if the value added in South Africa exceeds the imported ACP value. Beyond the value requirement, products need not undergo additional working or processing in South Africa. As for inputs originating in the Southern African Customs Union (SACU – South Africa, Botswana, Lesotho, Namibia and Swaziland), any ‘working or processing carried out within SACU shall be considered as having been carried out in South Africa, when further worked or processed there’. Flexible cumulation of origin across such a large number of third countries is a unique feature distinguishing this TDCA from other agreements.

Geographical indications are covered in the separate Agreement on Trade in Wine and the Agreement on Trade in Spirits. These agreements specify rules for some products traditionally produced and marketed under the same trademark in South Africa and in the EU. Besides the WTO-level negotiations on a multilateral register, South Africa’s transitional use of trademarks was integrated in the TDCA after strong negotiation. The key elements of these supplementing agreements are as follows:

- For sherry and port, the use of traditional names must be stopped within five years for any export marketing except for trade within the SACU and SADC (Southern African Development Community). Regarding the latter, such use must cease within eight years. Within twelve years, use of the names within South Africa’s domestic market must end.

- For spirits, use of the names Grappa, Ouzo, Korn, Kornbrand, Jägertee, Jagertee, Jagatee and Pacharan may continue during a transitional period of five years.

Products whose denomination is protected within the EU are excluded from trade liberalisation. This pertains especially to the cheese and wine listed within the TDCA itself.

(5) Options for flexible adjustments are included in the TDCA by means of both a review clause and a flexibility clause. The review clause states that within five years of the TDCA entering into force, further liberalisation steps shall be considered especially for those products that are excluded from total tariff reduction. The flexibility clause allows the parties, after agreement has been reached in the Cooperation Council, to amend the agricultural arrangements in the TDCA as a result of changes in domestic agricultural policies. Yet it also requires that the party amending the arrangements make liberalisation concessions at an equivalent level on imports from the other party.

(6) The TDCA contains a range of other specifics:

- Additional provisions are laid down in the aforementioned Agreement on Trade in Wine and Agreement on Trade in Spirits.
• A provision enables South Africa to offer an accelerated tariff reduction compared to the agreed time schedules. Accelerated reduction is coupled with the elimination of EU export refunds on the respective products. Implementation is to be decided by the EU.

• A general additional objective is cooperation on issues of (environmental) sustainability. Concrete measures – by means of knowledge transfers, capacity building and joint ventures – aim at modernising and restructuring the agricultural sector, enhancing the competitiveness of farmers from disadvantaged communities, diversifying output, developing cooperation in animal and plant health, and examining possibilities to harmonise SPS standards and rules.

As in the other agreements, important products are excluded from tariff reduction in the TDCA. Market access for a limited amount of those products is granted by TRQs. Further steps for liberalisation are considered in a review process five years after entry into force.

But there are some provisions particular to the South Africa TDCA. The transition period for tariff reduction is asymmetric with twelve years on the side of South Africa and ten years on the side of the EU. An accelerated tariff reduction coupled with the elimination of EU export refunds on the respective products can be offered by South Africa and agreed on by the EU. With respect to safeguards, South Africa has the right to impose transitional measures and thus can react relatively flexibly. As for rules of origin, special provisions refer to products from ACP countries and from the SACU. Flexible amendment is foreseen in response to changes in domestic agricultural politics, but the party that changes the arrangements has to balance possible disadvantages.

4.3.5 EU-Chile Free Trade Agreement

The EU and Chile concluded an Association Agreement in 2002, which included a comprehensive Free Trade Agreement that entered into force in February 2003. The EU-Chile Free Trade Agreement is broad and comprehensive and covers all the areas of EU-Chile trade relations. EU is Chile’s second largest source of imports, after the USA. The EU is also Chile’s third largest export market, after the recent rise of China as an important export market for the EU.

The Free Trade Agreement between the EU and Chile which entered into force in February 2003 led to a significant increase in trade in goods and services between the EU and Chile. In 2011 bilateral trade had more than doubled since 2003, passing from the initial €7.7 billion in 2003 to €18.6 billion in 2011. Apart from trade in goods and agricultural products, the agreement covers services, investment, government procurement, intellectual property rights, competition, customs procedures and, in annexed agreements, wine and spirits and SPS standards.

An Association Committee and Special Committees has been created within the framework of the EU-Chile Association Agreement. The committee meets once a year to deal with bilateral trade irritants and to assess further possibilities for widening trade and investment between the EU and Chile. The EU-Chile Association Agreement foresees that both parties will further liberalise trade in agricultural goods and services in the future. Discussions on the protection of geographical indications will also be important part of the deepening trade negotiations. Chile has a very wide network of free trade agreements.
Key EU imports from Chile include mining products such as ores and non-ferrous metals, mostly copper which has historically represented around 55% of total exports to the EU. The agricultural sector contributes up to a quarter of the total EU imports from Chile, notably as wines, fruit and vegetables, fish and wood products (cellulose and other). Important EU exports to Chile include machinery and electric equipment, transport equipment, chemical products, and fuel.

The agreement with Chile includes agriculture and rural sector cooperation as well as assistance from the EU in raising sanitary and phytosanitary measures in the agriculture and food sectors. The main features of these arrangements are:

1) Cooperation to support and stimulate agricultural policy measures in order to promote and consolidate efforts towards a sustainable agriculture and agricultural and rural development.

2) Cooperation on capacity-building, infrastructure and technology transfer, addressing matters such as specific projects aimed at supporting sanitary, phytosanitary, environmental and food quality measures, taking into account the legislation in force for both Parties, in compliance with WTO rules and other competent international organisations:

- Diversification and restructuring of agricultural sectors;
- The mutual exchange of information, including that concerning the development of the Parties’ agricultural policies;
- Technical assistance for the improvement of productivity and the exchange of alternative crop technologies;
- Scientific and technological experiments;
- Measures aimed at enhancing the quality of agricultural products and supporting trade promotion activities;

3) Technical assistance for the strengthening of sanitary and phytosanitary control systems, with a view to supporting as far as possible the promotion of equivalence and mutual recognition agreements.

4.3.5.1 Agricultural aspects of the EU-Chile agreement

Chile’s agricultural sector contributes a relatively minor proportion of the country’s GDP and employment (11% and 14%, respectively). Main agricultural products are cereals, fodder, sugar beet, potatoes and vegetables. Due to the inverted growing season, fruits have become a particularly important product exported to northern countries. Wine has also gained increased status as a key export product.

(1) The Association Agreement defines a transition period of maximum ten years for trade liberalisation of agricultural commodities and processed agricultural products. Regarding tariff concessions, there are four tariff elimination schedules in which the EU completely eliminates duties with transitional periods of zero, four, seven and ten years. In addition, duties are partially liberalised in four other product schemes. On the
Chilean side, liberalisation takes place in three schedules of zero, five and ten years, in which tariffs for the respective products are phased out completely. Besides TRQs, Chile has not committed to any further partial liberalisation schedules.

As in the Global Agreement, products whose denomination is protected within the EU are excluded from trade liberalisation. This is especially valid for cheese and wine.

(2) Tariff rate quotas apply for products excluded from liberalisation. An annual growth rate is specified per product. Quotas for meat increase by 10% of the original quantity. The rest of the quotas increase by 5% of the original quantity, except those for sugar confectionery, cocoa preparations and sweet biscuits, waffles and wafers, which do not increase.

(3) In addition to a common safeguard and shortage clause, a special safeguard clause for agricultural products is defined and extended to processed agricultural products, called the emergency clause. The clause contains provisions for measures that may be applied in case of emergency (e.g. raising tariffs to the pre-liberalisation level), as well as the timeframe for consultations before such measures enter into force (30 days) and regulations for immediate actions under exceptional circumstances (provisional measures for a maximum of 120 days). This clause concretises the case of emergency and admits the right to seek compensation to the exporting party.

(4) Regarding agricultural rules of origin the general provisions for conferring goods to origin status apply and bilateral cumulation is applicable. Elaborate processing requirements for originating agricultural products are listed in an Appendix.

(5) Options for flexible adjustments are integrated by means of a review clause (called the evolution clause), thus providing opportunities to further enhance liberalisation three years after the implementation of the agreement. No flexibility clause is included.

(6) Other specifics of the Association Agreement concern Annex IV on SPS measures and Annex V on wine. Moreover, economic cooperation objectives include domestic measures to enhance sustainable agriculture and agricultural development. Technical assistance related to productivity and food quality is envisioned, as well as projects to support compliance with SPS measures and to encourage conservation and improvement of the environment in the interest of sustainable development.

The Association Agreement sets out a ten-year transition period for tariff reduction for both parties. Corresponding to the agreements with South Africa and Mexico, some products are excluded from general liberalisation and subject to preferential market access by TRQs. A review process aiming at further liberalisation was to start three years after entry into force of the agreement. No flexible adjustment of the agreement due to changes in national policy is foreseen.

4.3.6 The Euro-Mediterranean Association Agreements (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Turkey)

The Union for the Mediterranean (UM) aims, according to the European Commission, “to establish a common area of peace, stability, and shared prosperity in the Euro-Mediterranean region”. EU-Southern
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Mediterranean relations at bilateral level are managed mainly through the Euro-Mediterranean Association Agreements. Nearly all countries in the UM have concluded Association Agreements with the EU. Preparations are ongoing to deepen these agreements through the establishment of deep and comprehensive free trade areas.

Deepening South-South economic integration is a key goal of the Euro-Mediterranean trade partnership. It is an essential element towards the establishment of a fully-fledged Free Trade Area. However, regional economic integration between Southern Mediterranean countries is still limited: total intra-regional trade amounted to €15 billion in 2009, one of the lowest levels of regional economic integration in the World.

The EU works with each of its Southern Mediterranean partners to support economic and social transition and reform, taking into account each country’s specific needs and characteristics. These programmes are funded under the European Neighbourhood Policy.

However, progress with agreements with some of the countries in the area is hampered by current political unrest in the region. Negotiations for a Framework Agreement between the European Union and Libya are currently suspended. Steps towards the signature of the initialled Association Agreement with Syria are currently suspended.

EU-Southern Mediterranean relations at bilateral level are managed mainly through the Euro-Mediterranean Association Agreements. These agreements cover trade in goods and are complemented with a number of additional ongoing negotiations and preparations for future negotiations:

- to open up additional agricultural trade,
- liberalise trade in services and investment,
- to negotiate agreements on accreditation and acceptance of industrial products,
- to establish deep and comprehensive free trade areas.

The EU supports the strengthening of trade relations amongst Southern Mediterranean countries through a number of arrangements:

- The Agadir Agreement between Tunisia, Morocco, Jordan, and Egypt, in force since 2007, remains open to other Arab Mediterranean countries;
- Israel and Jordan have signed a Free Trade Agreement;
- Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Territories, Syria and Tunisia have signed bilateral agreements with Turkey.
- Negotiations are underway between other Mediterranean countries to establish similar agreements.
Since the first Euro-Mediterranean Conference in November 1995, the EU and twelve Mediterranean countries have been engaged in negotiating Association Agreements. The overall objective is to form, one Euro-Mediterranean free trade area from the separate agreements in place. To date, bilateral Association Agreements have been concluded with seven trade partners: Tunisia (1995), Israel (1995), Morocco (1996), Jordan (1997), the Palestinian Authority (1997), Algeria (2001) and Lebanon (2002).

4.3.6.1 Agricultural trade aspects of the EU MED agreements

The seven MED partners are heterogeneous with regard to the importance of agriculture in their economies. For instance, the agricultural sector generates a large proportion of GDP and employment in Morocco and Tunisia (14% and 12%, and 45% and 29%, respectively) compared to much lower figures in Israel (3% and 4%). Production is mainly Mediterranean products like fruits and vegetables, potatoes, olives and olive oil and wine. In general, agricultural policies are characterised by a trend of opening domestic markets and decreasing protection.

The MED agreements aim at establishing a WTO-compatible free trade area for all products, with a transitional period of up to twelve years. Yet no specific liberalisation roadmap has been defined for the agricultural sector as a whole. Only for certain products have specific concessions for liberalisation been determined.

(1) Tariff concessions are not a central instrument in the MED agreements. Concessions related to market access are mainly granted by TRQs.

- Tariff reductions granted by the EU refer mainly to live horses, goats, and sheep; meat of those animals; and to some fruits and vegetables.

- Tariff reductions granted by the MED countries concern live animals and meat, dairy products and some fruits and vegetables. The agreements with Morocco, Tunisia and Algeria contain no general tariff concessions in favour of the EU except for those limited by TRQs.

Among the MED agreements, only that with Lebanon defines concrete steps for tariff reductions by the EU trade partner, starting five years after the agreement enters into force.

(2) Tariff rate quotas (TRQs) are the key instrument to achieve preferences for MED countries. The most important quotas refer to some strategic products such as citrus fruits, tomatoes, apples, olive oil, cut flowers and wine. Some quotas are subject to seasonal constraints. For certain products, reference quantities are defined instead of TRQs. The EU has the option to announce some TRQs flexibly based on annual evaluations of import volumes. Especially fruits and vegetables, as well as corresponding processed products, are subject to reference quantities. TRQs granted in favour of the EU mainly relate to cereals and sugar and corresponding products. All agreements except that with Algeria define an increase of quota volume by 3% per year, but just for some products.

(3) All agreements contain common safeguard clauses, though there are no specific agricultural safeguard provisions. Further, all MED agreements have a shortage clause related to exports.
As for the EU's entry price system (EPS), which constitutes a special EU safeguard for fruits and vegetables, the agreement with Morocco is the only MED agreement that foresees a seasonal reduction of the EPS with respect to some favoured products. The concessions are limited to certain periods of the year and defined quantities. The agreed entry price is below the MFN entry price.

(4) For agriculture-specific rules of origin, the general provisions apply. Bilateral cumulation is valid for all MED agreements. No specific GIs are named.

(5) Options for flexible adjustments are foreseen in the form of both the review and flexibility clauses applying to all agreements. The review process terminates five years after the agreement enters into force. In case of applying the flexibility clause, resulting disadvantages for one party shall be balanced by further concessions from the other.

(6) Other specifics in the MED agreements concern the absence of a timetable for liberalisation related either to the EU or to the partner countries (except for Lebanon). Certain preferences are defined, but only as exceptions to MFN tariffs. Instead of showing a clear time schedule for liberalisation, the agreements lay down different deadlines for the revision of the current state of liberalisation and for granting further concessions.

As for imports into the EU from Lebanon, a timetable for liberalisation is defined though some products are exempted from that process. For imports into Lebanon from the EU, the same approach is adopted as in the other MED agreements, i.e. description of the preferences. Another feature of the Lebanon agreement is its general emphasis on cooperation to reduce fraud.

With respect to strategic products the degree of liberalisation is limited. The MED agreements fix first steps to trade liberalisation by conceding preferential market access in the framework of TRQs. No time schedules are defined for an overall process of tariff reduction (except for imports from Lebanon into the EU), but all agreements have a review clause to examine further opportunities to enhance liberalisation in agricultural products. Thus, further steps to liberalisation are not laid down in the agreements but are dependent on the result of the intended reviews. In addition, a flexibility clause allows for modifying the agreement if one of the parties changes its domestic agricultural policies.

4.3.6.2 Jordan

The EU's Association Agreement with Jordan signed in November 1997, entered into force on 1 May 2002. The Association Agreement progressively establishes a Free Trade Area between the EU and Jordan over 12 years. In addition, an agreement on further liberalisation of agricultural products entered into force in 2007. A protocol on Dispute Settlement Mechanisms for trade between the EU and Jordan initialled in December 2009 entered into force on 1 July 2011.

After Saudi Arabia, the EU is Jordan's second trade partner – with a total trade amounting to approximately €3.8 billion in 2012. In 2012, the EU was Jordan's second source of imports and the fifth destination of exports. Jordan is the EU's 63th trade partner. The Jordanian economy is dominated by services (65% of its GDP) and by industry (30%), whereas the agricultural sector represents only a small part of the economy (4.5%) of Jordan.
EU imports of goods from Jordan are dominated by chemicals (29%) and fuel and mining products (37%). EU exports to Jordan consist mainly of machinery and transport equipment (38.7%), chemicals (17.3%) and agricultural products (16.4%). The two largest exporting industries in Jordan are the pharmaceutical industry and the phosphate and potash extraction industries. 75% of Jordan's pharmaceutical production is exported. Jordan's phosphate and potash extraction industry is among the largest in the world.

4.3.6.3 Morocco

Morocco is one of the partners of the Euro-Mediterranean Partnership (Euromed) that promotes economic integration and democratic reform across 10 neighbours to the EU's south in North Africa and the Middle East. One important part of this work is to achieve mutually satisfactory trading terms for the Euromed region partners. Morocco is part of the Agadir Agreement with Egypt, Jordan and Tunisia. All parties committed to removing all tariffs on trade between them and to harmonize their legislation with regard to standards and customs procedures.

Negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Morocco were launched on 1st March 2013. The first round of negotiation started on 22 April 2013 in Rabat. This DCFTA will extend significantly beyond the scope of the existing Association Agreement to include trade in services, government procurement, competition, intellectual property rights, investment protection and the gradual integration of the Moroccan economy into the EU single market, for example in areas like industrial standards and technical regulations or sanitary and phytosanitary measures.

The main objective of the DCFTA is to bring Moroccan legislation closer to EU legislation in trade-related areas. The current framework for EU-Morocco trade relations is the Association Agreement between the EU and Morocco which entered into force on March 1 2000, and provided for a Free Trade Area. In addition, an EU-Morocco Agreement on agricultural, processed agricultural and fisheries products entered into force on October 1 2012.

The EU is Morocco’s first trading partner. The two most important sectors are textiles and agricultural products. Morocco’s export to the EU is dominated by three main areas: clothing, agricultural products, and machinery and transport equipment. Morocco’s imports from the EU are dominated by machinery and transport equipment, manufacture goods, chemicals and fuels. EU exports of services to Morocco consist mainly of communications and business services and transportation, while the EU mainly imports travel services, transportation and communications services from Morocco.

4.3.6.4 Egypt

The EU-Egypt Association Agreement, in force since 2004, establishes a free-trade area with the elimination of tariffs on industrial products and significant concessions on agricultural products. In addition, a wide ranging agreement on agricultural, processed agricultural and fisheries products entered into force on 1 June 2010.

In June 2013 the EU and Egypt began an exploratory dialogue on how to deepen trade and investment relations, in particular through the possible negotiation of a Deep and Comprehensive Free Trade Agreement (DCFTA). The DCFTA would aim at improving market access opportunities and the investment
climate and at supporting economic reforms undertaken by Egypt. It will extend significantly beyond the scope of the existing Association Agreement to include trade in services, government procurement, competition, intellectual property rights, and investment protection. Overall, the future negotiations could lead to a gradual integration of Egypt's economy into the EU single market.

Egypt is a major trading partner for the EU in the Southern Mediterranean region. The entry into force of the Association Agreement in 2004 improved conditions for trade between the EU and Egypt. Since 2004, EU-Egypt bilateral trade has more than doubled and reached its highest level ever in 2012 (from €11.8 billion in 2004 to €23.9 billion in 2012). The EU is traditionally Egypt's main trading partner, covering 23.4% of Egypt's trade volume in 2012 and ranking first both as Egypt's import and export partner.

EU imports of goods from Egypt are dominated by fuel and mining products (57.1%), followed by chemicals (12.6%) and textiles and clothing (9.1%). EU exports to Egypt consist mainly of machinery. EU exports of services to Egypt are dominated by business services, while the EU imports from Egypt consist mainly of travel services and transport.

4.3.7 EU-Israel Association Agreement

The legal basis for EU trade relations with Israel is the EU-Israel Association Agreement, which entered into force in June 2000. The aim of this agreement is to provide an appropriate framework for political dialogue and economic cooperation between the EU and Israel. Israel is an important trading partner for the EU in the Mediterranean area, and the EU is the first trading partner for Israel with total trade amounting to approximately €29.4 billion in 2011. The EU is Israel's major source of imports (34.5% of the import market) and the second largest market for exports (26.1% of the export market), behind the United States.

EU exports of goods to Israel are dominated by machinery and transport equipment, chemicals, and other semi-manufactures. The EU is Israel's major source of imports, accounting for more than 30% of the country's total imports. EU imports from Israel are dominated by chemicals, machinery and mechanical appliances, and precious and semi-precious stones. Foreign direct investment inflows to Israel are increasing, but the growth in FDI outflows has been much more important over the past years. FDI stocks have also increased over the past years.

Negotiations to open up additional agricultural trade between the EU and Israel were concluded in 2008 and the agreement has been in force since January 2010. This takes the form of an undertaking to reciprocal liberalisation measures on agricultural products, processed agricultural products and fish and fishery products. It amends the relevant sections of the Association Agreement to further liberalise trade in these products between the two partners. In particular, it provides for provision of safeguard measures on trade in agricultural products and fish and fishery products.

4.3.8 Association Agreement between the European Union and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama)

These agreements will provide for a progressive and reciprocal liberalisation, leading to an ambitious free trading regime. It will help local businesses develop the strength in their regional market as well as to enhance the stability and predictability of the trading environment, further promoting trade and investment.
The Association Agreement with Central America is the first ever region-to-region Association Agreement which relies on three mutually reinforcing pillars, namely political dialogue, cooperation, and a trade agreement. This trade pillar is expected to be provisionally applied in the course of the second quarter 2013, once the Central American countries have all finalised their internal processes. Once ratified, this agreement will open up markets on both sides, help establish a stable and business and investment environment. An increase by 25-30% of the trade flow in value on both sides is expected by the European Commission as a result of this agreement. In turn, this should be translated into a GDP growth of Central American countries varying between 1 to 2%.

The Agreement with Colombia and Peru, which will create a full free trade framework between these two countries and the EU, was provisionally applied in the first quarter of 2013, as soon as Colombia and Peru had taken the necessary adjustments steps. The deal will result in total tariff saving of more than €500 million euros per year.

4.3.8.1 Central America (Costa Rica, El Salvador, Honduras, Nicaragua and Panama)

The Association Agreement between the European Union and Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) was approved by the European Parliament on 11 December 2012. The trade provisions of the agreement apply with Honduras, Nicaragua and Panama since 1 August 2013 and with Costa Rica and El Salvador since 1 October 2013.

This agreement opens up markets on both sides and is intended to establish a stable business and investment environment and foster integration between the EU and the whole of the Central America. The agreement is also meant to reinforce economic integration between the members of the Central American region.

The EU is Central America's second biggest trading partner. In 2012, the total trade flows in goods amounted to €14 billion, including almost €1.4 billion worth of trade with Honduras, €1.2 billion with Panama and €0.4 billion with Nicaragua. Benefits of the agreement will be particularly tangible for the Central America's economy that is expected to grow by over €2.5 billion annually once the agreement applies to the entire region.

In 2011, bilateral trade in goods between the EU and both Colombia and Peru was €21.1 billion. In the same year, the EU exported €5.0 billion to Colombia and imported €6.9 billion. The EU exported €2.8 billion to Peru and imported €6.4 billion in 2011. Trade flows between the EU and Central America represented €8 billion in 2011.

4.3.9 EU-Turkey Customs Union

The EU and Turkey are linked by a Customs Union agreement, which came into force on 31 December 1995, following establishment of the 1963 EU-Turkey Association Agreement, which aims at promoting trade and economic relations. The Customs Union is ambitious but does not cover essential economic areas, such as agriculture, to which bilateral trade concessions apply, services or public procurement. Turkey has been an EU membership candidate country since 1999.
In addition to providing for a common external tariff for the products covered, the Customs Union foresees that Turkey is to align to the acquis communautaire in several essential internal market areas, notably with regard to industrial standards. Turkey is also a member of the Euro-Mediterranean partnership and as such should conclude free trade agreements with all other Mediterranean partners, with a view to the creation of a Euro-Mediterranean free trade area.

The EU ranks by far as number one in both Turkey's imports and exports while Turkey ranks 7th in the EU's top import and 5th in export markets. Agricultural products account for about 7.1% of all Turkish imports into the EU.

### 4.4 EU Free Trade Agreements completed but not yet applied

#### 4.4.1 Eastern European Neighbourhood Agreement

The EU has recently concluded negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) with Moldova, Armenia and Georgia. The DCFTAs are part of the Association Agreements with these three countries. Given the decision taken by Armenia in the beginning of September 2013 to join the customs union of Russia, Belarus and Kazakhstan, the steps required for the agreement with this country to become effective are not currently being pursued.

The EU is the main trading partner for each of the three countries. In 2011 trade with the EU represented more than 50% of total trade flows for Moldova, 32% of overall trade for Armenia and 26% for Georgia. Once implemented, the DCFTAs would provide for a significantly improved mutual access for goods and services between the EU and its eastern neighbours. It is hoped that “they will ensure an open, stable and predictable legal environment for the benefit of businesses and consumers on both sides”.

#### 4.4.2 EU-Ukraine Deep and Comprehensive Free Trade Area DCFTA

The EU and Ukraine concluded the negotiations for a deep and comprehensive Free Trade Agreement (DCFTA) in December 2011.

On May 15, 2013, the Commission adopted the proposals for Council decisions on the signing and provisional application of the wider EU-Ukraine Association Agreement, including its trade part. It has provisionally been applied since November 2014 although the DCFTA was delayed until January 1, 2016 to allow a window for talks with Russia over its opposition to the move. No agreement was reached.

The next step will be the signature of the Agreement by the Council, once the political conditions are met. However, political conditions in the country since late 2013 have complicated the coming into operation of the agreement.

In April 2016, Dutch voters rejected the ratification of the EU-Ukraine Association Agreement in a referendum. Voter turnout was low at 32.2%, just above the 30% threshold to be valid, but saw the deal rejected by 61.1% of votes against and 38.1% in favour.
While the referendum result is not binding, Prime Minister Mark Rutte said ratification cannot go ahead without discussion.

The Association Agreement is intended to replace the present Partnership and Cooperation Agreement between the EU and Ukraine (which dates from 1998).

The EU is among Ukraine's most important commercial partner and accounts for about one third of its external trade. Ukraine's primary exports to the EU are iron, steel, mining products, agricultural products, and machinery. EU exports to Ukraine are dominated by machinery and transport equipment, chemicals, and manufactured goods.

The Free Trade Agreement covers all trade-related areas (including services, intellectual property rights, customs, public procurement, energy-related issues, competition, etc) and also tackling ‘beyond the border’ obstacles. The vast majority of customs duties on goods will be removed as soon as the Agreement enters into force. Overall, Ukraine and the EU will eliminate respectively 99.1% and 98.1% of duties in trade value.

Ukrainian agriculture will benefit most from cuts in duties: €330m for agricultural products, and €53m for processed agricultural products. New market opportunities in the EU and higher production standards are expected to spur investment, stimulate the modernisation of agriculture, and improve labour conditions.

For agricultural goods, concessions have been made taking into account specific sensitivities. Thus, duty-free tariff rate quotas been granted to Ukraine for cereals, pork, beef, poultry and a handful of additional products, while for others the progressive elimination by the EU of the custom duties will occur over a longer transition period (generally 10 years). This means that for particularly sensitive sectors, the DCFTA gives producers more time to adapt to a more competitive environment while offering consumers a wider choice of products at lower prices.

Regarding non-tariff barriers (NTB) on trade in goods, the Agreement incorporates fundamental WTO rules on NTBs, such as national treatment, prohibition of import and export restrictions, disciplines on state trading etc. Export duties will be prohibited from day one, with some temporary exceptions for Ukraine on a few agricultural and metal products.

### 4.4.2.1 Sanitary and phytosanitary (SPS) measures

This chapter aims to facilitate trade in SPS related goods including animals, animal products, plants and plant products, whilst safeguarding the Parties' level of protection. The Parties will seek a common understanding on animal welfare standards taking into account developments in the World Organisation for Animal Health (OIE). They will align legislation and conclude a veterinary and phytosanitary chapter.

The process covers:

- Commitment to respect the principles of the WTO/SPS Agreement;
- Ukrainian commitment to align its SPS and animal welfare legislation to the EU's;
• Setting up a rapid consultation mechanism to solve trade irritants in SPS related goods;

• Setting up a rapid alert and early warning system for veterinary and phyto-sanitary emergencies. Under certain conditions, the relevant EU systems for early warning could also be opened to Ukraine’s participation.

4.4.3 EU-Singapore Free Trade Agreement (EUSFTA)

The negotiations for a between the European Union and Singapore were concluded in December 2012 and the agreement was initialled in Singapore on 20 September 2013. The procedures allowing the agreement to become effective are expected to be completed by late 2014. This is the EU’s second ambitious agreement with a key Asian trading partner, after the EU-Korea FTA, and the first with a member of the 10-country Association of Southeast Asian Nations (ASEAN). Once fully implemented, the deal will open up markets on both sides in a number of sectors.

Key issues on the negotiating agenda included better access to services and procurement markets, tariffs, technical barriers to trade, the protection of intellectual property rights like geographical indications, as well as trade and sustainable development.

Singapore is by far the EU’s largest trading partner in South-East Asia, accounting for about a third of EU-ASEAN trade in goods and services, and for more than three-fifths of investment stocks between the two regions. Over 9,000 EU companies have set up their regional hub in Singapore. Singapore is the EU’s 13th largest trading partner (trade in goods) and the EU’s largest trading partner in the Association of South-East Nations (ASEAN). EU-Singapore trade in goods grew by some 40% between 2009 and 2011. In the same period, trade in services has grown by 41%. The EU has a positive balance of trade in goods and in services with Singapore.

Singapore is a major destination for European investments in Asia. Singapore is also Asia’s second largest investor in the EU (after Japan). In 2010, the existing stock of bilateral investment between the EU and Singapore reached €190 billion, having expanded rapidly over the past years.

As Singapore is almost entirely dependent on imported foods, it represents a highly attractive market for EU food exporters. Growth rate for consumer-oriented foods averaged about 20% per year over the calendar period 2009 to 2011. Total value of imported consumer oriented foods exceeded US$6.1 billion in 2011. An additional US$1.1 billion of fish and seafood products were imported in 2011. Not all the imported foods are consumed locally. It is estimated that about 75% of food imports are routinely re-exported mostly to neighbouring countries. Major product categories include dairy products, frozen poultry and poultry parts, fresh fruit and vegetables, red meats, alcoholic and non-alcoholic beverages, snack foods and other consumer-oriented products.

The removal of non-tariff barriers to trade is particularly relevant to raw or processed products of animal origin (e.g. meat and meat products) and of plant origin (e.g. fruits and vegetables). To facilitate trade, while respecting the necessary levels of protection of importing countries, the Agreement establishes, especially for products of animal origin, that Singapore will update its import approval procedures. Currently,
Singapore applies, for most EU Member States, a costly and burdensome system of authorising imports on an establishment-by-establishment basis.

In the future, on the basis of its SPS import requirements, Singapore will switch to an evaluation of the performance of the inspection and certification systems put in place by the respective competent authorities of EU Member States. To some extent this reflects Singapore’s current approach towards meat exports from a minority of EU Member States.

Under Singapore’s current regime applicable to most EU Member States, each meat exporting establishment has to be inspected and approved individually by Singapore, and for each type of meat product, separately. Currently only establishments from 13 of the EU’s 28 Member States have been authorised to export meat to Singapore.

The EUSFTA will operate an alternative regime, which guarantees a high level of safety in traded agri-food commodities in a resource and trade-friendly manner and respectful of parties rights and obligations under the WTO SPS Agreement. The adopted approach follows international standards on auditing, is non-discriminatory and transparent, and reduces disruptions to trade, whilst maintaining an appropriate level of sanitary protection. Under the EUSFTA, Singapore will switch its approval system to auditing whether the relevant SPS inspection and certification systems in place in EU Member States are sufficient to comply with Singapore’s high level of SPS protection.

### 4.4.4 EU-Central America Association Agreement

The Association Agreement between the European Union and Central America is now in place for all countries involved except Guatemala. The procedures necessary for the application of this agreement to Guatemala are in progress and are expected to be finalised in the near future.

### 4.4.5 The EU-Canada Free Trade Agreement

The Comprehensive Economic and Trade Agreement (CETA) agreed between the EU and Canada in 2013, with a modification to the investment chapter agreed in February 2016, is claimed by the European Commission as likely to generate substantial new trade in goods and services, as well as additional opportunities for investment. The new market access provided by the agreement is claimed to further improve the position of EU exporters and investors on the Canadian market.

The deal has yet to be ratified by the 28 member states of the EU or the Canadian Parliament but officials on both sides believe this will be completed later in 2016, with entry into force coming in early 2017.

Once implemented, the agreement is expected to increase bilateral trade in goods and services by 22.9% or €25.7 billion, fostering growth and employment on both sides of the Atlantic. Overall, the EU-Canada agreement could lead to GDP gains for the EU of up to €11.6 billion per year, according to the Commission’s calculations.

The EU-Canada agreement will remove over 99% of tariffs between the two economies and create sizeable new market access opportunities in services and investment. In the area of government procurement,
Canada has not only taken commitments at the federal level, but has also opened its sub-federal level to European bidders to an extent never done before. Amongst the many benefits, the agreement will also improve the protection of intellectual property rights in Canada as well as the protection of the names of agricultural products. Once implemented, the agreement is expected to increase two-way bilateral trade in goods and services by 23% or €26 billion, fostering growth and employment on both sides of the Atlantic.

An economic study jointly released by the EU and Canada before the negotiations showed that a comprehensive trade agreement could increase their bilateral trade by another €25.7 billion. The annual real income gain over five years from the beginning of the agreement would, according to the study, be approximately €11.6 billion for the EU (representing 0.08% of EU GDP), and approximately €8.2 billion for Canada (representing 0.77% of Canadian GDP). Total EU exports to Canada would amount to €17 billion by 2014, while Canadian bilateral exports to the EU would rise to €8.6 billion by 2014.

Key elements of the EU-Canada Comprehensive Economic and Trade Agreement:

- Eliminating duties – this will happen quickly with most of them going as soon as the agreement enters into force. Overall, both sides will fully eliminate tariffs on more than 99% of all tariff lines.

- Industrial tariffs – these will be fully liberalised saving EU exporters an expected around €500 million (almost C$ 700 million) in duties a year. In other words, EU exporters will be relieved of the costs of paying tariffs when selling goods on the Canadian market.

- Eliminate Agricultural tariffs – The EU, for its part, will eliminate 92.2% of its agricultural tariffs at entry into force. After 7 years, 93.8% of the agricultural tariffs will be eliminated.

The remainder are:

i) products to which the entry price system applies (while the ad valorem component of duties on these products will be fully eliminated, the entry price system is maintained);

ii) sensitive products for which a zero duty but quantitatively limited TRQ has been offered (beef, pork, canned sweetcorn) and sensitive products which have been excluded from tariff reductions altogether (chicken and turkey meat, eggs and egg products).

4.4.5.1 Agricultural implications of the CETA agreement

Canada is a very valuable export market for EU agricultural and processed agricultural products, with annual sales of over € 2.9 billion. The agreement will rapidly – largely at entry into force – eliminate duties on agriculture. By the end of the transitional periods, Canada and the EU will liberalise, respectively, 92.8% and 93.5% of trade lines in agriculture. As regards products considered sensitive: dairy for Canada and beef, pork and sweet corn for the EU, it has been agreed that new market access, amounting to a further 1% and 1.9% of tariff lines respectively, will be granted in the form of tariff rate quotas. On prepared agricultural products (PAPs) more specifically, which are a major EU export interest and where the EU has a major export surplus with Canada, the outcome is particularly ambitious. The EU PAPs industry will considerably gain from CETA as all the PAPs tariffs will be eliminated. Wines and spirits deserve a special
consideration within the PAPs group for their particular export relevance. The EU is Canada’s major import source of wine – about half of its imports. The tariff elimination here is complemented by the removal of other relevant trade barriers which will significantly improve access to the Canadian market for European Wines and Spirits.

The new agreement will give considerable advantage to EU food and agricultural exporters. Canada's average tariff rate on agricultural products is 21.9%, but within this average are a number of tariff peaks which can inhibit or, in the most extreme cases, effectively prohibit trade. For example, with an average most favoured nation (MFN) out-of-quota tariff rate on dairy products of 251.3% (and a peak of 313.6%), the EU's exports of some such products to Canada are nil. The tariff quota set for cheese imports is 20,412 tonnes (of which the EU supplies 66% of the quota volume). Out-of-quota tariffs on cheeses are 245.6%, which greatly inhibit the export of EU cheeses to Canada, despite consumer demand. A similar situation exists with regard to over-quota exports of butter.

Canadian MFN tariff rates on cereals and products of the milling industry average 9.5%, but the sector has tariff peaks for some products of 95.2%. In addition, in some cases, EU exports to Canada are disadvantaged by the granting of lower tariffs or duty-free access to competitor suppliers with preferential trade agreements.

Canada will recognise Geographical Indications (GIs) for a long list of European agricultural products from a specific geographical origin. Characteristic examples of GIs names to be protected by Canada include the Greek Feta cheese, Grana Padano, Roquefort, Elia Kalamatas Olives, and Aceto balsamico di Modena. The agreement also offers the possibility to add more product names to this list in the future. In addition, some prominent EU GIs such as Prosciutto di Parma and Prosciutto di San Daniele will be authorised to use their name when sold in Canada, which has not been the case for more than 20 years.

SPS – CETA consolidates the existing EU-Canada Veterinary Agreement and creates a more predictable environment for EU exporters of plants and plant products.

Non-tariff barriers are particularly important in the agriculture and food sector. Canadian exporters have identified specific NTBs relating to agricultural trade as a further contributing factor to Canada’s trade deficit in this sector. Most barriers identified were sanitary and phytosanitary measures, such as the EU’s ban on hormone-treated beef and its slow approval process for genetically modified organisms. Despite EU Member States’ move towards a single, internal market, barriers and differences continue to exist, such as differing customs systems, different automated systems, differing levels of value-added tax, border inspections for required licenses in certain Member States, or differing certificates of origin.

On the other side, Canadian compositional standards for cheese are regarded as a significant barrier to EU dairy exports. The standards, which came into force on 14 December 2008, are seen by EU exporters as creating unnecessary obstacles to trade. EU exporters also believe the list of milk and milk products allowed under the amendments is restrictive and likely to jeopardise future technological developments. Of particular concern to EU exporters are current import licensing requirements, which they believe occasions not only an unnecessary burden and additional costs for importers but also appears to be discriminatory in that importers of cheeses will need to meet licensing requirements that will not apply to the producers of domestic cheeses.
Nonetheless there are significant concessions to EU dairy exports in the CETA. The EU would get an additional tariff-free access of 18,500 tonnes (16,000 tonnes of ‘fine cheeses’, 1,700 tonnes of “industrial” cheeses and 800 tonnes to add to the existing TRQ of 13,471 tonnes for EU cheese exports to Canada. The EU access will thus total 31,971 tonnes, or 7.5% of the Canadian cheese market. The EU is expected to have around 32% of the fine cheese market in Canada.

4.4.5.2 Other major features of CETA

*Fisheries:* most duties will be eliminated at entry into force. Besides tariffs, the fish package also includes other elements of interest to EU firms, such as better access to Canadian fish for the EU processing industry. Sustainable fisheries will be developed in parallel, in particular with regard to monitoring, control and surveillance measures, and the fight against illegal, unreported and unregulated fishing.

*Non-tariff barriers (NTBs):* the chapter on technical barriers to trade (TBT) contains provisions that will improve transparency and foster closer contacts between the EU and Canada in the field of technical regulations. Both sides also agree to further strengthen links between the relevant standard setting bodies. A separate protocol will improve the recognition of conformity assessment between the parties. By reducing the cost of complying with technical regulations, standards and conformity assessment procedures (including marking and labelling provisions) CETA will facilitate trade and benefit industry generally. According to estimates, this could amount to GDP gains of up to €2.9 billion a year for the EU.

*Trade in services:* around half of the overall GDP gains for the EU are expected to come from liberalising trade in services. CETA will bring new opportunities for European companies by creating access the Canadian market in key sectors such as financial services, telecommunications, energy and maritime transport. The GDP gains for the EU could amount to up to €5.8 billion per year, once the agreement is fully implemented.

*Temporary movement of company personnel:* to support trade in services and investment, CETA will make it easier for firms to move staff temporarily between the EU and Canada. This will make it easier for European companies to run their operations in Canada. Certain categories of professionals will also have easier access to temporarily supply services such as consultancy in a variety of sectors like engineering, accounting or architecture, simplifying the fulfilment of after-sales maintenance and monitoring commitments.

*Mutual recognition of qualifications:* the agreement provides a framework for a future mutual recognition of qualifications in professions such as architects, engineers, and accountants. At the moment, the lack of coherent requirements for professionals remains a critical barrier, especially for providing cross-border services. Under this framework, the relevant professional organisations or authorities in the EU and Canada now have the possibility to further jointly work out the technical details of a mutual recognition and bring these under CETA.

*Investment:* one of the key pillars of economic relations between the EU and Canada, with combined EU and Canadian FDI stocks amounting to €360 billion in 2011. The agreement will remove or alleviate barriers to investment both horizontally and in specific sectors, improving legal certainty and predictability for businesses. As a result of the changes made by the Lisbon Treaty regarding EU competence on
investment, the Commission has negotiated provisions to protect European investors in Canada, ensuring non-discrimination, a fair and equitable treatment and appropriate compensation in the event of expropriation. This is in line with EU Member States best practices in their existing Bilateral Investment Treaties (BITs). At the same time, the investment protection provisions fully preserve the right of the parties to regulate and implement their public policy objectives. Underpinning the investment protection obligations will be a modern and effective investor-to-state dispute settlement mechanism.

**Public procurement:** CETA covers new ground as it is the first time that all sub-federal levels of government in Canada have committed themselves to bilaterally opening their procurement markets. An EU-Canada Joint Study (2008), found that the overall value of contracts awarded by the federal government was estimated at C$ 15 to 19 billion per year. The value of contracts at other levels of government is considered to largely exceed these numbers. For example, in 2011 procurements by Canadian municipalities was estimated at C$ 112 billion (approx. €82 billion) or almost 7% of Canadian GDP. Canada will also create a single electronic procurement website that combines information on all tenders and access to public procurement at all levels of government. This will make it much easier for European suppliers to compete in the Canadian procurement market.

**Intellectual Property Rights (IPR):** CETA will create more of a level playing field between Canada and the EU. The agreement should in particular lead to developments in the Canadian IPR system regarding pharmaceuticals. The chapter also includes provisions – amongst others – on trademarks, designs and copyrights, and overall it reflects high standards for IPR protection.

**Dispute settlement mechanism:** CETA provides for an efficient and streamlined horizontal mechanism covering most areas of the agreement. The system is intended as a last resort should the parties fail to resolve disagreements relating to the interpretation and implementation of the Agreement’s provisions by other means. It proceeds along a fixed set of procedures and time-frames. Should parties fail to reach an agreement through formal consultations, they can request the establishment of an arbitration panel, made up of independent legal experts.

**Mediation:** a mechanism for mediation is also available on a voluntary basis to tackle measures that adversely affect trade and investment between the Parties.

**Sustainable development:** the EU and Canada have in CETA also reaffirmed their strong commitment to the principles and objectives of sustainable development. This means that investment and trade relations should not develop at the expense of the environment or of social and labour rights, but instead foster mutual supportiveness between economic growth, social development, and environmental protection. The Trade and Sustainable Development chapter will set up effective mechanisms for the involvement of different representatives of EU and Canadian civil society in the implementation and monitoring of the relevant provisions and include a dedicated arbitration mechanism, including government consultations and a panel of experts.

As the US and Canada have already liberalised their trade under the North American Free Trade Agreement (NAFTA), this agreement will allow EU companies to compete with US exporters on the Canadian market by levelling the playing field, while in addition benefitting from preferential treatment going beyond NAFTA (for example in government procurement, and in certain services sectors, such as maritime transport).
4.4.6 **EU-Kosovo free trade agreement**

The EU’s Stabilisation and Association Agreement (SAA) with Kosovo has come into force April 1 2016, opening up a comprehensive free trade agreement with the Western Balkan territory.

The deal, which was signed by the two parties in October 2015, will liberalise the bulk of trade in agricultural and other products between the two sides, although phase-in periods of up to 10 years will apply for Kosovan import duties, and the most sensitive EU products are exempt from liberalisation. The new agreement completes a network of SAAs which the EU has been negotiating over the past few years with the putative future member states of the Western Balkans. Similar SAAs are already in force with the Former Yugoslav Republic of Macedonia, Croatia, Albania, Montenegro, Bosnia and Herzegovina, and Serbia. The Commission has noted that the agreement is taking effect without prejudice to the various international disputes on the status of Kosovo.

In the agriculture sector, the EU is immediately removing all remaining tariff and quota restrictions on imports from Kosovo, with the exception of beef, sugar and wine. In the beef sector, the EU is opening a specific quota of 475t for ‘baby beef’ from Kosovo, at 20% of the normal ad valorem duty and 20% of the specific duty.

For its part, Kosovo is removing its existing 10% import duty on imports of EU agricultural products, although for three specific groups of products the duties will be phased out over a transitional period of five, seven, and ten years respectively. The deal also stipulates that Kosovo must fully respect the EU’s system of protected geographical indications.

The EU exported agri-food products worth some €182m to Kosovo in 2015, with tobacco, dairy products and beverages the main products traded. Kosovan exports to the EU amounted to a mere €7.9m, mostly beverages and fruit. Kosovo is eying EU membership as a longer-term ambition, although the internationally-disputed status of the former Serbian territory is likely to prove a significant barrier.

4.4.7 **EU Vietnam trade agreement**

The EU Vietnam trade agreement, completed in 2015, is the first of its kind that the EU has concluded with a developing country. As such, the ambitious and symmetrical liberalisation agreed upon – with a transition period to allow Vietnam to adapt – breaks new ground compared to other EU agreements with developing countries. It shows the shared conviction of the EU and Vietnam that trade is essential to growth, the creation of jobs and sustainable development.

Besides eliminating tariffs, Vietnam will also remove almost all of its export duties. The agreement will also create new market access opportunities in services and investment. Vietnam has agreed to liberalise trade in financial services, telecommunications, transport, and postal and courier services. On investment, Vietnam will open its market to the EU, for instance by removing or easing limitations on the manufacturing of food products and beverages, as well as in the non-food sectors.

On government procurement, the EU and Vietnam have agreed on disciplines largely in line with Government Procurement Agreement (GPA) rules of the WTO, achieving a degree of transparency comparable to other EU Free Trade Agreements with developed countries and more advanced developing countries.
The agreement will also improve the protection in Vietnam of Geographical Indications (GIs) representing EU flagship agricultural products, such as Champagne, Parmigiano Reggiano cheese, Rioja wine, Roquefort cheese and Scotch Whisky. Vietnamese GIs too will be recognised as such in the EU, providing the adequate framework for further promoting imports of quality products such as Mộc Châu tea or Buôn Ma Thuột coffee.

David Frost, Scotch Whisky Association chief executive, commented: “Vietnam is a growing market for Scotch Whisky. We welcome the country’s free trade agreement (FTA) with the European Union which should encourage our future expansion. Last year direct exports of Scotch to Vietnam totalled £3.5 million, up more than 9% on the previous year. However, there were issues to be addressed in the market, including the 45% import tariff on spirits. The FTA will help as it will gradually phase out the tariff and it will tackle other trade restrictions.”

The FTA includes a robust and comprehensive chapter on Trade and Sustainable Development, covering labour and environmental matters of relevance in trade relations between the EU and Vietnam. Commitments to the core labour standards and Conventions of the International Labour Organisation (ILO) ensure the respect of fundamental workers’ rights by both parties. In addition, the chapter includes commitments which will support the conservation and sustainable management of natural resources (including wildlife, forestry, and fisheries). Special attention is devoted to areas such as Corporate Social Responsibility and fair and ethical trading schemes.

The FTA will set up dedicated structures to ensure the full implementation of the chapter, including mechanisms to ensure the involvement of independent economic, social, and environmental stakeholders both in the EU and in Vietnam.

The Agreement will also contain a legally binding link to the Partnership and Cooperation Agreement (PCA) that governs the overall relationship between the EU and Vietnam, thereby ensuring that human rights, democracy, and the rule of law are essential elements of our bilateral trade relations.

The agreement includes a dedicated chapter on cooperation in implementing the Agreement and to assist Vietnam in reaping the full benefits. Boosting sustainable development is a key objective for such cooperation. Areas of particular importance include labour and environmental matters, trade facilitation, and small and medium-sized enterprises (SMEs).

After the conclusion of the Singapore FTA in 2014, this will be the second FTA between the European Union and a country of the Association of South East Asian Nations (ASEAN). As such, it is a building block towards the EU's ultimate objective of an ambitious and comprehensive region-to-region FTA with ASEAN as a whole.

What's next?

After this breakthrough, technical discussions will have to be completed so as to finalise the legal text of the agreement. Given the cooperation established with Vietnam over many years and strengthened by this negotiating process, it is expected that this process could be finalised in a few months' time and certainly before the end of the year.
EU-Vietnam Trade in facts and figures

In 2014, the EU was the second trading partner for Vietnam after China (not including trade within ASEAN), representing 10% of total Vietnamese trade. The EU was Vietnam’s second export destination (after the US), with the EU purchasing as much as 18% of Vietnam’s global exports.

In 2014, EU-Vietnam trade in goods was worth over €28.2 billion, with €22.1 billion of imports from Vietnam into the EU and €6.2 billion of exports from the EU to Vietnam.

Vietnam’s key export items to the EU include telephone sets, electronic products, footwear, textiles and clothing, coffee, rice, seafood, and furniture. EU exports to Vietnam, meanwhile, are dominated by high-tech products including electrical machinery and equipment, aircraft, vehicles, and pharmaceutical products.

Total bilateral trade in services amounted in 2013 to €2.9 billion, with a slight surplus for the EU.

The EU is one of the largest foreign investors in Vietnam. In 2013, EU investors committed a total of more than €500 million in Foreign Direct Investment and thus remain Vietnam’s sixth largest foreign investor partner.

Since 2013, Vietnam has been the EU’s fourth most important trading partner among the ten ASEAN Member States, surpassing the EU’s bilateral trade with Indonesia.

4.5 Ongoing negotiations

4.5.1 Agreement on investment with China

On 18 October 2013, the Council of Ministers adopted the mandate which will allow the European Commission to start investment negotiations with China.

The current level of bilateral investment is way below what could be expected from two of the most important economic blocs on the planet. Just 2.1% of overall EU Foreign Direct Investment (FDI) is in China. The main purposes for these negotiations are the progressive abolition of restrictions on trade and foreign direct investment as well as promoting the overall objectives of EU policy in the world. The EU-China investment agreement will improve access to the Chinese market and provide EU investors in China a high level of investment protection in a single, coherent text.

4.5.2 United States of America – The Transatlantic Trade and Investment Partnership (TTIP)

Negotiations on a comprehensive EU-US trade agreement began with a round of meetings on 8-12 July 2013 in Washington, D.C. Negotiating groups set out respective approaches and ambitions in twenty various areas that the TTIP is set to cover, including custom duties and technical standards for goods produced on both sides of Atlantic.
The initiative of a transatlantic agreement is based on the recommendations of the EU-US High Level Working Group on Jobs and Growth that has steered the deliberations on the future EU-US relations since late 2011. According to an independent study by the Centre for Economic Policy Research, London, an ambitious and comprehensive trans-Atlantic trade and investment partnership could bring the EU economic gains of €119 billion a year once the agreement is fully implemented. (The details of a likely TTIP agreement and its implications are fully explored in Chapter 3).

4.5.3 EU-Japan FTA

The EU and Japan launched negotiations for a free trade agreement in April 2013. Fourteen working groups are now focusing on various parts of the negotiated text including trade in goods, services, investment, competition, government procurement and sustainable development. Ongoing negotiations will address a number of EU concerns, including non-tariff barriers and the further opening of the Japanese public procurement market. Both sides aim at concluding an agreement covering the progressive and reciprocal liberalisation of trade in goods, services and investment, as well as rules on trade-related issues.

The 15th round of the EU-Japan FTA/EPA negotiations took place in February 2016 in Brussels. The negotiations were divided, as during the previous rounds, between the various Working Groups which covered the following areas: 1) Trade in goods (including Market Access, General Rules and Trade Remedies); 2) Non-Tariff Measures and Technical Barriers to Trade; 3) Rules of Origin; 4) Customs and Trade Facilitation; 5) Sanitary and Phytosanitary Measures; 6) Trade in Services; 7) Investment; 8) Procurement; 9) Intellectual Property (including Geographical Indications); 10) Competition Policy; 11) Other issues (General and Regulatory Cooperation, Business Environment, Animal Welfare); 12) Trade and Sustainable Development; 13) Dispute Settlement; 14) General, Institutional and Final Provisions and Transparency.

Dispute remains over import duties on European foods and drinks, scaling back nontariff barriers for cars and opening up public procurement in the railway industry. In exchange, the EU is prepared to eliminate its tariff on motor cars from Japan and ease access to Europe for Japanese executives.

Japan is the EU’s second biggest trading partner in Asia, after China. An FTA with Japan, it has been estimated, could increase EU GDP by 0.6% and boost EU exports to Japan by a third. A total of 400,000 additional jobs could be created in the EU as a result of this deal, according to the European Commission. EU estimates suggest that the deal could boost EU exports to Japan by 32.7%, while Japanese exports to the EU would increase by 23.5%.

Japan is not only the EU’s second biggest trading partner in Asia, after China, but also the Union’s second largest trade partner after the United States. Conversely, the European Union is Japan’s third largest trading partner, after China and the United States. Together the European Union and Japan account for more than one-third of world GDP.

In 2011 EU exports to Japan had reached a value of €49 billion, mainly in the sectors of machinery and transport equipment, chemical products and agricultural products. In 2011 EU imports from Japan accounted for €67.5 billion, with mostly machinery and transport equipment and chemical products. In 2011, EU imports and exports of commercial services from and to Japan were €15.9 billion and €21.8 billion.
Japan is a major investor in the EU. In 2011 the EU inward FDI stock had reached a value of €144.2 billion. Japan’s inward FDI has increased markedly since the mid-1990s, but remains very low in comparison with other OECD countries (EU investments worth €85.8 billion in 2011).

There is however particular concern in some Member States and industry sectors on the obstacles presented by non-tariff barriers in Japan. The Commission has agreed with Japan – even before potential negotiations started – that removal of these NTBs is essential to any progress in establishing an FTA. The aim is for a comprehensive agreement in goods, services and investment eliminating tariffs, non-tariff barriers and covering other trade-related issues, such as public procurement, regulatory issues, competition, and sustainable development.

The negotiations will be based on the outcome of a joint scoping exercise, which the EU and Japan completed in May 2012. In the context of this exercise, both parties demonstrated their willingness and capacity to commit to an ambitious trade liberalisation agenda. The Commission has also agreed with Japan on specific ‘roadmaps’ for the removal, in the context of the negotiations, of non-tariff barriers as well as on the opening up of public procurement for Japan’s railways and urban transport market.

Given the importance that the elimination of non-tariff barriers has for achieving a level playing field for European businesses on the Japanese market, the negotiating directives adopted by the Council of Ministers foresee a parallelism between the elimination of EU duties and of non-tariff barriers in Japan. They also authorise the suspension of the negotiations after one year, if Japan does not live up to its commitments on removing non-tariff barriers. To protect sensitive European sectors, there will also be a safeguard clause.

According to the European Commission’s Impact Assessment Report on EU-Japan Trade Relations (2012), an ambitious FTA could increase EU exports of processed agricultural products to Japan by up to 200% if both tariffs and non-tariff measures were abolished. Japan is the fifth biggest export market for EU agricultural and food products with a total export value of 4.7 billion. If EU agri-food producers cannot respond to changing Japanese eating habits because of the existing trade barriers, this market potential will be definitively lost to other major agrifood exporters.

An EU-Japan preferential agreement could generate similar results to those already achieved as a result of the EU-Korea Agreement, the Commission believes, not only for the above-mentioned EU sectors, but also for producers of olive oil and wine, confectionery and many other foodstuffs. Exports of European pork (produced to high standards) to South Korea increased by almost 120% during the first nine months of implementation. In addition, dairy exports almost doubled. These are just two examples.

Japan is already an important recipient of EU food exports, ranking fifth among the main export destinations for EU agricultural products after China. In 2012 the EU sold some €5.2 billion of agricultural products to Japan. In contrast, imports were negligible (slightly less than €180 million) which led to an impressive surplus of €5 billion in the EU agricultural trade balance with Japan. Moreover, since 2009, the food trade surplus has been significantly increasing.

Due to the geographical distance, EU exports to Japan mainly consist of processed and long-lasting products, rather than fresh produce. The major EU product exported to the Japanese market is pork,
accounting for 16% of EU sales. Next in line are wine, cigars and cigarettes, and cheese. Altogether these products make up nearly 50% of EU agricultural exports.

Although pork remains the principal product EU export to Japan, its sales are still below the pre-2005 levels. Sales of pork in 2012 were 14% lower than in 2004, the record year of pork exports to Japan. Wines picked up strongly after the slump in 2009, reaching €770 million in 2012. The second part of the last decade was also particularly positive for cigars and cigarettes. Japanese customers are also developing tastes for EU olive oil and fruit and vegetable preparations. Cheese exports have remained largely at the same level as in recent years (over €200 million). The EU imports little in the way of food products from Japan - mainly soups and sauces as well as food preparations.

4.5.4 EU FTAs with the Association of Southeast Asian Nations (ASEAN)

The EU is in the process of negotiating new trade arrangements with four countries of the ASEAN region. The negotiations for a Free Trade Agreement with Singapore, launched in 2010, were concluded successfully in December 2012 and the agreement was initialled in Singapore on 20 September 2013. However, the talks on investment protection that started only after the Lisbon Treaty entered into force, giving the EU new competencies in this area, are still on-going. In October 2013, the Council adopted a mandate which allowed the European Commission to start investment negotiations with other ASEAN countries. In the meantime, the negotiations for a Free Trade Agreement continue with Malaysia and Vietnam.

The ASEAN Economic Ministers (AEM) and the EU Trade Commissioner held their Fourteenth Consultations on 3 March 2016 in Chiang Mai, Thailand. The strong trade and investment relations between the two regions, was stressed with the EU being ASEAN’s second largest trading partner and largest source of FDI inflows. In 2015, ASEAN-EU two-way trade stood at €201 billion, a 11% increase year-on-year, based on EU statistics. In 2014 Foreign Direct Investment (FDI) inflows from the EU increased by 31.5 per cent to USD 29.3 billion, accounting for 21.5 per cent of the total FDI inflows into ASEAN. The Ministers and the EU Trade Commissioner reaffirmed their commitment to working towards an ASEAN – EU Free Trade Agreement. In this regard, they noted the progress of the joint stock-taking exercise on the assessment of the progress of ASEAN integration, the status of bilateral FTAs between the EU and ASEAN Member States, and how to ensure added value by building on these bilateral FTAs.

Thailand started bilateral negotiations with the EU only in March 2013 and the second round of talks took place in Thailand on 16-20 September 2013. The EU remains open to start negotiations with other ASEAN partners and intends eventually to integrate these deals into a global region-to-region trade agreement. As a whole, with €191 billion of trade in goods in 2012 and €51 billion services in 2011, ASEAN is today the EU’s third largest trading partner outside Europe, after the US and China and well ahead of other partners. The EU is ASEAN 2nd largest trading partner after China, accounting for around 11% of ASEAN trade. The EU is also the largest investor in ASEAN countries. EU companies have invested around €9.1 billion annually on average (2000-2009). The EU’s main exports to ASEAN are chemical products, machinery and transport equipment. The main imports from ASEAN to the EU are machinery and transport equipment, agricultural products as well as textiles and clothing.
For the moment however, negotiations are at an impasse and the EU Council statement of only an early and credible roadmap for a return to constitutional rule and the holding of June 23 governs the situation: “Credible and inclusive elections will allow for the EU's continued support. The Council decided that the EU will keep its relations with Thailand under review and will consider further possible measures, depending on circumstances.”

4.5.5 EU FTAs with Southern Mediterranean countries

The EU has completed so far two rounds of negotiations for a Deep and Comprehensive Free Trade Agreement (DCFTA) with Morocco. An EU-Morocco Agreement on agricultural, processed agricultural and fisheries products entered into force 1st October 2012. This gives the EU, duty access to 55% of Moroccan agricultural products, and will also give duty free access to 70% of the EU's agricultural products in Morocco. The deal should strengthen EU-Morocco trade relations, building upon existing agreements, including the Association Agreement of 2000 and the agreement on agricultural, processed agricultural and fisheries products of 2012. The EU-Morocco negotiations are ongoing; a recent EU report shows that DCFTA negotiations between Morocco and the EU “are actively engaged,” the question is, when will there be a solid agreement? Morocco is the first Mediterranean country to negotiate a comprehensive trade agreement with the EU. The Commission has also a mandate to start a similar process with Tunisia, Egypt and Jordan.

4.5.6 EU FTA with the Mercosur group

Mercosur, or the Southern Cone Free Trade Area, consists of five countries: Argentina, Brazil, Uruguay, Venezuela and Paraguay. The EU has bilateral Partnership and Cooperation agreements with Argentina, Brazil, Paraguay and Uruguay. In 1995, the EU and Mercosur signed an Interregional Framework Cooperation Agreement, which entered into force in 1999. A joint declaration annexed to the Agreement provides the basis for political dialogue between the parties, which takes place regularly at Heads of State, Ministerial and Senior Official levels.

The EU is currently negotiating a trade agreement with Mercosur as part of the overall negotiation for a bi-regional Association Agreement which also cover a political and a cooperation pillar. These negotiations with Mercosur were officially re-launched at the EU-Mercosur summit in Madrid on 17 May 2010. The objective is to negotiate a comprehensive trade agreement, covering not only trade in industrial and agricultural goods but also services, improvement of rules on government procurement, intellectual property, customs and trade facilitation, technical barriers to trade.

The EU and Mercosur have agreed to exchange offers on market access concessions for goods, services and government procurement. Work related to preparation of the offers on both sides is on-going. Negotiation of an EU-Mercosur Association Agreement were launched in 2000, but suspended in 2004 due to substantial differences on the trade part of the agreement. Negotiations were resumed in May 2010. Since then, nine negotiating rounds have been held between the EU and Mercosur, which have focused on NTBs rather than tariff reductions.

In April 2016 the two sides agreed on a roadmap for talks during the rest of the year and exchanged initial market access offers as planned on May 11.
Several EU member states – principally those with important agricultural interests such as Ireland and France - continue to oppose an exchange of offers between the EU and Mercosur. The Irish Farmers Association (IFA), for example, has called on the country’s leaders to make immediate contact with Commission President Jean-Claude Juncker to request a halt to negotiations. Some EU lobby groups say EU negotiators should only accept a balanced deal, with a dismantling of South American Sanitary and Phytosanitary (SPS) barriers to trade.

Mercosur is itself a relatively protected market, both in terms of tariffs and non-tariff barriers. The average rate of applied tariff protection is around 13% (average bound protection is above 30%), but protection in sectors of particular interest to EU exporters is even higher (e.g. 35% for cars). Successful negotiation of preferential access to this large market is highly desirable, given the prospects of great economic growth potential and an increasingly important partner for the EU.

Any future free-trade agreement, the first such trade deal for Mercosur, would give EU exporters, investors and services providers better access to this market than ever before and is therefore likely to bring substantial economic benefits. For the EU, the economic benefit could be an increase of around €4.5 billion of exports per year, according to the European Commission. Mercosur is expected to benefit from a similar increase of exports to the EU.

The Mercosur group of countries has a total GDP reaching €1,300 billion, superior to that of countries like South Korea, India or Russia. The growth rate over the last years has averaged 4%-6% for Brazil and 6%-9% for Argentina.

The group is an increasingly important partner for the EU. In terms of EU exports, Mercosur ranks on par with India and ahead of both Canada and Korea. Over the four years up to 2012, until the global crisis hit, EU exports to Mercosur increased by more than 15% annually. EU investments in Mercosur amount to more than €165 billion, more than EU investments in China, India and Russia together. The EU is Mercosur's first trading partner, accounting for 20% of Mercosur's total trade. Mercosur is the EU's eighth most important trading partner, accounting for 3% of EU's total trade. EU's exports to the region have steadily increased over the last years, going up from €28 billion in 2007 to €57 billion in 2012.

Mercosur's major exports to the EU are represented by agricultural products - 40% of total exports - and of raw materials (28%). The EU mostly exports manufactured products to Mercosur, notably machinery and transport equipment (45% of total exports) and chemicals (22% of total exports). The EU is also a major exporter of commercial services to Mercosur (€16 billion in 2011), as well as the biggest foreign investor in the region with a stock of foreign direct investment that has steadily increased over the past years and which amounted to €286 billion in 2011 compared to €130 billion in 2000.

The EU is a significant importer of agricultural products from the Mercosur group. Agricultural imports from the group in 2012 were €21.9 billion - 40.7% of total imports; in late 2015 they had risen to c. €23 billion. EU food and agriculture exports to Mercosur were €2.3 billion - 4.1% of the total. A JRC study in 2011 indicated that one effect of the agreement would be to increase EU beef imports from the region by 200,000 tonnes. Conversely it also indicated that EU cereal exports to Mercosur could increase by a million tonnes a year.
Main provisions of the agreement for agriculture would be reduction of tariffs and increases in TRQs. For goods not subject to TRQs there would be a reduction of tariffs to zero on all products, with immediate effect for goods with tariffs less than 5%, by year 5 for goods with tariffs between 5 and 10%, by year 7 for goods with tariffs between 10 and 15%, and by year 10 for goods with tariffs in excess of 15%.

Goods subject to TRQ would see an expansion of existing TRQs (except for sugar and sheep meat) on a product-by-product basis. New TRQs would be created for rice, wheat, other cereals, pork, skim and whole milk powder, butter, cheese and ethanol. In-quota tariffs would be cut to zero.

Mercosur concessions on agricultural products would consist of a reduction of tariffs to zero on 85% of tariff lines, and cuts of 20% or 50% in the tariffs of the remaining 15% of goods.

The case of the proposed EU Mercosur agreement illustrates a major advantage of an FTA agreement for a developing / emerging market region which has comparative advantage in agricultural products with a rich industrially oriented country or region. It also demonstrates the potential loss to producers in the richer partner due to their lower competitiveness. Estimates indicate that, as far as agriculture is concerned, there are significant losses to EU producers and gains to Mercosur producers. This would also occur were there to be agreement in the Doha Round.

Most estimates indicate that the gains in the EU manufacturing sector outweigh the losses to the EU agrifood sector, leading to an overall increase in EU GDP. This increase ranges from €8.9 billion to €66.0 billion. It is however likely that the manufacturing sector in the Mercosur would be disadvantaged by EU competition.

4.5.7 EU African, Caribbean and Pacific countries (ACP) Economic Partnership Agreements

Economic Partnership Agreements (EPAs) are trade and development partnerships between the EU and African, Caribbean and Pacific countries (ACP), based on the Cotonou Agreement concluded in 2000. The aim is to consolidate free access to the EU market for products from the EU’s ACP partners, foster trade-related cooperation, and attract investment, in order to promote sustainable development.

There are five interim Economic Partnership Agreements with African, Caribbean and Pacific States or regions that have been negotiated but have not yet entered into force. These are with Cote d’Ivoire, Central Africa (Cameroon), the Southern African Development Community, Ghana and the East African Community.

The negotiations started in 2002 and have covered seven regional groups: West Africa, Central Africa, Eastern and Southern Africa (ESA), Eastern African Community (EAC), South African Development Community (SADC) EPA Group, the Caribbean (CARIFORUM) and the Pacific. The EU is continuing talks with all of them except CARIFORUM, which already signed a full Economic Partnership Agreement in 2008.

On the basis of the Cotonou Agreement signed in 2000, African, Caribbean and Pacific (ACP) countries have organised into self-defined regional groupings. The negotiating Economic Partnership Agreements which the EU is negotiating with each of them aim to ensure duty-free, quota-free access to the EU market,
along with other provisions (e.g. on health and hygiene standards, and other trade-related rules) tailored to the needs of the ACP countries.

To date, there are three EPAs which are being implemented: one with the Caribbean region (CARIFORUM); one with the Pacific region (only Papua New Guinea is applying it), and one with Eastern and Southern Africa (ESA, which includes Zimbabwe and the three Indian Ocean nations of Madagascar, Mauritius and Seychelles).

EPA negotiations seek to establish stable and sustainable partnerships based on reciprocal trade, though allowing enough asymmetry to take into account the development needs of the EU’s EPA partners.

Kenya is negotiating an EPA with the EU as a member of the East African Community, along with Burundi, Rwanda, Tanzania and Uganda. The EU is Kenya’s biggest trading partner, accounting for around 25% of the country’s total exports - over €1 billion a year. EU-Kenyan reciprocal trade in goods has continued to grow in recent years, reaching more than €2.5 billion in 2012. Kenya’s main exports to the EU are fresh cut flowers, tea, coffee, and vegetables (mainly peas and beans).

Botswana, Namibia and South Africa are negotiating a regional EPA with the EU as part of the Southern African Development Community (SADC) EPA Group, which also includes Angola, Lesotho, Mozambique and Swaziland. Trade between the EU and South Africa is currently governed by the Trade, Development and Cooperation Agreement (TDCA) signed in 1999.

The three Southern African countries are rich in natural resources, and export diamonds (Botswana, South Africa), uranium (Namibia), platinum (South Africa), and other commodities to the EU. They are also strong exporters in agricultural sectors such as beef (Namibia, Botswana), fisheries (Namibia), and table grapes (Namibia). South Africa has also a strong agrifood sector, exporting wine, sugar, citrus and other fruit, but it is an emerging rather than a developing country and has a much more diversified economy. It thus also exports manufactured and semi-manufactured goods.

The EU exports a wide range of goods to the SADC EPA Group countries, including vehicles, machinery, electrical equipment, pharmaceuticals and processed food.

All in all, trade between the EU and the SADC EPA Group is dominated by exchanges with South Africa, the biggest economy in the region and beyond. Total EU-South Africa bilateral trade (see 4.3.4 above) has increased by more than three quarters since 2000 and amounted to €46 billion last year. Over the years, trade between the EU and South Africa has been balanced. South Africa is also a key player in the service sector in Africa, with a strong presence in telecommunications, banking and financial services, tourism, hotels and catering, transport, etc. Trade in services with the EU has therefore also seen steep growth figures.
5. The Major Preferential Agreements: A review of agricultural trade conditions

5.1 North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA), a trade agreement signed by Canada, Mexico, and the United States, created a trilateral rules-based trade bloc in North America in the mid-1990s. The agreement came into force on January 1, 1994, superseding the previous Canada–United States Free Trade Agreement. It is the largest FTA in the world and second largest by nominal GDP comparison. It now links 450 million people and affects $17 trillion worth of goods and services.

On January 1, 2008 all remaining duties and quantitative restrictions were eliminated between the partners. Trade between the United States and its NAFTA partners has soared since the agreement entered into force – see Tables 5.1 and 5.2.

<table>
<thead>
<tr>
<th>Table 5.1: US trade with NAFTA partners, 2010 (in US$ billion)</th>
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<tbody>
<tr>
<td><strong>Exports</strong></td>
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<tr>
<td>Total trade</td>
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<td>Agriculture &amp; Food</td>
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Source: U.S. Department of Commerce Foreign Trade Statistics

<table>
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<th>Table 5.2: US agrifood trade with NAFTA partners, 2010 (in US$ billion)</th>
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<td><strong>Principal products</strong></td>
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<tr>
<td>Red meats</td>
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<tr>
<td>Fresh Fruit</td>
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<td>Fresh veg</td>
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<td>Snack foods</td>
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Source: U.S. Department of Commerce Foreign Trade Statistics
5.1.1 Agriculture in NAFTA

NAFTA progressively eliminated almost all tariff and quota barriers to agricultural and other trade among the three countries over the 1994-2008 transition period. The agreement also facilitates cross-border investment, requires that sanitary and phytosanitary standards for trade be scientifically based, and expands cooperation on environment and labour issues.

Canada and the United States started to pursue agricultural trade liberalization in 1989 as part of the Canada-US Free Trade Agreement (CUSTA), which was then incorporated into NAFTA. Mexico implemented a number of unilateral agricultural trade reforms in the early 1990s. Mexico and the United States have fully eliminated all tariffs and quantitative restrictions on agricultural goods, which to date are unique among US trade agreements.

NAFTA did not exclude any agricultural products from US-Mexico trade liberalization. Numerous restrictions on bilateral agricultural trade were eliminated immediately upon NAFTA’s implementation, while others were phased out over periods of four, nine or 14 years. Trade restrictions on the last handful of agricultural commodities (such as US exports to Mexico of maize, dry edible beans, and non-fat dry milk, and Mexican exports to the US of sugar, cucumbers, orange juice, and sprouting broccoli) were removed in 2008. Similar but not identical restrictions on Canada-Mexico trade also were removed at that time.

NAFTA covers much more than tariffs and quotas. The agreement recognizes the right of each member country “to adopt, maintain or apply any sanitary or phytosanitary measure necessary for the protection of human, animal or plant life or health in its territory,” and NAFTA also requires that sanitary and phytosanitary (SPS) measures be scientifically based, non-discriminatory, and transparent, and that these measures restrict trade in a minimal fashion. NAFTA also established the NAFTA Committee on Sanitary and Phytosanitary Measures to facilitate technical cooperation between the NAFTA countries in developing, applying, and enforcing such measures. To fulfill these responsibilities, the NAFTA governments have engaged in a concerted effort to fine-tune their SPS measures in ways that facilitate trade.

The process of liberalisation however suffered a setback when the Mexican Government imposed retaliatory import tariffs in March 2009 (and expanded their coverage in August 2010) on a number of agricultural and non-agricultural products from the United States in response to US non-compliance with NAFTA’s transport provisions. Both the Canadian and Mexican Governments have used the dispute settlement process at the World Trade Organization (WTO) to challenge US requirements for country-of-origin labelling (COOL) pertaining to live cattle and live pigs.

Major impacts of NAFTA:

- US agricultural trade with Canada and Mexico has nearly doubled since the implementation of NAFTA, although only a portion of this overall increase can be attributed solely to the agreement.

- NAFTA has allowed competitive market forces to play a more dominant role in determining agricultural trade flows among the three countries.
By dismantling numerous trade barriers, the agreement has contributed to an expansion in US agricultural exports and increased the variety and domestic availability of various farm and food products.

NAFTA has established rules and institutions that mitigate potential trade frictions and promote foreign direct investment.

5.1.1.1 Summary of main NAFTA effects for main agricultural product groups

**Grains and oilseeds**

- Important cross-border investments in grain milling
- Sizable increases in US exports to Mexico and Canadian exports to US
- Expanded biofuel production increases demand for certain grains and oilseeds
- High degree of integration.
- Strong linkages between US grain and oilseed growers and Mexican pig and poultry producers
- Mexican direct investment in US baking and tortilla industries
- Growing two-way trade encompasses bulk commodities, feed ingredients, and processed foods.

**Livestock and animal products**

US and Canadian beef exporters regained access to many Asian markets following a coordinated response by NAFTA governments to discoveries of bovine spongiform encephalopathy (BSE) in Canada and US. With the removal of most traditional barriers to trade (i.e. tariffs and quotas), progress in addressing the sanitary concerns of importing countries becomes crucial to further market integration.

- High degree of integration of US producers in Mexican market
- US exports to Mexico of beef, pork, and poultry meat have all doubled in volume during the NAFTA period
- High degree of integration of Mexican producers in US in feeder cattle and beef markets; a medium-to-low degree in other products
- Mexican beef and pig meat exporters have expanded their participation in Asian markets
- High degree of integration in production of cattle, beef, pigs and pork.
- Canadian pig exports to US include feeder animals finished in the US
- Significant two-way trade in beef among the partners.
Level of integration in dairy and poultry sectors is low, due to exclusion of these sectors from trade liberalization under CUSTA and NAFTA.

**Sugar and sweeteners**

- Regional sugar and sweetener trade complemented by trade in processed foods containing sweeteners.
- High degree of integration
- US corn fructose (HFCS) exports to Mexico, and Mexican sugar exports to US, have flourished following implementation of NAFTA’s sugar and sweetener provisions.
- Only a low degree of integration in the sugar markets of the US and Canada.
- US imports from Canada of sugar and sugar-containing products were exempted from trade liberalization under CUSTA and NAFTA.

**Processed foods**

- Sales of Canadian and Mexican affiliates of US processed food companies still exceed US processed food exports to those countries.
- Medium degree of integration in this sector.
- Substantial US investment in Mexico’s food industry, with some Mexican investment in the US food industry.
- Beer is Mexico’s leading agricultural export to US, with a high degree of market integration
- Substantial US and Canadian direct investment in each other’s processed food industries.
- Significant and growing intra-industry trade in intermediate and final food products.

5.1.1.2 *FDI in food trade*

An important feature of the NAFTA has been the increase in foreign investment in the food industries. Not unexpectedly, this has involved mainly US firms investing in Mexico and Canada. There have however, been significant FDI flows in the opposite direction.

Mexican statistics indicate that Mexico’s food, beverage, and tobacco industries attracted net inflows of additional foreign investment totalling $22.9 billion between January 2000 and September 2010. Roughly half of this capital came from the United States.

US companies accounted for most of the FDI in the North American processed food sector (excluding beverages). In 2009, the US direct investment position (on a historical-cost basis) in the Canadian processed food industry equalled $5.0 billion, while the US direct investment position in the Mexican processed food industry equalled $2.5 billion in 2008. In contrast, the Canadian and Mexican direct investment positions in the US processed food industry were $1.3 billion and $3.0 billion, respectively.
Firms located in the NAFTA region sometimes have potential buyers in all three NAFTA countries. For instance, in 2002 and 2008, the Mexican baking company Grupo Bimbo acquired some of the US interests of a Canadian food conglomerate, George Weston Ltd, that had once been owned by US companies, and in 2010, Grupo Bimbo purchased Sara Lee’s fresh bakery business for $959 million.

Food sales associated with US direct investment in Canada and Mexico are substantial. In 2008, majority-owned affiliates of US multinational food companies had sales of $27.6 billion in Canada and $10.9 billion in Mexico. Together, these sales were 123% larger than the value of US processed food exports to Canada and Mexico.

5.1.1.3 Agricultural trade gains from NAFTA

The most significant achievement of the NAFTA has been the creation of an integrated North American market in grains and oilseeds. For Mexico, the establishment of NAFTA marked a transformation from the strict administration of imports through a licensing system and the provision of guaranteed prices to domestic producers of many field crops, to a system featuring duty-free trade with the United States and Canada, combined with domestic agricultural supports similar to those operating in the United States. For the US and Canada, liberalization of trade in grains and oilseeds previously achieved under CUSTA and NAFTA primarily involved the elimination of minor tariffs on bilateral trade. The major exceptions to this pattern concerned wheat and wheat products.

The expansion of feed grains trade among the NAFTA countries has been another significant feature of the development of agricultural trade in the FTA. Poultry and pig producers in Mexico, for example, are importing increased quantities of US feedstuffs in response to growing demand for meat. As a result, US exports to Mexico of feed grains, oilseeds, and related products have increased by 134% during the NAFTA period, averaging 19.5 million tonnes per year during 2006-10, compared with 8.3 million tonnes during 1989-92.

Duty-free access to US feedstuffs enables Mexican livestock producers to expand output, lower their costs of production, and compete more effectively with meat imports, and it has made possible a substantial increase in Mexican meat consumption. Between 1993 and 2010, per capita consumption of broiler meat in Mexico rose from 16 to 30 kg (an 86% increase), while per capita consumption of pork climbed from 10 to 16 kg (a 55% increase).

Canada’s poultry and pig producers also utilize some US feedstuffs - most notably maize and soyabean meal - and expanded use of maize by Canada’s ethanol producers is boosting demand for maize, even though livestock numbers in Canada are decreasing. Canada also uses wheat to produce ethanol.

It is also notable that there are substantial levels of two-way trade between Canada and the United States in compound feeds and mixed feed ingredients other than pet food, as well as of US exports to Mexico of brewers’ and distillers’ grains and waste. This latter category includes distiller’s dried grains with solubles (DDGS), a byproduct of ethanol production that is used to feed livestock.

US wheat and rice exports to Mexico have quadrupled during the NAFTA period, helping to limit a decrease in Mexican wheat consumption and boost Mexican rice consumption.
There has also been a large expansion in US maize exports to Mexico. Compared with their average annual volume during the decade prior to NAFTA (1984-93), these exports have more than quadrupled. The export volume for 2010, 9.7mt, included 7.9mt of conventional maize, 1.6mt of DDGS, and 160,000t of cracked maize, which consists of broken or ground kernels for animal feed.

US maize exports (including cracked maize and DDGS) to Mexico accounted for 32% of Mexico's supply during 2005-09, compared with 14% during 1984-93. Yellow maize, used primarily as animal feed or to manufacture starch, makes up the bulk of US maize exports to Mexico.

CUSTA and NAFTA contributed to expanded US-Canada trade in wheat and wheat products by removing a number of significant barriers to this trade. The agreements eliminated the tariffs that formerly governed bilateral trade in wheat and wheat products, as well as Canada’s licensing requirements for the importation of US wheat and wheat products and its subsidies for shipping grain to the United States through the Port of Vancouver, as part of Canada’s Western Grain Transportation Act (WGTA). Some of the tariffs in effect prior to CUSTA were fairly high. For instance, certain types of pasta traded between the two countries faced tariffs as high as 17.5%, and US wheat flour exports to Canada were subject to a tariff that would have had an ad valorem equivalent of about 12% in 2010.

5.2 The Trans-Pacific Partnership (TPP)

The Trans-Pacific Partnership (TPP) is a trade agreement among twelve Pacific Rim countries signed on 4 February 2016 in Auckland, New Zealand, after seven years of negotiations. It has yet to enter into force. The 12 countries involved have a collective population of c.800 million - almost double that of the European Union’s single market. The 12-nation would-be bloc is already responsible for 40% of world trade. The 30 chapters of the TPP concern many matters of public policy and the following stated goals: to "promote economic growth; support the creation and retention of jobs; enhance innovation, productivity and competitiveness; raise living standards; reduce poverty in our countries; and promote transparency, good governance, and enhanced labour and environmental protections", according to the USTR. Among other things, the TPP contains measures to lower tariffs and eliminate NTBs. It establishes an investor-state dispute settlement mechanism, Investor-state arbitration (ISDS) (which forms a major disputed issue in the TTIP negotiations).

The TPP eliminates or reduces tariff and non-tariff barriers across substantially all trade in goods and services and covers the full spectrum of trade, including goods and services trade and investment. The TPP is intended as a platform for regional economic integration and designed to include additional economies across the Asia-Pacific region. The agreement would reduce 18,000 tariffs. Tariffs on all U.S. manufactured goods and almost all U.S. farm products would be eliminated completely, with most eliminations occurring immediately. In addition, the agreement mandates expedited customs procedures for express shipments and prohibits customs duties from being applied to electronic transmissions. It also requires additional privacy, security, and consumer protections for online transactions and encourages the publication of online customs forms.
5.3 Association of Southeast Asian Nations (ASEAN)

The Association of Southeast Asian Nations, or ASEAN, was established in 1967 with the signing of the ASEAN Declaration (Bangkok Declaration) by the founding nations of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam subsequently joined in 1984, Viet Nam in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999, making up what is today the ten Member States of ASEAN.

ASEAN is a geopolitical and economic organization spread over a wide and diverse region with a population of approximately 600 million. ASEAN's collective GDP is more than $1.5 trillion. Over the last two decades, the organization has become increasingly interested in the further economic integration of its members. ASEAN member states are a highly heterogeneous group, with political structures ranging from democracies to military dictatorships.

The ASEAN Community is comprised of three pillars, namely the ASEAN Political-Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community. Each pillar has its own Blueprint, and, together with the Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan Phase II (2009-2015), they form the Roadmap for and ASEAN Community 2009-2015.

Although the region is relatively poor by Western standards, ASEAN member states demonstrate strong GDP growth. The region did well during the global economic recession, with Brunei Darussalam, Cambodia, Malaysia, Singapore and Thailand seeing slightly negative GDP growth, while Indonesia, Laos, Burma (Myanmar), the Philippines and Vietnam showed positive growth. All countries retained positive growth rates in 2010, a trend which is expected to continue up to 2015.

5.3.1 The ASEAN Economic Community

ASEAN is embarking on building an ASEAN Economic Community (AEC) by 2015, which will be a single market and production base. The ASEAN Economic Community (AEC) Blueprint was adopted in 2007. This serves as a coherent master plan guiding the establishment of the AEC. It identifies the characteristics and elements of the AEC with clear targets and timelines for implementation of various measures as well as pre-agreed flexibilities to accommodate the interests of all ASEAN Member States.

The AEC envisages the following key aims:

- a single market and production base
- a highly competitive economic region
- a region of equitable economic development
- a region fully integrated into the global economy

With the realisation of the ASEAN Economic Community, ASEAN will become a single market and production base, with new mechanisms and measures to strengthen the implementation of its existing economic initiatives, accelerating regional integration in priority sectors, facilitating movement of businesses, skilled labour and talents; and strengthening the institutional mechanisms of ASEAN.
The ASEAN single market and production base comprises five core elements, relating respectively to the free flow of goods, services, investment, capital and skilled labour.

### 5.3.2 A single market for agriculture and food

ASEAN cooperation in the agriculture sector dates back as early as 1968, with cooperation in food production and supply. In 1977, the scope of cooperation was broadened to include the greater area of agriculture and forestry as the needs have increased.

Currently, the specific areas under ASEAN cooperation in food, agriculture and forestry includes:

- food security
- food handling
- crops
- livestock
- fisheries
- agricultural training and extension
- agricultural cooperatives
- forestry
- joint cooperation in an agricultural and forest products promotion scheme.

In the process of working towards the AEC, the enhancement of competitiveness of food, agricultural and forestry products in international markets, and the empowerment of farmers through the promotion of agricultural cooperatives, have become regional priorities. Emerging and cross-cutting issues such as food security, mitigation of and adaptation to climate change for the agriculture and forestry sector, and the operation of sanitary and phytosanitary (SPS), are also included.

Ensuring food security continues to be a fundamental goal of ASEAN. In response to the increasing regional concern about food security, the ASEAN Statement on Food Security, ASEAN Integrated Food Security (AIFS) Framework and Strategic Plan of Action on ASEAN Food Security (SPA-FS) have been adopted with the aim of ensuring long-term food security and to improve the livelihoods of farmers in the region. The ASEAN Multi-Sectoral Framework on Climate Change (AFCC) (‘Agriculture and Forestry towards Food Security’) is another initiative to address the impact of climate change on the agriculture and forestry sectors.

### 5.3.3 Emphasis on Food Safety Measures

In 2006, the ASEAN Good Agricultural Practices for Fresh Fruit and Vegetables, or ASEAN GAP, was adopted as a standard for the production, harvesting and post-harvest handling of fruits and vegetables in the region. The standards laid down in ASEAN GAP aim to ensure that the fruits and vegetables produced in the region are safe to eat and of the right quality for consumers. In addition, environmental protection and health, safety and welfare provisions are also included.
To date, ASEAN has established a total of 775 harmonised maximum residue limits (MRLs) for 61 pesticides. Common standards for mango, pineapple, durian, papaya, pomelo and rambutan also have been adopted. A total of 49 standards for animal vaccines, 13 criteria for the accreditation of livestock establishments and three criteria for the accreditation of livestock products also have been endorsed as harmonised ASEAN standards.

Significant progress also has been made in other important areas of food safety. ASEAN is strengthening its genetically modified food testing network, developing guidelines on good management practices for shrimp, developing a code of conduct for responsible fisheries, and implementing the Hazard Analysis and Critical Control Point (HACCP) in the production of fish and fisheries products. In 2004, the ASEAN Food Safety Network was established as an integrated platform for ASEAN officials to exchange information on food safety.

### 5.3.4 Agriculture and food - economic importance and trade

Agriculture is a dominant sector in ASEAN countries, contributing heavily to GDP and employment. The region has a large agricultural foundation and over 60 million hectares of arable land, with the largest agricultural land holders being Indonesia and Thailand. Within the last decade, ASEAN countries have rapidly increased production and consumption of agricultural products.

The majority of ASEAN member states rely heavily on the agriculture sector for GDP growth, trade and investment. Agriculture accounts for a significant amount of GDP in Burma (Myanmar) (50% of GDP), Cambodia (33.4%) and Laos (29%). It also contributes significantly to GDP in Indonesia (15.3% of GDP), Thailand (12%), Vietnam (20.7%) and the Philippines (20%). Agricultural and food trade is considered vital for ASEAN countries - many see the expansion of agricultural production and trade as essential to reducing rural poverty.

Agriculture and food imports also provide food security, which is a high priority for ASEAN countries. Several ASEAN countries (e.g. Indonesia and Malaysia) have been able to almost double their share of global agri-food trade during the past decade. Food safety, both for domestic and export markets, is an increasingly important issue among ASEAN countries, but overall standards continue to lag behind Western levels. For an open market like Singapore, agricultural and food trade provides inputs for food processing industries or other value-added opportunities for export to ASEAN markets.

Laos, the Philippines and Thailand all have very high GDP growth rates, (7.7%, 7.0% and 7.5% respectively in 2010), but Southeast Asia generally offers a lucrative export market for a wide range of agricultural products. Diverse countries with varying ethnicities present demand for different and unique products.Processed foods are gaining popularity in several of the more affluent ASEAN member states, providing a market opportunity for packaged and processed foods.
5.4 Central American Common Market (CACM)

The CACM was established by the Organization of Central American States under the General Treaty of Central American Economic Integration signed in Managua, Nicaragua, on December 15, 1960. Its members include Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

Its original goals included the establishment of a Central American regional free-trade area, a customs union, and the integration of the industrialization efforts of its member countries. Its efforts were curtailed following the 1969 war between El Salvador and Honduras, when the Hondurans re-established import duties on CACM products. Despite the continued existence of the organization, most intraregional economic relations have been handled on a bilateral basis since 1970.

The political turmoil in Central America during the 1970s and 80s left the organization moribund. The 1990s saw a revival of the organization, but its ultimate place with respect to the Central American Free Trade Agreement (signed 2004, and including the Dominican Republic and the United States) and the proposed (2001) Free Trade Area of the Americas remains unclear.

Adopting a Central American Integration system to coordinate political and economic policies, the CACM renewed its activity in the 1990s. By 1993, El Salvador, Guatemala, Honduras, and Nicaragua had ratified a new Central American Free Trade Zone (Costa Rica signed the agreement later), which committed them to reducing intraregional trade tariffs gradually over a period of several years, though implementation was subsequently delayed.

The CACM has now been successful in establishing a free trade area in Central America. The General Treaty established that all products with certified local origin enjoyed free trade except for a limited list of products. The list of exceptions has decreased over time and currently applies only to coffee, sugar, alcoholic beverages and petroleum products.

As a result, intraregional trade has increased in volume and importance, particularly during the 1990s. By 2002, intraregional exports had reached close to US$2.8 billion, which is roughly 28% of total exports of Central America.

After 40 years of integration, the CACM is now somewhere between an almost perfect free trade area and an imperfect customs union. Since the beginning of the 1980s there has been significant progress in harmonizing external tariffs. The common external tariff applies four tariff levels – namely 0, 5, 10, and 15% – to capital good and raw materials, raw materials produced in the region, intermediate goods, and consumption goods respectively. The average tariff of the common external tariff (CET) is 7.5%. More than 79% of tariff lines are harmonized, and only 1305 tariff lines remained un-harmonized.

However, during the 1990s, member countries moved at different speeds in their negotiation of bilateral free trade agreements with third parties, and this has raised the issue of whether those different commitments have eroded the common external tariff.
During the 1990s, the process of integration was deepened by the development of new rules and regulations in a number of areas such as rules of origin, safeguard measures, unfair trade practices, standards and technical barriers to trade, dispute settlement, and trade and investment in services.

By 2010 CACM’s economic and trade integration process was considered by the United Nations to have become more dynamic than similar processes in South America. Having achieved free trade, with minimal exceptions, the CACM members are now working to complete their planned customs union. To this end, they are in the process of harmonizing the 4% of their tariffs which are not yet subject to a common external tariff. Progress is continuing in areas such as modernization of the Standard Central American Tariff Code, the development of Central American technical regulations for different products, mutual recognition of sanitation records for food, drinks, medicines and hygiene and cosmetic products, and the establishment of integrated customs regulation.

5.5 Common Market for Eastern and Southern Africa (COMESA)

The Common Market for Eastern and Southern Africa is a free trade area with nineteen member states stretching from Libya to Swaziland. COMESA was formed in December 1994, replacing a Preferential Trade Area which had existed since 1981. Nine of the member states formed a free trade area in 2000 (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe), with Rwanda and Burundi joining the FTA in 2004, the Comoros and Libya in 2006, and Seychelles in 2009. In 2008, COMESA agreed to an expanded free-trade zone including members of two other African trade blocs, the East African Community (EAC) and the Southern Africa Development Community (SADC).

Agriculture is considered to be the engine for economic development in the COMESA region. The sector accounts for more than 32% of COMESA’s gross domestic product (GDP), provides a livelihood to about 80% of the region’s labour force, accounts for about 65% of foreign exchange earnings and contributes more than 50% of raw materials to the industrial sector.

The objectives of the COMESA Treaty and the COMESA Agricultural Policy (CAP) are in line with the broader Comprehensive African Agricultural Development Programme (CAADP) of the New Partnership for Africa’s Development (NEPAD) under the African Union (AU). The CAADP has been endorsed by African Heads of State and Governments as a framework for the restoration of agricultural growth, food security and rural development in Africa within an integrated and coordinated approach. CAADP defines four Pillars for improving Africa’s agriculture:

- Extending the area under sustainable land management and reliable water control systems;
- Improving rural infrastructure and trade related capacities for market access;
- Increasing food supply, reducing hunger and improving responses to food emergency crises;
- Improving agricultural research, technology dissemination and adoption.
The main food staple in the COMESA region is maize. Maize yields in a majority of countries in the COMESA region are very low and except for Egypt and Mauritius are typically below 2 tonnes/ha. This compares very poorly with other regions of the world. Despite maize being the key staple in the region, the yields are currently lower than they were at the beginning of the decade. Comparison of the maize yield figures for the periods 2000-2002 and 2006-2008 indicates that maize yields have declined in several countries.

Countries in the COMESA region were affected by the global food price crises of between 2006 and 2010, a period characterized by high and volatile food prices. The situation had a negative impact on the welfare of both producers and consumers. In a majority of countries in the COMESA region, between the first quarter of 2011 and first quarter of 2012, an upward trend in domestic food prices was experienced above the peak experienced during the global food crisis in year 2008. Highest prices have been reported in Ethiopia, Kenya, Rwanda and Uganda.

Generally, there was an increasing trend in intra-COMESA total trade and agricultural trade from 2003 until the slowdown in 2008 and 2009. Agricultural trade is an important component of the total trade in the COMESA region, currently accounting for about a third of the total trade. Trade statistics for 2009 indicate that agricultural trade (represented by agricultural raw materials and food products) accounts for about 32% of total intra-COMESA trade, which in 2009 amounted to US$6 billion. Of this, food and agricultural raw materials constituted US$1.9 billion.

5.6 EFTA-Turkey Agreement

The Free Trade Agreement between the Republic of Turkey and EFTA was signed on 10 December 1991 in Geneva and entered into force on 1 April 1992. All tariffs and non-tariff barriers have been eliminated in trade between the parties.

The agreement regulates a wide range of economic areas, including state monopolies, technical regulations, public procurement, state aid, intellectual property rights, internal taxation, payments, transfers, dumping, safeguard measures and rules of origin. Industrial product customs duties and charges having an equivalent effect were abolished as from the ending of the initial transitional period on 1 January 1999. Bilateral agricultural agreements between the individual EFTA countries and Turkey form part of the instruments creating the free trade area.

Trade in processed agricultural products is covered in a Protocol under the main Agreement (Protocol A) and grants concessions for products such as sugar confectionery, pasta, prepared foods, sauces and preparations, soups, waters etc.

Trade in basic agricultural products is covered in three bilateral agricultural agreements negotiated between the respective EFTA States, Iceland, Norway and Switzerland/Liechtenstein, and Turkey. These agreements provide for substantial concessions on both sides, while taking into account various sensitivities on either side. Each agreement contains specific rules of origin, generally based on the 'wholly-obtained' criteria.
According to the Turkish Government, the average tariff rate for industrial imports from the EU and EFTA countries had % to zero by 1996. But some agricultural goods still remain protected by steep tariffs.

The average Turkish tariff rate for agricultural products from EFTA and the EU is around 54.66% while it is around 55.60% for third countries. Although tariffs for processed agricultural products from EFTA and the EU have been eliminated, it is around 8% for third countries. For fisheries, the tariffs have been eliminated for the EFTA countries, but remain for the EU at a rate of 37.4%, and for third countries at 47.6%.

Trade volumes between Turkey and EFTA increased to US$7.9 billion in 2012, a 2.1% increase on 2011. In 2012, imports from EFTA were US$5.3 billion, while exports to EFTA totalled US$2.6 billion.

### 5.7 Greater Arab Free Trade Area (GAFTA)

GAFTA was created within the Social and Economic Council of the Arab League to activate the Trade Facilitation and Development Agreement that has been in force since January 1st 1998. The GAFTA includes 17 Arab country members, namely Jordan, Morocco, Kuwait, the United Arab Emirates, Syria, Tunisia, Bahrain, Lebanon, Libya, Saudi Arabia, Iraq, Sudan, Oman, Egypt, Yemen, Qatar and Palestine.

GAFTA is aimed at establishing an Arab Common Market. In 2005, full trade liberalisation was achieved through the full exemption of customs duties on all products, except Sudan and Yemen which followed suit in 2010. The FTA conditions apply in full to all agricultural and animal products, whether in raw or processed form.

### 5.8 Japan-Singapore Partnership Agreement (JSEPA)

The Japan-Singapore Economic Partnership Agreement (JSEPA) was officially signed in January 2002. The main elements of the Japan-Singapore Free Trade Agreement involve bilateral liberalization and facilitation of trade through reduction of tariff and non-tariff barriers as well as the mutual recognition of national standards. This trade agreement is particularly significant, since it is viewed by many as providing a possible template for future Free Trade Agreements in the region.

The bulk of Japanese exports to Singapore are machinery and equipment, followed in importance by business and financial services, chemical and mineral products, extractive products and other manufactured goods. Singapore's exports to Japan are concentrated in the service sector. Clearly this trading relationship involves a great deal of intra-industry trade that stands to receive a substantial boost from any reduction in non-tariff trade cost.

The most important feature of the Japan-Singapore FTA is seen, certainly on the Japanese side, as the reduction of bilateral trade costs arising from non-tariff barriers. The two sides apply the Electronic Trade Document Exchange System (ELDS) which facilitates the exchange of customs documents between importers, exporters and the Japanese customs authorities. It is estimated that the introduction of customs automatisation in Japan lowers effective prices by nearly 0.2% for exports and imports, purely through savings in paperwork, storage and transit expenses.
Another important element of the Free Trade Agreement is the section aimed at improving security and harmonizing standards governing electronic commerce between Japan and Singapore. The goal of this part of the agreement is to make e-commerce between the two countries as safe and acceptable to customers as is domestic electronic commerce presently. It is estimated that this agreement has brought about an average 1.39% reduction in the price of goods.

The Free Trade Agreement also aims to liberalise trade in services. This liberalisation is expected to lower the effective cost of business and financial services exported from Singapore to Japan by 20.6%, while for constructions services the price gain is estimated at 29.9%.

The Japan-Singapore Free Trade Agreement has led to higher rates of return on Japanese investment in Singapore, according to official statistics. The tariff cuts are said to have boosted the demand for Singaporean products, thereby raising returns to capital.

The customs automatisation agreement affects the cost of Japan’s trade with all partners. All of the Asian economies are expected to gain from this deal in terms of real gross domestic product, with the largest impacts felt in Thailand and Malaysia, two economies that trade a great deal with Singapore and Japan.

These increases in real Gross Domestic Product are also fuelling increased foreign investment, with the stock of foreign-owned equity in Thailand rising as a result of the FTA. The increase in foreign ownership in Singapore, Japan and Thailand is financed by a modest increase in outward foreign direct investment from the United States, Canada and other countries.

5.9 Latin American Integration Agreement (LAIA / ALADI)

The Latin American Integration Association (Asociación Latinoamericana de Integración (LAIA / ALADI)) was created on 12 August 1980 by the Montevideo Treaty, which replaced the Latin American Free Trade Association (LAFTA / ALALC). Currently, it has thirteen members: Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Panama, Peru, Uruguay and Venezuela.

ALADI is designed to promote the establishment of an area of economic preferences within the region, in order to create a Latin-American common market, through three mechanisms:

- A Regional Tariff Preference applied to goods from the member countries compared to tariffs in-force for third countries.
- Regional Scope Agreements, those in which all member countries participate.
- Partial Scope Agreements, those wherein two or more countries of the area participate.

The so-called ‘Relatively Less Economically Developed Countries’ of the region (Bolivia, Ecuador and Paraguay) benefit from a preferential system, through the lists of market openings offered by the countries in favour of these countries. Any Latin American state may apply for accession.
5.10 New Zealand-Singapore Closer Economic Partnership (ANZSCEP)


The ANZSCEP is a comprehensive Agreement covering trade in goods and services, investment and government procurement. As far as trade in goods is concerned, most importantly food and beverage products on the NZ side, the agreement involved the complete elimination of all tariffs on goods originating in either country.

Singapore is New Zealand's sixth largest trading partner, with total exports to Singapore worth NZ$845 million, and total trade between the two countries worth NZ$2.9 billion in 2012. New Zealand's exports to Singapore are primarily made up of food and beverages, of which dairy products account for approximately 35%. Other exports include oil and machinery products. New Zealand mainly imports oil, machinery, electrical machinery, processed food, plastics and chemicals from Singapore.

Singapore is New Zealand's 13th largest market for food and beverage products with exports valued at NZ$546 million. Dairy products are the most valuable export ($300 million) with meat ($66 million), seafood, wines, fruit and vegetables rounding out the high volume food trade. Over the last 10 years, New Zealand food exports to Singapore have more than doubled. Singapore is the ninth largest export market for New Zealand wines.

Singapore was a central player in the development and conclusion of the Australia/New Zealand/ASEAN Free Trade Agreement (AANZFTA) that was agreed in September 2008 and entered into force on 1 January 2010. This agreement is thought to be worth around $50 million in tariff savings per year to New Zealand.

5.11 South Asian Preferential Trade Arrangement (SAFTA)

The South Asian Free Trade Area, or SAFTA, was signed in 2004 and creates a free trade area encompassing some 1.8 billion people between Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. A framework agreement within SAFTA to aims to reduce customs duties on all traded goods to zero by the year 2016.

The SAFTA agreement came into force on 1 January 2006. Developing countries (India, Pakistan and Sri Lanka) were required to bring their duties down to 20% in the first phase of the two-year period, ending in 2007. In the final five-year phase ending 2016, the 20% duty will be reduced to zero in a series of annual cuts. The least developed nations (Nepal, Bhutan, Bangladesh, Afghanistan and Maldives) have an additional three years to reduce tariffs to zero.
5.12 Turkey

Turkey has a wide range of free trade arrangements and trade alliances with other countries. The basis of its web of preferential trade relations is the Turkey-EU Customs Union, under which Turkey has aligned its commercial policy with the EU’s Common Commercial Policy.

All customs duties between Turkey and the EU are eliminated, and a common customs tariff is implemented on trade with third countries. To allow the free movement of goods, all parties accept a common commercial policy and common competition rules.

Turkey has 17 Free Trade Agreements in force, with EFTA, Macedonia, Bosnia-Herzegovina, Albania, Israel, Palestine, Morocco, Tunisia, Egypt, Syria, Georgia, Serbia, Montenegro, Chile, Jordan, South Korea and Mauritius. Agreements with Lebanon and Kosovo will be in effect after the completion of internal ratification procedures.

There are a further 14 countries/country blocs with which Turkey has started FTA negotiations, namely Ukraine, Colombia, Ecuador, Malaysia, Moldova, Dem. Rep of Congo, Ghana, Cameroon, Seychelles, the Gulf Cooperation Council, Libya, MERCOSUR, Faroe Islands and Peru.

Moreover, Turkey has launched initiatives to start negotiations with 12 other countries/country blocs. These are the USA, Canada, Japan, Thailand, India, Indonesia, Vietnam, the Central American Countries, the ACP Countries, Algeria, Mexico and South Africa.

In the period between 2000 and 2012, Turkey’s total exports increased by 446%, while its exports to its FTA partners increased by 551%. Exports to FTA partners were around US$2.2 billion in 2000, but these had reached US$14.5 billion in 2012.

Over the same period, Turkey’s total imports increased by 340%, while imports from FTA partners increased by 280%. Imports from FTA partners, around US$2.8bn in 2000, increased to US$10.7bn in 2012.

5.13 US-Australia Free Trade Agreement (AUSFTA)

The Australia-United States Free Trade Agreement (AUSFTA) is a preferential trade agreement between Australia and the United States modelled on the North American Free Trade Agreement (NAFTA). The agreement was signed in 2004 and came into force on 1 January 2005.

The agriculture section of the agreement outlines the system for eliminating most tariffs for agriculture products traded between the two countries. It also involves agreement to eliminate export subsidies for trade between the two countries.

Special tariff rate quotas are an important part of the agreement. These TRQs allow Australian producers to export increasing amounts of the products covered free of duty to the United States during the (lengthy) tariff elimination period. The products covered by these arrangements are beef, dairy products, tobacco, cotton, peanuts and avocados.
The two partners have established a Committee on Agriculture with the purpose of providing "a formal opportunity for Australia and the United States to discuss a wide range of agricultural issues relevant to the Agreement, including trade promotion activities; barriers to trade; and consultation on the range of export competition issues." Both have committed to working with the WTO on a multilateral scale to eliminate export subsidies in other WTO member countries.

In line with the existing WTO Sanitary and Phytosanitary (SPS) Agreement, the partners set up two committees to ensure that the SPS agreement provisions are followed. The joint Committee on Sanitary and Phytosanitary Matters has a mandate for "increasing the mutual understanding of the SPS measures and regulatory processes of each Party as well as continuing the cooperative efforts of the Parties internationally." There is also a Standing Working Group on Animal and Plant Health, designed for the resolution of specific animal and plant health matters.

Many independent analysts regard the agreement as being loaded against Australia in the agriculture sector. Duties on more than 97% of US non-agricultural tariff lines became duty-free from the inception of the Agreement, with all trade in goods free of duty by 2015. However, for Australia’s key agricultural export commodities, dairy products and beef, the US is maintaining both tariff rate quotas (TRQs) and out-of-quota tariff regimes. It is making no concessions at all on sugar, where Australia might have expected to gain.

While approximately 66% of agriculture tariffs were cut to zero immediately, with a further 9% dropping to zero on 1 January 2008, these concession were on products which did not compete with US producers. Complete elimination of tariffs will not be achieved until 2022.

In the beef sector, a major sector for Australian agriculture, the pre-FTA 378,214 tonne for Australian exports to the US will have grown by only 18.5% to 448,214 tonnes by 2022. Only from that date will an unlimited amount of Australian beef be able to enter the US market duty free. But there is also a safeguard clause which states that Australian imports may be subjected to the full out-of-tariff duty when their price falls by more than 6.5%. On the basis of the price trends of the ten years prior to 2005, the safeguard clause would have been activated in six of those ten years.

For the Australian dairy sector, in-quota tariffs on existing TRQs were reduced to zero immediately the agreement entered into force, with duty-free quota volumes subsequently being increased by an average of 5% per annum until tariffs reach zero.

5.14 US-Chile Free Trade Agreement

The United States-Chile Free Trade Agreement was signed in June 2003 and came into effect six months later on January 1, 2004. On that date, tariffs on 90% of US exports to Chile and on 95% of Chilean exports to the United States were eliminated. The agreement also established that Chile and the US would establish duty-free trade in all products within a maximum of 12 years (i.e. by 2016).

As of 2009, bilateral trade between the United States and Chile reached US$ 15.4 billion, a 141% increase over bilateral trade levels before the US-Chile FTA took effect. In particular, US exports to Chile in 2009 showed a 248% increase over pre-FTA levels.
The deal committed Chile to eliminate tariffs immediately on pork and pork products, beef offal, durum wheat, barley, barley malt, sorghum, soybeans and soybean meal, pasta, breakfast cereals, cereal preparations, and sunflower seeds. Access for beef on both sides was liberalised over four years, beginning with a 1,000-tonne quota (TRQ), a 10% annual growth factor, and a linear phase-out of the out-of-quota tariff rate. Access for poultry on both sides is being completely liberalised over 10 years.

Chile’s duty on many dairy products, including skim milk powder, whey, and cheeses, was eliminated in four years; duties on other dairy products were eliminated after eight years. Tariffs on US and Chilean wines are being progressively harmonized down to the lowest wine tariff rate and will be eliminated by 2016. Higher effective tariffs have remained for wheat, wheat flour, and sugar during the 12 year transition period under the FTA, with an import price band system.

The agreement applies product-specific rules of origin similar to those contained in the NAFTA, defining the general rule to consider a good as affected for the agreement when “the good is wholly obtained or produced entirely in the territory of one or both of the Parties” distinguish it from “simple combining or packaging operations” that are not covered by this FTA.

In the first seven years after the inception of the US-Chile FTA, US exports to Chile increased by 300%, growing from $2.7 billion in 2003 to $10.9 billion in 2010. Principal US exports to Chile in 2010 were machinery, mineral fuel, oil, vehicles, electrical machinery, and plastic. US exports of services to Chile also grew substantially, reaching over $2 billion in 2009.

5.15 US-Israel Free Trade Agreement

The United States-Israel Free Trade Agreement is a trade pact established in 1985 that lowers some barriers to trade in some goods. The agreement sets reduced rates of duty, and in some case eliminates all duty, on merchandise exported from Israel to the US. The agreement covers merchandise exported from Israel, the Gaza Strip and the West Bank.

The US-Israel FTA was the first US FTA to enter into force, and it eliminated duties on manufactured goods from January 1, 1995. Non-tariff barriers to trade remain in the areas of intellectual property rights, standards and technical regulations, and a lack of transparency in government tendering process. Also, tariff and nontariff barriers continue to affect a certain portion of US agricultural exports. As a result, in 1996 the United States and Israel signed an Agreement on Trade in Agricultural Products (ATAP), establishing gradual and steady market access liberalization for food and agricultural products effective from 2001. Negotiation and implementation of a successor ATAP was completed in 2004.

US exports to Israel grew from $2.5 billion in 1985 to $11.3 billion in 2010. The main US export sectors to Israel are precious metals, electrical machinery, machinery, aircraft, medical instruments and vehicles.
5.16 US-Jordan Free Trade Agreement

The US-Jordan Free Trade Agreement (FTA) was signed on October 24, 2000. It was America's third free trade agreement, and the first one with an Arab state.

The Agreement achieves significant and extensive liberalization across trade issues. It will eliminate all tariff and non-tariff barriers to bilateral trade in virtually all industrial goods and agricultural products within ten years.

The US-Jordan FTA has a number of major sections, principally elimination of tariffs on virtually all trade between the two countries within 10 years by four stages; opening of the Jordanian services market to US companies; intellectual property right protection; mutual commitment to a liberalized trade environment for electronic commerce; protection of the rights of workers and improvement in labour standards.

The Agreement includes a separate set of provisions on environmental protection. Specifically, each country agreed to avoid relaxing environmental laws to encourage trade. The United States and Jordan affirmed their beliefs in the principle of sustainable development and also agreed on an environmental cooperation initiative, which establishes a US-Jordanian Joint Forum on Environmental Technical Cooperation for ongoing discussion of environmental priorities and related issues.

The Free Trade Agreement is the first trade agreement to include substantive provisions addressing electronic commerce, a step that should help advance a global free trade agenda in a sector critical to American high technology and multimedia companies. Both countries agreed to seek to avoid imposing customs duties on electronic transmissions, imposing unnecessary barriers to market access for digitized products, and impeding the ability to deliver services through electronic means.

The Free Trade Agreement's provisions on intellectual property rights (IPR) build on the strong IPR commitments Jordan made in acceding to the WTO. The Free Trade Agreement incorporates the most up-to-date international standards for copyright protection and stepped-up commitments on enforcement.

The agreement also contains trade-related environmental and labour provisions. These provisions will not require either country to adopt any new labour or environmental laws, and each country retains the right to set its own labour and environmental standards and to change those standards. As part of the agreement, the two countries affirm the importance of not waiving or derogating from their labour or environmental laws in order to encourage trade.

A key element of this relationship is the United States-Jordan Free Trade Agreement, which was fully implemented on January 1, 2010. In addition, the Qualifying Industrial Zones (QIZs), established by Congress in 1996, allow products to enter the United States duty-free if manufactured in Israel, Jordan, Egypt, or the West Bank and Gaza. The programme has succeeded in stimulating significant business cooperation between Jordan and Israel.

The Jordanian market for both basic and processed foods is small but lucrative. With its domestic agriculture resources stretched, Jordanian demand is rising for imports such as wheat and flour, meats, fish, fruits, vegetables (especially pulses), barley, eggs and dairy products.
The US-Jordanian agreements and arrangements have played a significant role in boosting overall United States-Jordanian economic ties. US goods exports were $1.2 billion in 2009, up 27% from 2008. QIZ products still account for more than half of Jordanian exports to the United States, but the QIZ share is declining relative to total products shipped under the FTA. This shift toward exporting products manufactured outside of the QIZs demonstrates the role the FTA plays in helping Jordan diversify its economy.

5.17 US-Singapore Free Trade Agreement (USSFTA)

The US-Singapore Free Trade Agreement came into effect on January 1, 2004. The FTA essentially eliminated tariffs on all goods traded between the two countries. It also included market access measures and other provisions related to trade in services, investment, rules of origin, intellectual property rights, government procurement, licensing of professionals, telecommunications, worker rights, the environment, capital controls, and dispute settlement.

The USSFTA has led to an increase flow of investment and trade between the two countries and has also strengthened economic and political ties. However, it has little effect on trade in food products between the two countries.

5.18 Canada-Israel Free Trade Agreement (CIFTA)

The Canada-Israel Free Trade Agreement (FTA), was implemented on January 1, 1997. It was aimed at improving market access for agri-food products of export interest to both Canada and Israel, and eliminating tariffs on virtually all industrial goods. It partially restored Canada's competitive position in the Israeli market, where the United States and the European Union had gained preferential access through negotiated bilateral arrangements. It was also a significant step for Israel as it offered improved access to the seventh largest world market, Canada.

The main elements of the Agreement included:

- removal of tariffs from industrial products of Canadian or Israeli origin from 1 January 1997.

- introduction of duty-free access or low duties on a variety of agricultural and fisheries products exported by both countries. For Canada, this includes grains, grain products, beef, maple sugar, alcoholic beverages and processed foods. Both sides have excluded dairy, poultry and egg products from the agreement. Renewed discussions have been held and will continue to be held, however, with the aim of further liberalizing agri-food trade.

- in order to resolve any disputes under the Agreement, both countries have agreed to be governed by a binding dispute settlement process.

In the first year of implementation (1997), the Canada-Israel Free Trade Agreement (CIFTA) helped stimulate an overall increase in two-way trade (calculated in direct shipments of goods) of 18-20%, with
Israeli imports of Canadian products increasing by 55.8% (to $294 million) and Israeli exports to Canada growing by 18.1% (to $146 million).

Among Israeli imports from Canada, the most significant growth occurred in the areas of prepared foodstuffs; transportation equipment, including aircraft; electrical equipment, including telecommunications technology; mineral products; and precious stones and metals.

Among Israeli exports to Canada, the most impressive growth in the first year of the FTA was in the areas of rubber and plastic products; hides and leather products; animals and vegetable fats; and finished wood and wood products. The most significant factor in increased trade between the two countries is the removal of virtually all tariffs on industrial products, and the reduction of tariffs on many agriculture and agri-food products.

Canada and Israel are currently re-negotiating the CIFTA agreement and Canada hopes to further liberalize trade in agri-food products. This will help to secure long-term relationship between Canada and Israel in the agricultural area. Significantly however, Canada and Israel agreed at the outset of the next round of negotiations to exclude the mutually sensitive supply managed sectors of dairy, eggs and poultry.

5.19 Canada-Chile Free Trade Agreement (CCFTA)

The Canada-Chile Free Trade Agreement (CCFTA) entered into force in July 1997. The intention on the Canadian side was to give its exporters advantage over competitors from the US, the European Union and Asia, and to give the Chilean government a boost in its accession campaign to NAFTA.

The Agreement covers trade in goods and services, investment, and a dispute settlement mechanism, and is accompanied by two parallel agreements. These two parallel agreements are aimed at strengthening bilateral labour and environmental co-operation, and at promoting the further development of, and effective enforcement of, domestic laws and regulations in those fields.

In addition to its intrinsic significance in strengthening the trade and investment relations between Canada and Chile, the CCFTA has been intended to facilitate and to promote the accession of Chile to the North American Free Trade Agreement (NAFTA). Therefore, the CCFTA is broadly consistent with the NAFTA (see 5.1) in terms of its structure, scope and coverage, its customs administration modalities, and in particular the rules of origin.

There are, however, significant differences between the CCFTA and the NAFTA. Most notably, the CCFTA does not contain an energy chapter, nor, importantly, does it deal with sanitary and phytosanitary measures affecting agricultural trade. It does not have a general set of provisions with respect to standards-related measures, and it does not contain chapters on government procurement, financial services or intellectual property.

The trade agreement’s key features include the elimination of the 11% Chilean duty which is levied on all imports. This provides significantly improved access to the Chilean market, including immediate duty-free access for a wide range of Canadian goods. Most Chilean goods already enter Canada duty-free.
There are additional benefits and significantly improved guarantees for Canadian investors in Chile, unprecedented outside of the NAFTA context. A more secure regulatory regime is available for Canadian service providers exporting to the Chilean market, guaranteeing NAFTA-quality rights. In addition, there are side agreements on environment and labour. These agreements provide scope for Canada to participate actively in the further modernization of Chile’s labour and environmental laws and practices, as Chile does not have such agreements with any other country.

The effect of the CCFTA on Chilean agricultural exports to Canada has been found to be “large and positive”. It is estimated that approximately one half of a 90% increase in Chilean exports to Canada can be attributed to trade preferences that the country received under the agreement. There has been a lesser effect of the agreement on Canadian agriculture exports to Chile.

Canadian imports from Chile increased significantly after establishment of the FTA. Imports grew by 86% between 1996 and 2004 and almost doubled by 2005. Chile’s share of the Canadian import market has also been growing. This growth has varied across different products: Chilean exports to Canada has increased the most in fresh fruit, but also in beverages, cereals and fish products.

5.20 Mercosur (The Southern Common Market)

Mercosur was established in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Mercosur or the Southern Common Market is a sub-regional bloc. Its full members are Argentina, Brazil, Paraguay, Uruguay and Venezuela, with associate countries Bolivia, Chile, Peru, Colombia, Ecuador and Suriname. Observer countries are New Zealand and Mexico. Its purpose is to promote free trade and the fluid movement of goods, people, and currency. The official languages are Spanish, Portuguese and Guarani. The main elements of the treaties have been updated, amended, and changed many times since 1994. It is now a full customs union and a trading bloc.

It aims at the free transit of produced goods, services and factors of production among the member states. Among other things, this includes the elimination of customs rights and lifting of nontariff restrictions on the transit of goods or any other measures with similar effects on it. It has a common external tariff (CET) and is adopting of a common trade policy with regard to non-member states or groups of states, and the coordination of positions in regional and international commercial and economic meetings;

Mercosur is committed to coordination of macroeconomic and sectorial policies of member states relating to foreign trade, agriculture, industry, taxes, monetary system, exchange and capital, services, customs, transport and communications, and any others they may agree on, in order to ensure free competition between member states.

The Asunción Treaty is based on the doctrine of the reciprocal rights and obligations of the member states. Mercosur initially targeted free-trade zones, then customs unification, and finally a common market. The common market will allow (in addition to customs unification) the free movement of labour and capital across the member nations, and depends the granting of equal rights and duties to all member countries. In addition to the reciprocity doctrine, the Asunción Treaty also contains provisions for the most-favoured nation concept. This concept is that after the common market is formed, member nations are to
automatically extend to the other members any advantage, favour, entitlement, immunity or privilege granted to a product originating from or intended for countries that are not party to the Latin American Integration Association (ALADI).

Mercosur is one of the most important producers of agricultural products in the world and a net exporter of a wide range of agricultural commodities. Around 22% of total EU28 imports of agricultural products from non-EU countries originate in Mercosur. Brazil accounts for almost two third of EU imports from Mercosur (64%) while Argentina supplies almost one third (32%). Uruguay and Paraguay each account for some 2%. The top product categories imported from Mercosur include oil meals, soya beans, coffee, beef and fruit juices. It is important to appreciate that the four countries of the group are responsible for around 65% of imports of soya beans used by the EU as animal fodder, and 75% of imports of beef into the EU. Argentina is the top supplier of beef, while Brazil is the number one supplier of soya beans. Moreover, Mercosur, predominantly Brazil, is also the leading supplier of poultry meat to the EU, covering near 90% of EU imports in volume terms. Brazil is an important supplier of sugar (mainly raw cane sugar) to the EU (around a third of EU total sugar imports) and ethanol.
6. **The impact of FTAs on trade in the major commodities**

The direct influence of the widespread development of what are essentially bilateral trade agreements on international trade in the major agricultural commodities is extremely hard to discover. This is largely because so many of the preferential bilateral and regional agreements have onerous exclusions for too many agricultural products.

Only trade in grains and oilseeds can be said to have gained from significant reduction in tariff and non-tariff barriers over the last two decades.

Most agreements tend to reflect the pattern established in the only significant multilateral agreement on agricultural trade, the Marrakech accord which completed the GATT/WTO Uruguay Round in 1994. The complex ‘system’ of phased tariff reductions, the exclusions, the extension of the tariff rate quotas and undertakings on phasing out of export subsidies and hidden export subsidies contained in domestic support polices is reflected in most of the major PTAs examined in this report.

While trade in industrial products and services has been facilitated by the proliferation of PTAs, it is unlikely that these bilateral arrangements or multilateral agreements have affected agricultural trade flows to any significant effect. Professor Stefan Tangermann has pointed out that it is doubtful whether international agreements, bilateral or multilateral, do embody any new approach. He points out that the WTO Agreement on Agriculture itself “is not an agreement on free trade, and even less is it an agreement to do away with all agricultural policies”.

Indeed, both PTAs and the URAA treat agriculture as an exceptional sector by preserving higher levels of tariffs on agricultural goods than on manufactured goods and “legitimizing” export subsidies “by their incorporation in country schedules”. In some agreements it is clear that the weaker partner has made concessions on agriculture and food products to gain concessions in other areas. The US-Australia agreement is a good example of this phenomenon. Some analysts argue that even where there has been an apparent response to a trade agreement, for example within the URAA, the changes in the EU’s Common Agricultural Policy (CAP), for example, would have been made anyway.

There is also clear evidence that while some PTAs/RTAs increase agricultural trade between member countries, they tend to decrease trade between member and non-member countries. At the same time, however, RTAs have proven to be particularly effective in expanding agricultural trade and opening markets in developing countries when developing-country trading partners are part of the same agreement.

The main findings of a 2011 ERS/USDA study of trade agreements concluded that:

- RTA membership boosts agricultural trade between member countries, on average by between 34 and 93% in the long run.
• The expansion of trade between RTA members typically comes at the expense of trade with non-member countries. Empirical results show that agricultural trade falls, on average, between 26 and 46% in the long run between two countries when one of them does not belong to an RTA to which the other is a member.

• On average, agricultural trade increases 105% between two trading partners that belong to the same agreement in the long run, but falls to 49% between an RTA member country and a non-member trading partner.

• RTAs do boost trade in agricultural markets. The percentage increase in partner trade expansion induced by mutual RTA membership exceeds the percentage decline in partner trade characterizing asymmetric RTA membership.

• RTAs are particularly effective at expanding agricultural trade and opening markets in developing countries when both developing-country trading partners are members of the same agreement.

Significantly, the ERS found no discernible increase in agricultural trade due to mutual RTA membership by either high-income country exporters supplying affiliate low-income country markets, or by low-income country exporters supplying affiliate high-income country markets, on average. Many developing countries, nevertheless, place a high priority on forging trade agreements with high-income countries rather than with low-income countries. Other geopolitical considerations tend to take precedence in such arrangements.

6.1 Impact on trade in cereals

More than 18% of the global demand for wheat is supplied via international trade, mostly as exports from the OECD countries to developing countries. It is estimated that close to 30% of wheat production is stored as a buffer against production shortages.

The eight major wheat exporters are the United States, Canada, Australia, the EU, Argentina, Russia, Ukraine and Kazakhstan; these together account for more than 90% of world wheat exports.

The 11 largest importing countries account for half of the net imports. More than 60% of net world wheat trade goes to North Africa, the Middle East, or Eastern Asia. China’s imports more than doubled by 2012-13 over ten years to more than 8.5 million tonnes as the Chinese Government decided to import to limit stock reductions. According to USDA figures, Algeria and Egypt are among the world’s largest importers, at 6.7 million and 10.5mt in 2013-14, respectively.

Since 2000, wheat exporters such as the EU and the US have largely eliminated export subsidies under the URAA, but continue to provide support to domestic production through programmes that include marketing assistance loan payments, direct and counter-cyclical payments, crop insurance and surplus disposal programmes for export assistance.

Prior to the 2007 agricultural price boom the OECD countries’ support for wheat, as measured through producer support estimates (PSEs), averaged 35% of the value of production in the mid-2000s, amounting
to nearly US$17 billion of income transfers to producers according to the OECD. Subsequently, the level of support to cereal producers has fallen as world prices have risen to and even exceeded support levels in the OECD countries in the later 2000s. The PSE for wheat globally is now little more than 3%.

Nevertheless, even in the cereals trade, where tariff levels have been reduced more than those on other commodities since 1994, there are considerable potential advantages to exporters and importers to be gained from FTA arrangements, especially in the event that world prices subsequently fall. Bound tariffs are especially high for Japan (414% out-of-quota and 249% in-quota), Morocco (198% out-of-quota and 144% in quota) and Colombia (130% out-of-quota and 124% in quota). Regional trading agreements have resulted in significant preferential tariffs. Current price levels and expected rising price trends are however, increasingly rendering these tariffs less relevant.

The EU, for example, enjoys a preferential tariff on its wheat exports to Morocco of 2.5% compared to an average applied tariff of 29%. Similarly, Canada and the United States receive preferential treatment from Mexico under the North American Free Trade Agreement, with tariffs of 4.5% instead of an average applied tariff of 28%. Japan is the highest protector of wheat: it operates an average applied tariff of 186%. Several kinds of non-tariff barriers have also been administered by governments, such as import licenses, quantity and quality restrictions, state trading and bureaucratic obstacles, to control wheat imports.

It has been calculated that under the market conditions applying prior to 2005-06 the removal of all trade distortions (full liberalization) would have led to increases in wheat prices ranging from 4.8% (FAPRI 2002) to 18.1% (USDA 2001). Subsequently prices have risen to the extent that the effect of remaining tariffs is very small.

Much the same applies to the impact of domestic support measures: considerably lessened by the rising world price trend. The Food and Agricultural Policy Research Institute study (FAPRI) has shown that, in the market conditions ruling prior to 2006, the increase in wheat prices would have been 7.6% higher under a tariff-removal-only scenario than under a full liberalization scenario. The difference reflects the effect of domestic support policies in place at the time, such as set-aside and environmental programmes in the EU and the US, which, when removed, result in a substantial increase in production and exports (7.9% compared to 5% under the tariff removal only), thus dampening the price effect.

Conversely, a US Department of Agriculture study (USDA 2001), indicated that the increase in wheat prices resulting from the elimination of OECD domestic policies (12%) could have been expected to be larger than the price effect from the elimination of tariffs (3.4%). When world market prices are low enough for tariffs to be fully effective, all calculations of tariff and support reduction indicate that world market prices of wheat would rise.

The spectacular rise in wheat prices since 2006 renders these calculations very much more theoretical. Nonetheless, they are still relevant should slump follow boom in world cereal and other commodity prices, as it has done continuously since the mid-19th century; in such a situation there would be significant advantage to be gained for exporters in preferential agreements. Recent (2016) world price falls have still left prices above the pre-2006 level.
6.2 Impact on trade in rice

Rice is one of the most important food grains, accounting for 20% of global caloric intake, and 29% among low-income countries. However, only a small share of rice production (less than 7%) is traded internationally. Unlike wheat and other commodities, for which most of the distortion in world markets is attributed to the policies of high-income countries, rice is protected in both developed and developing countries. Perhaps because it is an important source of income for many farmers in developing countries, rice is one of the most protected agricultural commodities. Hence the advantage of trade arrangements which reduce these tariffs is substantial. Even in 2012, the average level of protection on rice was calculated to be around 65%, the highest of all major food commodities.

The leading rice exporters are Thailand, India, Vietnam and the United States. Thailand has a loan programme that provides a 10% support price. India, the second largest producer and consumer of rice in the world, has a large government procurement and distribution system, as well as price supports and export subsidies. Vietnam has a largely market-driven rice sector, although state enterprises play an important role in processing and exporting rice. The United States provides price support to its rice producers through a combination of fixed direct payments (decoupled from current production) and a countercyclical payment - now replaced with a de facto deficiency payment under the 2014 Agriculture Act.

Most of the major rice importers use various measures to limit rice imports. Indonesia, the largest rice importer, uses a state trading enterprise, BULOG, to support the domestic price, assisted by import tariffs of around 36%. Nigeria maintains an import tariff of 50%. The EU has a variable import tariff that varies between €30 and €175 per tonne, depending on prevailing market conditions and the type of rice.

Japan and the Republic of Korea have been compelled by WTO rules to discontinue their previous ban on the importation of rice, but Japan maintains a tariff rate quota with a prohibitively high out-of-quota tariff, while Korea has a quota of about 200,000 tonnes, a small fraction of consumption.

It can be convincingly argued that PTAs will give consumers greater advantage than multilateral liberalisation. This is because liberalisation would have the effect of increasing demand. Removal of these trade distorting policies could increase world rice prices by between 2-3% and 10% according to various estimates. The USDA estimates that removal of protection would raise world rice prices by about 10%. A static partial equilibrium model of rice markets, highly disaggregated by type of rice, projects that full trade liberalization would increase the price of long grain rice by 2%, on average, and that of medium and short-grain rice by a full 90%. The weighted average price increase according to this model is 33%.

6.3 Impact on trade in sugar

There is little doubt that the market for sugar is one of the most distorted in the world; most of the major producing countries protect their domestic producers with consequent significant loss to consumers in both exporting and importing countries. The gains from preferential trade agreements are therefore potentially large.
According to OECD calculations, the developed countries provided just under US$2 billion in support to sugar producers in their countries in 2012. The bulk of this support is provided by the EU, Japan and the United States. The US has maintained a tariff rate quota of 1.3 million tonnes, restricting imports enough to make domestic prices twice as high as the international price. Forty-two countries are given quotas to export sugar to the US, but US imports are only a fraction of what the US would import without import restrictions.

The EU protects its internal sugar market with high import duties – €339 per tonne on raw cane sugar for refining and €419 per tonne on white sugar. The EU also maintains a tariff rate quota, with a large (€98/t) in-quota tariff and a prohibitive (€339/t) out-of-quota tariff. There are two TRQs: 334,054t of Brazilian sugar can be imported at a preferential rate of €98/t and an erga omnes TRQ (meaning a quota open for any country to meet) of 253,977t is also available at the same duty rate. In addition, a temporary duty-free quota of 400,000 tonnes annually is open for industrial sugar imports.

The EU grants duty-free, quota-free access for sugar imported from the least Developed Countries (LDC) and ACP countries consisting mainly of former European colonies in sub-Saharan Africa, the Caribbean and the Pacific. Recent reductions of the difference between the EU’s in-quota tariffs and the out-of-quota tariffs has eroded the preferences of the African, Caribbean and Pacific Group of States.

Japan uses a specific tariff to limit sugar imports and protect its farmers. The support given to Japanese farmers is roughly US$400 million. Many developing countries also have high levels of protection for local farmers. China, India, Mexico, the Philippines, Thailand and Turkey all have high tariff barriers that protect domestic farmers from import competition. A few countries also maintain production quotas or consumer subsidies, but these measures are less common. Egypt and Morocco are two of the few countries that have programmes to subsidize sugar for consumers.

The possible impact of trade liberalization on the world sugar market was indicated by a Food and Agricultural Policy Research Institute (FAPRI) study of world sugar market liberalisation with 29 countries and regions in 2005. According to these calculations, the removal of all trade restrictions (including tariffs, tariff rate quotas and state trading) would have increased the world price of sugar by 27% at the end of a nine-year period. When the removal of all production support is included, the world price was calculated to rise 48% compared to the status quo. The effect of comparative advantage of the most efficient producers would be expected to show that the EU would change from being a net exporter to a net importer of sugar, while Brazil, Cuba and (to a lesser degree) Australia could be expected to expand net exports.

In fact, the subsequent changes in EU sugar policy from 2006 did bring about this change in trade – but not in price levels. After the 2006 reform of the EU sugar policy, EU sugar exports fell to close to zero, while imports substantially increased from 2mt in 2005 to over 3.3mt in 2012-13, and they are expected to almost double in the next few years. From being a leading net exporter, the EU has become a leading net importer.

However, the EU’s partial liberalisation of its sugar market and consequent rise in imports was not enough to compensate for surpluses on the world sugar market. Prices on world markets have fallen rather than risen in the six years to 2015, despite the EU’s semi-liberalisation and consequent increased imports, largely as a result of increased production in Brazil and other exporting countries.
6.4 Impact on trade in dairy products

Despite increasing global demand for dairy products, the past decade has seen an escalation rather than a contraction of trade protectionism. The dairy sector ranks alongside sugar as one of the most protected in the world; unlike sugar, where there has been significant easing of market access, particularly in the EU, the level of protection for dairy products is tending to increase.

Almost all of the PTAs examined in this report tend to designate dairy products as in the ‘sensitive’ category, and therefore subject to special continuing protection even within preferential agreements. From the perspective of a major exporting country, ‘Dairy Australia’ sums up the current position on market access:

- The WTO will continue to play an important role, despite, or even because of, the collapse of the Doha round of trade negotiations.
- Non-tariff barriers are increasing, driven not only by protectionist sentiment, but also by an escalation of domestic food regulation driven by consumers and NGOs.
- Bilateral and regional trade deals, with both offensive and defensive motives, provide the main antidote to greater protection.
- Major dairy exporters are adopting varied FTA strategies but Asia is becoming the major battleground.

There is no guarantee that PTAs will overcome these obstacles. Dairy products are not, in general, widely traded: only 7% of global demand is met through international trade. Virtually all the trade in dairy products involves butter, cheese and dried milk. Australia, the EU and New Zealand are the dominant exporters of dairy products, while Canada, Japan and the United States are net importers of dairy products.

Dairy markets are highly protected through a combination of import restrictions (such as tariff and tariff rate quotas), consumer subsidies and, in the case of a few developed countries, income and price supports, export subsidies and milk production quotas to limit supply. Average bound tariffs for dairy remain among the highest for all agricultural commodities. The OECD countries’ average support for the milk sector, as measured through producer support estimates, amounts to more than 40% of the value of production, representing US$40 billion in income transfers to producers. The protection rate calculations show estimates of applied average rates of 43% for the EU and 19% for the US.

Support for dairy producers makes up a large share of the ‘aggregate domestic support’ in some countries: 84% in Canada, 55% in the United States and 12% in the EU.

The EU dairy support system consists import protection, an intervention programme that supports the price of skim milk powder and butter if required, and export refunds (subsidies) that may be used to market surplus dairy products (although these have not been used since 2009). Production/delivery quotas for milk were phased out in 2015. The combination of border and domestic policies has resulted in a producer support estimate of 51%.
Japan maintains a complex network of policies that provide high protection for domestic milk production, including supply quotas, environmental subsidies, and a variety of programmes that support farm and market infrastructure, extension services, and milk consumption, that benefit producers of drinking milk, as well as manufacturing milk. The producer support estimate for milk represents more than 77% of the value of production, an indication that more than two thirds of the value of Japanese milk production relies on government interventions either through barriers to imports or through subsidies to farmers.

The US created the Milk Income Loss Contract Programme to provide targeted countercyclical payments to small dairy farms. In addition, the United States uses foreign donation programmes and casein production subsidies to reduce excessive stocks of surplus skim milk powder. The producer support estimate for the US dairy sector is 45%, significantly lower than the estimate for Japan and somewhat lower than the estimate for the EU, but still significant. Canada’s dairy policy is a complex web of interrelated policies resulting in a producer support estimate of around 60%.

Global trade models indicate that trade liberalization would shift production from more market distorting countries such as the EU, Japan and the United States to more efficient exporters such as Argentina, Australia, Brazil and New Zealand. It has been estimated that the elimination of four policy instruments: (i) production quotas, tariffs and tariff rate quotas; (ii) domestic price support and producer payments; (iii) export subsidies; and (iv) consumer subsidies, would lead to lower global production and higher prices. Likely price increases range from 13% for non-fat dry milk (SMP) to 66% for butter. Australia and New Zealand would gain the most from liberalization because of higher prices and larger exports.

6.5 Impact on trade in meat

The global meat market is highly stratified, with importing countries largely using their import control mechanisms not only to protect their own producers, but also to filter through the type of meat needed to satisfy specific domestic demand requirements. Most PTAs therefore seek to regulate carefully the basis on which imports take place. Thus, although multilateral agreements can reduce the global protection in the meat market, FTAs tend to give greater advantage to exporters and consumers.

The Uruguay Round and its six-year phase-in period provide a strong example of what the reduction of trade barriers can do for exports. In the six years prior to the implementation of the Uruguay Round, US pig meat exports to Japan, for example, grew by a little over 36,000 tonnes, then during the six-year phase-in period, US pork exports increased by more than 168,000 tonnes. At the end of the phase-in period, US pork exports to Japan increased by an outstanding 245,000 tonnes. US pork exports to Japan, in 2012, reached over 455,000 tonnes, valued at over $1.9 billion.

It should be noted however that PTAs do have the unfortunate effect of displacing non-members of an agreement from important meat markets. Canadian meat exporters’ experience in some Asian markets is a good example. When the United States gained market access for beef to South Korea in June 2008, the agreement restricted exports to South Korea to beef from cattle under 30 months old (UTM) animals and fed in the United States for at least 100 days, thus seriously complicating the processing of Canadian slaughter cattle by United States packers. This is because this regulation requires significant segregation and tracing capabilities for packers exporting to multiple markets. While beef began being exported from the
United States to South Korea in July 2008, the negotiations with South Korea were not conducted using a unified North American front, leaving Canada without an agreement and without market access.

Canada was forced to take its lack of access to South Korea for beef to the WTO and only achieved access in the spring of 2012. However, with the US-South Korean FTA by then completed, gaining access for Canadian beef was a pyrrhic victory. Leaders of the Canadian cattle and beef industry initially held back support for Canada’s effort to conclude an FTA with South Korea.

Canada is effectively cut out of the Korean market for beef and pork due to the substantial Korean tariff and the preferential market access enjoyed by US exporters. The continuing effect on Canadian pork exports is disastrous. Canadian pork exports to South Korea dropped by over $100 million in 2012 despite help from a Korean duty free period\textsuperscript{xxxix}. Canada’s pork industry remains at a tariff disadvantage to South Korea’s top three foreign suppliers of pork: the EU, Chile, and the United States.

In tandem with NAFTA, the Uruguay Round provided significant market access for US pork products to many new markets, like Japan, now the number one value export market for US pork, by addressing more than simply tariffs\textsuperscript{xl}.

The Uruguay Round addressed market access issues ranging from permitted levels of domestic subsidies to new rules on sanitary and phytosanitary (SPS) measures. At the core of these new SPS rules was the requirement that SPS measures be ‘supported by sound science’. Often governments, in lieu of tariffs, turn to non-science-based SPS measures/barriers, a form of nontariff barriers, to limit imports of sensitive products to protect domestic industries. As part of the Uruguay Round Agreement on Agriculture, countries committed to removing trade restrictive non-science-based SPS barriers, but this still remains a contentious issue.

The EU still operates a panoply of tariff and other restrictions on the import of meat – with only minor concessions on meat imports in its various PTAs. The only significant exception to this is the tariff-free access for beef from Botswana under the ACP arrangements.

In general, the EU maintains a tariff rate quota (TRQ) regime for imports of bovine meat: it also reflects the principle of filtering imports to fit specific consumer needs. One TRQ of 11,500 tonnes, for example, is reserved for High Quality Beef (HQB) imported from the United States and Canada. The in-quota tariff rate is 20% while the out-of-quota tariff rate varies between 12.8% + €176.8/100kg to 12.8% + €303.4/100kg depending on the type of cut or product.

In August 2009, the EU opened another Most Favoured Nation (MFN) duty-free TRQ after the conclusion of a World Trade Organization dispute, as compensation for maintaining its ban on hormonal growth promoters (HGP). The EU subsequently agreed to increase the quota volume by 3,200 tonnes in August 2012. The duty free TRQ now totals 48,200 tonnes. Canada, Uruguay, New Zealand and Australia have access to this TRQ. A new ‘First Come First Served (FCFS) system’ was introduced for this TRQ on July 1, 2012. The quota is administered on a quarterly basis, beginning on July 1 and ending on June 30.

Access for pigmeat to the EU market is even more regulated. Access is principally through the 70,390 tonne GATT quota, open to all WTO members. This is available on a quarterly basis on a ‘year’ running from July
1-June 30. In-quota duties, differing by tariff line, range from €233/tonne to €434/tonne. A further quota, open to all WTO members, permits imports of 7,000 tonnes of fresh or chilled with bone in loins and cuts and frozen bellies (streaky) and cuts thereof between January 1 and December 31 each year (25% of total quota available per quarter). There is also a Canada-only quota for 4,624 tonnes of cuts, fresh, chilled or frozen, boned and with bone in, available July 1-June 30 - 25% of total quota available per quarter. The in-quota tariff varies from €233/tonne to €434/tonne.

6.6 Conclusion

While current world market conditions for the major agricultural commodities might suggest that there is little advantage to be gained for major exporters entering into PTAs with major importing and consuming countries, there remains the risk of a return to the cyclical nature of world commodity markets which were often a dramatic feature in the 20th century. At the bottom of such cycles, it is better to be inside a tariff barrier than outside. But even in a situation where tariffs are less relevant, ‘beyond the border’ SPS and other measures are most easily overcome within a preferential arrangement. In this area, PTAs offer very much a ‘WTO-plus’ advantage.
7. UK Brexit and EU trade agreements

Should the United Kingdom withdraw from the European Union it has a number of choices as far as its trade relationships are concerned. Having decided to leave the union it has three main options: i) to negotiate a new trade arrangement with the EU ii) to establish a standalone free trade policy and negotiate new FTAs with its major trading partners, or iii) to revert to a complete free trade policy relying only on World Trade Organisation MTN tariffs and non-tariff barrier rules.

The last of these is highly unlikely. Most likely is the first option, although ii) would undoubtedly still involve a significant relationship with the EU. All of these alternatives would have serious implications not only for the UK itself, but also for the European Union. Agricultural trade would be an important issue in all these new arrangements.

On the UK-EU relationship it is generally accepted that there are five Brexit scenarios:

• the Norway model - associate membership of the EU involving membership of the European Economic Area;
• the EU-Switzerland model (consisting of a series of sectoral agreements);
• the EU-Turkey model (customs union);
• the EU-Canada model (free trade agreement);
• the US or Australia model (exit without any agreement).

If the UK leaves the EU, four areas of trade relations would be affected, two of them directly involving the WTO:

• UK-EU bilaterally;
• UK-other countries bilaterally where they currently have free trade or preferential agreements with the EU;
• UK-rest of the world (including the EU) in the WTO;
• The EU’s new status in the WTO after separation.
7.1 The UK’s post Brexit trading arrangement choices

7.1.1 Economic Area membership – the ‘Norway option’

The ‘Norway option’ favoured by some supporters of UK exit. This was fairly roundly trounced in a recent report from the House of Commons Foreign Affairs Committee: “The current arrangements for relations with the EU which are maintained by Norway, as a member of the European Economic Area, or Switzerland, would not be appropriate for the UK if it were to leave the EU”. This would involve all the disadvantages with little of the advantage of EU membership. “In both cases, the non-EU country is obliged to adopt some or all of the body of EU Single Market law with no effective power to shape it. If it is in the UK’s interest to remain in the Single Market, the UK should either remain in the EU, or launch an effort for radical institutional change in Europe to give decision-making rights in the Single Market to all its participating states [ie those outside the Union as well as members]”.

Signed in 1992 and operational from 1994, the EEA Agreement extends the EU single market and free movement of goods, services, people and capital, together with laws in areas such as employment, consumer protection, environmental policy and competition – to include Norway, Iceland and Liechtenstein (but not Switzerland). In practice, this means that the vast majority of the EU regulations identified as most burdensome to businesses, including the Working Time Directive, would still exist if the UK left the EU but remained a member of the EEA. It would also be bound by future EU law in these areas, with arguably less influence over their content.

As with EFTA, the EEA Agreement is a regional free trade agreement, not a customs union. It guarantees equal rights and obligations within the internal market for EEA citizens and economic operators. The non-EU EEA countries also make annual financial contributions to the EU for access to its single market. In addition, the EEA Agreement covers cooperation in research and development, education, social policy, the environment, consumer protection, tourism and culture.

It does not cover the following EU policies:

- Common Agriculture and Fisheries Policies (CAP and CFP, although the Agreement contains provisions on various aspects of trade in agricultural and fish products);

- Customs Union;

- Common Trade Policy;

- Common Foreign and Security Policy;

- Justice and Home Affairs (even though the EFTA countries are part of the Schengen area)

- Monetary Union.

Although it does not cover the CAP or CFP, some market access is allowed. An agreement was reached allowing Iceland access to EU markets free of tariff for most of its marine exports, and partial access to EU...
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waters in return for a quota of catch by EU fishing vessels in Icelandic waters. Norway adheres to EU fisheries conservation measures and the quota system.

Liechtenstein, Norway and Iceland have no representation in any of the EU institutions and only indirect influence – including the right to be consulted – on EU proposals affecting them. An EEA Joint Committee works to extend EU regulations and directives to the non-EU members of the EEA (with the EU represented by the European Commission).

Membership of the EEA gives access to the EU’s preferential trade agreements with other countries. If it were not a member of this looser grouping, the UK would have to negotiate ongoing market access with these countries, or else scale the MFN tariffs levied by these countries. If the UK were not part of this grouping, the implication for the EU would be that it could have to pay compensation to the affected countries with which it has FTAs, due to the ‘shrinking’ of the market from what was originally agreed.

EFTA Free Trade Agreements (FTAs) have established free trade areas between the partners. They provide for free trade in industrial goods, including fish and other marine products; cover trade with processed agricultural products; provide for trade disciplines; govern preferential trade in goods under the FTA and contain elaborate rules on customs and origin matters. Trade in basic agricultural products is covered by separate bilateral agreements relating to the UK FTA.

EFTA has three intergovernmental institutions: a Secretariat, a Surveillance Authority and the EFTA Court. EFTA is a free trade area, rather than a customs union like the EU. Member States set their own tariffs and can reach independent Free Trade Agreements (FTAs). EFTA currently has 24 free trade agreements (covering 33 countries).

EFTA Free Trade Agreements (FTAs) establish a free trade area between the partners. They provide for free trade in industrial goods, including fish and other marine products; cover trade with processed agricultural products; provide for trade disciplines; govern preferential trade in goods under the FTA and contain elaborate rules on customs and origin matters, including culmination.

Trade in basic agricultural products is covered by separate bilateral agreements relating to the FTA. FTAs liberalise trade in services, investments and public procurement in more recent agreements, including those with Mexico, Singapore, Chile and the Republic of Korea.

Seen from the UK point of view, the desired level of access to the Single Market, which gives freedom from tariff and non-tariff barriers to trade, has to be balanced against conformity with EU product regulations, social and employment legislation, and budgetary contributions. Some of these options are more possible than others, depending on the degree of resistance on the UK or the EU side.

The EEA Agreement extends the EU single market and free movement of goods, services, people and capital, together with laws in areas such as employment, consumer protection, environmental policy and competition to its members. In other words, not only the maintenance of free movement of labour, but also the vast majority of the EU regulations deemed by UK critics as most burdensome to businesses – such as the Working Time Directive.
EU regulations on free movement of labour and Working Time Directive would still apply if the UK left the EU but remained a member of the EEA. At the same time, the UK would be bound by future EU law in these areas, with less influence over their content. Liechtenstein, Norway and Iceland have no representation in any of the EU institutions and only indirect influence – including the right to be consulted – on EU proposals affecting them.

The biggest attraction of EEA membership for the proponents of Brexit is removal of involvement in any Common Agriculture or Fisheries Policies – although it does cover various aspects of trade in agricultural and fish products. Since there would be no CAP to finance, there would be a much lower UK financial contribution. There would be no Customs Union or Common Trade Policy, nor Common Foreign and Security Policy. The EEA certainly does not include any provisions for monetary union.

In summary: Norwegian style EEA agreement - The UK joins the European Economic Area and maintains full access to the single market, but must adopt EU standards and regulations with little influence over these. The UK would still have to make a substantial contribution to the EU budget and is unable to impose immigration restrictions.

### 7.1.2 The Swiss model option

The so-called Swiss model allows European and Swiss nationals to enjoy the right of entry, residence, access to paid work, establishment on a self-employed basis and the right to stay in the territory after their employment has finished. The right of entry and residence applies to everyone, including those without an economic activity in the host country. The host state must accord foreign nationals the same living, employment and working conditions as those accorded to nationals.

The cornerstone of EU-Swiss relations is the Free Trade Agreement of 1972.

As a consequence of the rejection of the EEA membership in 1992, Switzerland and the EU agreed on a package of seven sectoral agreements signed in 1999 (known in Switzerland as "Bilaterals I"). These include: free movement of persons, technical trade barriers, public procurement, agriculture and air and land transport. In addition, a scientific research agreement fully associated Switzerland into the EU's framework research programmes.

A further set of sectoral agreements was signed in 2004 (known as "Bilaterals II"), covering, inter alia, Switzerland's participation in Schengen and Dublin, and agreements on taxation of savings, processed agricultural products, statistics, combating fraud, participation in the EU Media Programme, the Environment Agency, and Swiss financial contributions to economic and social cohesion in the new EU Member States.

In 2010 an agreement was signed on Swiss participation in EU education, professional training and youth programmes. In overall, around 100 bilateral agreements currently exist between the EU and Switzerland. The on-going implementation of these agreements obliges Switzerland to adopt relevant Community legislation in the covered sectors. These bilateral agreements between the EU and Switzerland are currently managed through a structure of more than 15 joint committees.
7.1.3 Customs union with the EU as with Turkey

A Turkey-EU Customs Union came into force on 31 December 1995. The Customs Union covers all industrial goods but does not apply to agriculture (except processed agricultural products), services or public procurement. Various bilateral trade concessions apply to agricultural products.

In addition to providing for a common external tariff for the products covered, the Customs Union foresees that Turkey is to align to the *acquis communautaire* in several essential internal market areas, notably with regard to industrial standards.

Following the Commission's proposal on "extending and deepening" the Customs Union, in November 1996 the EU Council agreed to negotiating guidelines on the liberalisation of services and public procurement between the EU and Turkey. Negotiations were, however, suspended in 2002.

Were the UK to adopt a similar relationship with the EU internal tariff barriers would be avoided, with the UK adopting many EU product market regulations. The UK would be required to implement EU external tariffs, without influence or guaranteed access to third markets.

7.1.4 Free trade agreement as with Canada

Canada's Comprehensive Economic and Trade Agreement (CETA) signed in 2016 will eliminate all industrial duties and make reciprocal agriculture and food trade concessions. A similar, essentially industrial, free trade area with the EU could be achieved with limited bilateral concessions on largely processed agriculture and food product access.

In CETA duties will be eliminated quickly. Most of them will be removed as soon as the agreement enters into force and the remainder over a period of seven years. Elimination of customs duties will apply also to the farming and food sector. Nearly 92% of EU agriculture and food products will be exported to Canada duty-free. Overall, the tariffs for 98.6% of all Canadian tariff lines and 98.7% of all EU tariff lines will ultimately be fully eliminated. This will happen at entry into force of the agreement for 98.2% of the Canadian tariff lines and for 97.7% of the EU tariff lines. All other products identified for liberalisation will have their tariffs brought to zero within 3, 5 or 7 years.

Canada will eliminate duties for 90.9% of all its agricultural tariff lines upon entry into force of CETA. After 7 years, the tariffs for 91.7% of agricultural lines will be eliminated. The remainder are sensitive products, which will either be offered as a TRQ (dairy) or excluded altogether from liberalisation commitments (chicken and turkey meat, eggs and egg products). The Canadian offer on processed agricultural products (PAPs) - for example wines and spirits, soft drinks, confectionery, cereals-based products like pasta or biscuits, fruit and vegetable preparations - is of particular relevance because Processed agricultural products (PAPs) are among the main export interests of the EU and further market opening was one of the main EU negotiating objectives. With all but a very limited number of the Canadian tariff lines for PAPs now to be liberalised, the EU PAPs industry is expected to gain considerably from CETA.
The EU will benefit from improved access to the Canada high-income market with its speciality processed foods. The outcome of the negotiations is especially promising for PAPs, which is one of the EU’s main export interests. With nearly all Canadian duties for these products eliminated, the EU food-processing industry is expected to considerably gain from CETA. As regards wines and spirits, tariff elimination is complemented by the removal of other relevant trade barriers which will significantly improve access to the Canadian market.

For a handful of sensitive products such as beef, pork, sweetcorn on the EU side and dairy in Canada, the preferential access is limited to quotas. Poultry and eggs will not be liberalised on either side. The EU entry-price system is maintained. Thanks to tariff elimination the EU processing industry will have better access to Canadian fish. Sustainable fisheries will be developed in parallel, in particular with regard to monitoring, control and surveillance measures, and the fight against illegal, unreported and unregulated fishing.

In the event of United Kingdom rejection of EU membership, a free trade agreement similar to CETA would be possible. Assuming that such an FTA could be established during the two years needed for the withdrawal process, full tariff liberalisation in the agriculture and food sector could be negotiated on the grounds that, given that the UK is a relatively minor exporter to the EU, there would be no justification for the Union to impose a defensive tariff wall, while the UK is unlikely to want to maintain high tariffs on EU food imports given its intrinsic commitment to lower consumer prices. The main cost to the UK food industry would arise from the re-introduction of customs procedures, and changes in UK trade policy with third countries.

The UK and the EU could agree a set of bilateral accords which govern UK access to the single market in specific sectors. Concern in Brussels is that the UK would pick only favourable options which would lead to conflict. The UK would have to conform to EU regulation in the sectors covered, but negotiate FTAs separately.

**7.1.5 No free trade agreement, WTO MFN tariffs apply to exports from both partners**

There would be no need to agree common standards and regulation, but the UK would face the EU’s common external tariff, which would disadvantage UK trade with the EU in goods as well as services. Non-tariff barriers may emerge over time to damage trade in services in particular.

For the food and agriculture sectors the most likely outcome post-Brexit would be free trade in agricultural and food products, but with the UK no longer having access to the single market. Essentially, UK traders would find themselves reverting to the pre-1992 situation before the establishment of the single market. In that period, as clearly documented in the Cecchini Report on ‘The Costs of Non-Europe’, many non-tariff barriers, stemming from food safety, plant health, and veterinary regulations for example, impeded the free flow of products between member states incurring significant handling costs. Trading costs between the UK and the EU would increase in a similar way, following Brexit.
Table 7.1: EU ad valorem import duties for agriculture and food products, by product group, 2013

<table>
<thead>
<tr>
<th>Commodity group</th>
<th>Number of lines</th>
<th>Simple average (%)</th>
<th>Tariff range (%)</th>
<th>Share zero-duty lines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animals and livestock products</td>
<td>351</td>
<td>20.4</td>
<td>0 - 192.1</td>
<td>15.1</td>
</tr>
<tr>
<td>Dairy products</td>
<td>152</td>
<td>31.7</td>
<td>1.5 - 164.8</td>
<td>0.0</td>
</tr>
<tr>
<td>Fruit, vegetables, plants</td>
<td>501</td>
<td>13.3</td>
<td>0 - 197</td>
<td>11.6</td>
</tr>
<tr>
<td>Coffee, tea, cocoa and preparations</td>
<td>47</td>
<td>11.6</td>
<td>0 - 18.7</td>
<td>14.9</td>
</tr>
<tr>
<td>Cereals and preparations</td>
<td>230</td>
<td>18.1</td>
<td>0 - 94</td>
<td>5.2</td>
</tr>
<tr>
<td>Oilseeds, fats, oils and products</td>
<td>174</td>
<td>7.5</td>
<td>0 - 154.1</td>
<td>35.6</td>
</tr>
<tr>
<td>Sugars and confectionary</td>
<td>44</td>
<td>25.4</td>
<td>0 - 135.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Beverages, spirits, tobacco</td>
<td>303</td>
<td>14.2</td>
<td>0 - 196.3</td>
<td>18.2</td>
</tr>
<tr>
<td>Cotton</td>
<td>6</td>
<td>0.0</td>
<td>0 - 0</td>
<td>100.0</td>
</tr>
<tr>
<td>Other agricultural products</td>
<td>259</td>
<td>5.6</td>
<td>0 - 83.5</td>
<td>50.6</td>
</tr>
<tr>
<td>Total agricultural products</td>
<td>2067</td>
<td>14.8</td>
<td>0 - 197</td>
<td>18.6</td>
</tr>
</tbody>
</table>

Source: WTO EU Trade Policy Review, 2013, Table 3.3

7.2 UK food and agricultural trade arrangements post-Brexit

Access to the UK market for EU exporters will obviously be influenced by UK trade policy towards non-EU countries. Therefore, an important consideration in post-Brexit trade policy will be the most favoured nation (MFN) tariff the UK is likely to apply to imports. What is without doubt is that the EU remains the UK’s largest trading partner, even though the proportion of UK trade with the Union may have fallen as trade with the rest of the world has increased. This would be unlikely to change post-Brexit. Importantly, the EU currently has 33 preferential trade deals in force covering 62 countries in total. Britain is a party to all these agreements via its membership of the EU, but what would be the status of the UK in these arrangements in some new UK-EU relationship?

EU membership and the trade deals with third countries to which the UK is a party via EU membership currently cover nearly 63% of Britain’s global trade. This is set to rise to over 65% once the agreements the EU recently concluded with Canada and Singapore enter into force. It will rise further to over 78% if and when the Transatlantic Trade and Investment Partnership (TTIP) with the US is agreed.

7.3 The UK’s agricultural trade relationship with the European Union

In the agricultural sector, the UK imports 70+% of its food and agriculture import total from other EU countries, while EU countries take 62% of UK food exports. The UK’s major export food products are (unprocessed) meat, dairy and beverages. Apart from the beverages, the bulk of these products are exported to the EU. In addition to meat and dairy products, the EU is the UK’s major market for the product categories of fats and oils, meat preparations, sugar/confectionary and animal feed. The major EU export markets for the UK’s agri-food sector are Ireland, France, the Netherlands and Germany.
Major agricultural products imported by the UK are meat (both processed and unprocessed), dairy, fruits and beverages. Except for fruits, these products are largely imported from the EU. The UK’s dependency on EU imports is significantly higher than average (70%) for meat, dairy, live trees/ornamental plants, vegetables, a number of processed foods categories and beverages. The EU countries from which the UK sources the majority of agri-food imports are the Netherlands, France, Ireland and Germany. These four countries are also the UK’s main food export markets in the EU, demonstrating the UK’s strong agricultural trade links with a small group of neighbouring countries.

The UK imports only a small proportion of agricultural and food products from outside the EU – largely non-temperate crop products including: coffee, tea, and mate products (65% of total UK imports of this product category), soyabeans (95%); palm oil (85%); cane or beet sugar (60%), molasses (85%) and oilcakes (65%). Except for coffee and tea, these imports are subject to an EU country-specific duty-free TRQ regime (sheep meat, sugar/molasses) or a duty-free import regime agreed in WTO.

### 7.4 UK participation in EU TRQs for agricultural products

What is certain is that any post Brexit UK Government would establish a new policy for agricultural trade. The perceived economic inefficiency of the Union’s Common Agricultural Policy has been a major bone of contention between the UK and Brussels, before and throughout the country’s 42 year membership of the European community. A unilateral UK agriculture and food policy would substantially reduce subsidisation of the agricultural sector and eliminate most protective tariffs while seeking new supply arrangements with Australasia and the Americas.

There are potential savings for both taxpayers (£1.5bn) and consumers of between £400m and £1.4bn from liberalisation, according to estimates by the NFU. This would undoubtedly involve immediate or gradual scaling down of the current direct subsidisation of farmers currently worth more than €3.5 billion a year. Undoubtedly, such a scale of reduction would put substantial numbers of farms out of business, since more than 20% of the country’s farmers are dependent on the EU farm income subsidy to maintain viability (See the Agra Europe Special Report ‘Preparing for Brexit’ April 2016 update for a detailed analysis of the impact of various post Brexit policy scenarios on the UK farm sector). It is likely that the first step for the UK after Brexit would be to secure as much of its existing trade relationship with the EU as possible. The aim would be to salvage as much of the UK’s current access to the single market as possible.

This would also include maintaining the preferential trade agreements with third countries to which Britain is currently a party via its membership of the EU. These two steps could allow Britain to retain many of the benefits it currently enjoys, before attempting to expand its global network of trade agreements. Since the UK is a party to PTA agreements via its EU membership, they would not be automatically inherited by the UK after Brexit and maintaining them would involve long and tedious negotiation.

The other parties would need to decide whether they want to maintain the existing agreements to the UK outside the EU. In principle, this could be relatively straightforward to negotiate if the UK were to propose that the terms stayed the same. It might be essentially be a matter of replacing the existing agreements to include the UK as a signatory in its own right or it may be a more complicated process.
An important question is: would the UK be able to conduct and conclude FTA negotiations alongside the talks over its ‘withdrawal agreement’ with the rest of the EU? In a recent paper looking at the process for leaving the EU, the UK Government suggested this would not be the case, arguing that, “The countries with which we currently have preferential trade agreements through the EU are likely to want to see the terms of our future relationship with the EU before negotiating any new trade agreements with the UK.” Negotiating these new deals is likely to take between two and eight years depending on the complexity of the arrangements.

The outcome will be predicated by the nature of the post-Brexit UK-EU relationship. It is important to note that the Norwegian and Swiss models do not include agriculture; consequently, these states are outside of the CAP and do not apply the EU’s common external tariffs. Both of these countries heavily subsidise their domestic agricultural sectors.

Newly negotiated free trade deals could result in a reduction in tariffs on agricultural tariffs, since if agriculture is less domestically supported the need for import protection is diminished. For example, CETA will see the EU eliminate 93.8% of its agricultural tariffs for Canadian produce. Whatever agreement is reached it would also affect other trade agreements which the UK would seek.

From an EU point of view, the UK’s tariff levels could pose important challenges to rules of origin principles. The EU would obviously not want cheap agricultural goods passing through the UK or being used as inputs in UK production before being exported to the EU.

### 7.5 The UK and the WTO post-Brexit

(The following section is largely taken from a two-part analysis by Peter Ungphakorn ‘The complex search for the UK’s WTO status quo’ Published by Agra Europe March 2016)

If a post Brexit UK government were to adopt the ‘go it alone position’ – without any trade agreements with other countries or blocs – then it would face a whole maze of negotiations within and around the World Trade Organisation to establish its trading relationship with the rest of the world. This would have important implications for the agriculture and food sectors. WTO membership is described as a balance of negotiated ‘rights’ (such as to be able to export to other countries) and ‘obligations’ (eg. to open up to imports from them).

Both work through agreed ‘rules’ (eg. non-discrimination and transparency) and ‘commitments’ (eg, individual countries agreeing ceilings on their import duties and agricultural subsidies, and floors on access to their services markets). The EU currently has 29 WTO members: its 28 member states plus the EU in its own right. In the WTO, EU commitments on opening markets and limiting agricultural subsidies are supposed to be for the EU as a bloc. The UK and all other EU members should come under that set of EU commitments (the UK does). If the UK separates from the EU, its commitments would also have to be extracted from those of the EU. The EU’s would also have to be revised, which may tie the two processes together.
Table 7.2 MFN tariffs operated by non-EU countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Simple average MFN applied tariff</th>
<th>Simple average MFN applied Agriculture tariff</th>
<th>Simple average MFN applied Non-Agriculture tariff</th>
<th>Share of UK goods export trade</th>
<th>Share of total UK trade in goods</th>
<th>Share of total UK trade in goods and services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>13.5%</td>
<td>10.2%</td>
<td>14.1%</td>
<td>0.7%</td>
<td>0.6%</td>
<td>0.6%</td>
</tr>
<tr>
<td>United States</td>
<td>3.5%</td>
<td>5.1%</td>
<td>3.2%</td>
<td>12.6%</td>
<td>9.2%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Australia</td>
<td>2.7%</td>
<td>1.2%</td>
<td>3.0%</td>
<td>1.2%</td>
<td>0.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>China</td>
<td>9.6%</td>
<td>15.2%</td>
<td>8.6%</td>
<td>5.3%</td>
<td>7.4%</td>
<td>5.4%</td>
</tr>
<tr>
<td>India</td>
<td>13.5%</td>
<td>33.4%</td>
<td>10.2%</td>
<td>2.2%</td>
<td>2.1%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>4.2%</td>
<td>14.3%</td>
<td>2.5%</td>
<td>1.4%</td>
<td>1.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>2.0%</td>
<td>1.4%</td>
<td>2.2%</td>
<td>0.2%</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Source: WTO Tariff Profiles 2015, and ONS Pink Book 2015

Of those included in the table, the highest average tariff countries that the UK does not yet have FTAs with are India (13.5% MFN), Brazil (13.5%) and China (9.6%). In terms of the UK share of the export of goods that these highest tariff countries make up, China is the largest (9.4%), then India (2.1%) and then Brazil (0.6%). Striking even basic agreements with China, India and Brazil could deliver gains for the UK, not just in terms of reducing the cost of current trade but opening up new avenues.

The EU’s current WTO commitments are unclear. The commitments made by the EU15, pre-2004, when there were still 15 members - and in the case of services pre-1995 when there were only 12, form the current basis for negotiation. Then there is also uncertainty over whether the UK would be treated as a current member modifying its existing commitments (whatever they are), or (less likely) have to follow some of the steps of becoming a new member.

Most legal experts contacted by Agra Europe said the UK would be a WTO member modifying its existing commitments, which are currently merged with those of the EU. A minority said it would be more like negotiating a new member’s commitments because the UK currently doesn’t have any specifically for itself. The UK government paper discusses post-Brexit negotiations in the WTO without spelling out which route the UK would take.

### 7.5.1 Would the UK be revising current commitments?

The UK helped found the General Agreement on Tariffs and Trade (GATT, the WTO’s predecessor) in 1948. Since it joined the European Union in 1973 its rights and obligations have been merged with those of the EU. If a post-Brexit UK’s new commitments are seen as revisions of its current ones, which are part of the EU’s package, then these would have to be renegotiated. These are usually known as ‘Article 28’ talks, after the relevant GATT article (although for services it would be ‘Article 21’ of the services rule-book).

Negotiations to amend existing commitments take place behind the scenes - an addition to Article 28 actually calls for “the utmost secrecy”. The eligible participants are legally defined according to whether they
have a “substantial” or similar interest. Sorting out who they are is yet another complexity. Some interested countries might be excluded from the bulk of these negotiations, finding themselves with the option of accepting or vetoing an outcome they have not negotiated, and possibly blocking it.

Or would an ex EU country be treated as a ‘new’ member? The minority view is that the UK would have to renegotiate as if it were a new member (under Article 12 of the main WTO treaty). This is the approach assumed in a 100-page paper produced in 2014 by law students at the Geneva Graduate Institute of International and Development Studies. Most experts reject this, arguing that the UK does already have commitments - even if they are buried in the EU’s - and therefore would not be creating new ones. The key legal question is whether UK commitments would cease to exist once it left the EU.

There could be implications for the final outcome. For example, most countries that joined the WTO after it was set up in 1995 have had to limit trade-distorting domestic support for agriculture to minimal amounts. The UK might be under pressure to do the same, if it were considered to be negotiating new commitments. Some experts argue that there is little difference in practice, since either way the rest of the WTO’s members would have to agree (and ‘certify’) the UK’s commitments by consensus.

However, the UK should already be compatible with the WTO on the rules side - allowing it to operate fully as a WTO member as far as the rules were concerned once relevant EU regulations are converted to the UK’s. This would mean that only some of the commitments would need to be renegotiated. Opinions differ on how rapidly this process can be completed. The UK would be under pressure to negotiate with anyone who is interested: from the US to New Zealand, from Kenya to Argentina - and the EU itself, particularly if there is no UK-EU bilateral agreement.

These negotiations might be unlike for an ordinary trade deal. There, the approach is reciprocal: “I’ll give you A, if you give me B” because both A and B are negotiable. Here, it would be more like: “If you want A (the already-established rights of WTO membership), then you’d better give me B.” How tough the demand for ‘B’ is, would depend on how flexible the other countries are, how much they want to extract from London, and how badly they want UK commitments to be sorted out quickly.

Once the legal route is sorted out, negotiations over the UK’s commitments can then take place. For some commitments the task could be merely a technical conversion. For example, for import duties in general, the simplest way would be for the UK to adopt all the EU’s current tariff ceilings, hopefully avoiding negotiations. A similar technical conversion could be used for services. The real bargaining would be over extracting Britain’s portion of the EU’s lower-duty quotas, the so-called Tariff Rate Quotas (TRQs) — on beef, lamb, other meat, cereals, cheeses and a range of other dairy products, sugar, vegetables, fruit juices. Battles could also be fought over the UK’s shares of Brussel’s entitlements to subsidise agriculture – but this is unlikely since a post-Brexit UK Government would be likely to be subsidising agriculture at a significantly lower than EU level.

With Brexit, the UK’s commitments in the WTO would have to be extracted from the EU’s. This is already an opaque area since no revision has been agreed in the WTO to cover the 13 members who joined the EU since 2004. What in detail would need to be negotiated to re-establish the UK’s status quo in the WTO? The need to negotiate would be minimised where the UK’s new commitments could be converted technically
from those of the EU. This could be done for normal import duties, services, and regulations on food safety and product standards.

It would fall short of pro-‘Brexit’ demands for ‘sovereignty’ since the commitments and rules would essentially be those of the EU, but it would be the simplest route. Breaking away from EU commitments would need to be negotiated with other WTO members. Adopting EU’s tariff ceilings committed in the WTO would be a relatively straightforward technical task for the UK, but it would not be quick.

The number of products and their subdivisions is immense. The EU’s WTO commitments lists well over 10,000 agricultural and non-agricultural products, some charged simple percentages of the price, some euros per tonne or other quantity, some charged combinations of these, some depending on the month (particularly seasonal farm products). The EU has additional categories of ‘composite agri-goods’ (said to number around 20,000, covering everything from chocolate and ice cream to cakes and bread) defined by how much milk fat, milk protein, sugar and starch they contain. The broad incidence of MFN tariffs are shown in Table 7.4.

Nonetheless, if the UK chose ‘no change’, then transferring these EU tariffs to the UK would be mechanical. There would be little or nothing to negotiate under the ‘Article 28’ approach (modifying existing commitments). Even if the UK had to take the membership negotiation route (less likely), other WTO members would probably prefer not to quibble. Two other areas of WTO work could also involve a more-or-less technical conversion although they come under ‘regulation’ rather than commitments. They are the thousands of rules on food safety and animal and plant health (‘sanitary and phytosanitary measures’) and other product standards, labelling requirements and regulations (‘technical barriers to trade’).

Since Britain largely applies EU standards, it could simply translate these into UK standards, referring - for example - to the UK Food Standards Agency instead of the European Food Safety Authority. Little or no negotiation would be needed but it would still be a mammoth task. Any alterations would require consultation and possible negotiation with other WTO members, not as new commitments but under the two WTO agreements dealing with these issues.

The EU has close to 100 ‘tariff-rate quotas’, where the duty on imports within the quotas are lower than those outside. These are mainly on agricultural products - beef, lamb, other meat, cereals, cheeses and a range of other dairy products, sugar, vegetables, fruit juices and so on - but also on some fish products, coniferous plywood, flax yarn, glass beads, ferro-silicon, ferro-silico-manganese and ferro-chromium. This is where the hardest battles are fought. They are products that other countries particularly want to export to the EU, and where EU producers press hardest for protection. The result is a compromise: high, protectionist tariffs in general; and lower rates on limited quantities of imports.

Just one of these products - high quality beef (other types of beef have tariff quotas too) - shows how complicated renegotiation can be. Countries haggle over the quota size, and also to be given allocations specifically for themselves, as the US is doing. Without a bilateral UK-EU deal, the UK would have to negotiate tariff quotas in the WTO with the EU as well. And the EU would also want to adjust its quotas after Brexit, meaning it too would have to negotiate with WTO members.
The so-called ‘special safeguards’, temporary tariff increases to deal with price slumps or import surges, also have to be taken into account. The EU has reserved the right to use these on over 500 products. A separated UK would probably have to re-negotiate its own list. The EU cannot be left out of any of this. It may demand a say in anything agreed for the UK, including certifying the UK’s new commitments. Other WTO members will also insist that the EU revises its commitments after the UK has left, triggering more ‘Article 28’-type talks, even though the latest commitments for the current 28 EU members have not been sorted out.

Take, for example, trade-distorting domestic support for agriculture. Suppose the UK claims, say, 10% of the current €72.4bn limit - and assume that figure is uncontested. The implication is that the EU would be left with 90%, which it may or may not accept, and other WTO members might want a say as well. The same would apply to the 100 or so tariff quotas.

In other words, the EU would be deeply involved in the negotiations between the UK and the rest of the WTO. The EU would be negotiating with London (on the UK’s WTO commitments) and also facing demands from the rest of the world on its own revised commitments.

### 7.5.2 A major unknown – third country commitments?

One major unknown is to what extent other countries’ commitments would apply to the UK while its own commitments are unresolved - would the UK have automatic access to other countries’ markets on their WTO terms? There is no legal precedent for this, and WTO rules do not specifically refer to one country extracting itself from the joint commitments of a group of countries, only to ‘modifying’ or ‘withdrawing’ commitments (officially, ‘concessions’). Past experience suggests other WTO members would try to be pragmatic and continue to apply their market-opening commitments to UK exports. That is what they have done while the EU’s revised commitments stay unresolved. After all, they would want to continue to trade, too.

### 7.5.3 Applying the WTO tariff system post Brexit?

It is therefore clear that in broad terms post Brexit, the UK is likely to inherit the EU’s bound import tariffs which are similar to the EU’s applied MFN tariffs for most tariff lines. The NFU’s LEI report says: "It is most likely that this will not be controversial in a WTO context, since, compared to the current situation of the UK being part of the EU, third countries would not lose market access to the UK. The UK could of course set its future applied MFN tariffs below this level but it could not exceed them".

<table>
<thead>
<tr>
<th>Table 7.3 Incidence of MFN tariffs on major agricultural products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tariff</strong></td>
</tr>
<tr>
<td>Meat and offal</td>
</tr>
<tr>
<td>Dairy products</td>
</tr>
<tr>
<td>Vegetables</td>
</tr>
<tr>
<td>Edible fruit &amp; nuts</td>
</tr>
</tbody>
</table>

Source: Jean, Sébastien, Timothy E. Josling, David Laborde (2008): The Consequences for the European Union of the WTO Revised Draft Modalities for Agriculture
What this means for import prices and domestic consumers would vary from sector to sector, and product to product. At the top of the scale, in bilateral UK-EU trade, a tariff of 30-40% would be applied on wine and cheese - two items for which the UK runs a significant deficit with the EU (net-imports of about 2,200 million and 1,250 million euro respectively). In addition, imports of several meat product items would become subject to tariffs that could exceed 30% and might be even close to 70% or 90%, depending on the type of meat. All in all, the UK consumer will face higher prices for many items that are imported, which will only alter, if the UK government negotiates preferential access with the EU when leaving the Union.

Tariff-rate quotas (TRQ) are likely to pose the thorniest challenge. As part of the WTO and bilateral trade agreements the EU has duty-free TRQ access to partner countries and it offers partner countries duty-free TRQs access to the EU’s internal market. In case of a Brexit, these TRQs could be apportioned between the UK and EU27 (EU28 minus the UK). However, it has been convincingly argued that partner countries have no reason to agree with splitting the volumes of duty-free exports to the EU as, by definition, it reduces their market access to the Union: ‘A TRQ dividing into binding limits in two markets is less valuable than the same TRQ with the flexibility to switch exports between two markets’.

With regard to the EU’s TRQ access to partner countries, it is very unlikely the EU would be willing to grant the UK some of these benefits; after all it’s the UK who wants to leave the Union. The UK can opt for negotiating its own market access arrangements with partners, but to make these arrangements WTO-compatible would be technically complex and drawn out. Overall, Brexit would be likely to lead to a loss of cheap imports and export sales as the benefits of in-quota imports and exports will be lost.

The UK may also lose preferential access to countries with whom the EU has an FTA or any other preferential trade agreement. The impacts are likely to be most significant for UK sugar imports and its processing industry. For example, the UK’s Tate and Lyle cane sugar refinery (in 2010 acquired by the American ASR Group) depends on access to duty free sugar imports from ACP states and Least Developed Countries (LDCs) for its viability. Sugar imports from this set of countries do not take place under a TRQ arrangement, but are part of the preferential ACP and EBA trade agreements that allows duty-free, quota free imports. The volume of raw sugar imported by the UK is around 700,000 tonnes, which is slightly less than a quarter of the EU imports in 2013/2014.

### Table 7.4 UK participation in EU tariff rate quotas (TRQs) (2013 & 2014 average, in 1,000 tonnes)

<table>
<thead>
<tr>
<th>Product + codes</th>
<th>TRQ volume</th>
<th>EU28 imports</th>
<th>UK imports</th>
<th>TRQ fill</th>
<th>UK import share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sheep &amp; goat meat (0204)</td>
<td>240</td>
<td>160</td>
<td>85</td>
<td>67</td>
<td>53</td>
</tr>
<tr>
<td>Poultry meat (0207, 0210, 1602)</td>
<td>715</td>
<td>700</td>
<td>230</td>
<td>98</td>
<td>33</td>
</tr>
<tr>
<td>Butter (0405)</td>
<td>86</td>
<td>50</td>
<td>12</td>
<td>58</td>
<td>24</td>
</tr>
<tr>
<td>Cheese (0406)</td>
<td>95</td>
<td>76</td>
<td>12</td>
<td>80</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: LEI
Other highly relevant TRQ import arrangements to the UK’s agri-food sector are on butter, cheese and sheep meat, in particular with New Zealand. New Zealand’s butter and cheese may enter the EU through WTO country-specific tariff rate quotas of 74,693 tonnes and 11,000 tonnes per annum respectively. In 2014, the UK was the main EU importer of this butter, importing 11,631 tonnes out of EU28 total import of 50,000 tonnes, whereas UK imports amounted to 7,200 tonnes of cheese from New Zealand under this regime (Eurostat). Total EU imports of cheeses were 76,000 tonnes in 2014, of which 12,000 tonnes were by the UK. Sheep and goat meat from New Zealand enters the EU duty free within a 228,254 tonnes TRQ that was formalised after the conclusion of the Uruguay Round of the GATT in 1993 (Marrakech WTO agreement of 1994) and updated when the EU enlarged in 2004 and 2007.

The UK imports about 40% of the EU’s total sheep and goat meat imports from New Zealand (approximately 85,000 tonnes in recent years), which is equal to half of all EU imports of sheep and goat meat. The UK is also importing a significant share of the EU’s import of poultry meat (largely under duty-free TRQ regimes used by Brazil and Thailand).

Table 7.4 above presents an overview of the EU’s import TRQs that are most important to the UK, showing that the UK imports a significant part of the volumes that benefit from the zero-tariff in-quota TRQs. The figures also show that the TRQs of the products listed were not fully filled by the exporting countries, indicating that the out-of-quota tariffs are prohibitive.

In summary, the likely result of the UK withdrawing from the EU, without securing any alternative trade arrangement with the EU, and applying MFN tariffs would be that the UK would inherit the EU’s bound import tariffs which are similar to the EU’s applied (MFN) tariffs for most tariff lines. Third countries would be unlikely to lose market access to the UK. (The UK could set its future applied MFN tariffs below this level but it could not exceed them). On the basis of current EU tariffs import prices and resulting domestic prices would vary from sector to sector, and product to product (see table).

This compares the EU’s average MFN tariff rates (which also include specific tariffs) across over 200 agricultural products with the UK’s trade balance with the EU in each. For example, in bilateral UK-EU trade, a tariff of 30-40% would be applied on wine and cheese. Imports of several meat products would become subject to tariffs that could exceed 30% and might be even close to 70% or 90%, depending on the type of meat. Thus in the absence of a UK trade deal with the EU, the UK consumers will pay higher prices for many items that are imported. This can only be moderated the UK government negotiates preferential access with the EU when leaving the Union.
Conclusions and Summary

Dissatisfaction with multilateral trade agreements and limitations on their improvement has led to an increasing growth of bilateral and plurilateral agreements. The lack of progress in the Doha Round, during the decade to 2010, has been a particular spur to this growth. Since the beginning of the 21st century there has been a startling rise in the number of such one-to-one and group agreements designed to increase the scope and scale of trade between nations. It is estimated that there are now more than 400 such agreements covering at least half of total world trade, with two-thirds of these having been forged since 2000.

The aim of these agreements has not only been tariff reduction or elimination, but more particularly, the reduction of trade barriers and transaction costs. The latter is probably now the more important feature of most PTAs.

Trade in food and agricultural products has been particularly affected by these free trade initiatives. It is however significant that in many PTAs similar obstacles to liberalisation of agricultural trade have occurred to those which have blocked progress in multilateral negotiations. Reservations on easing of tariff and other restrictions on significant ‘sensitive’ agricultural products remain in both types of agreement. Trade in ‘sensitive’ sectors such as dairy, meat, sugar and cereals are still covered by numerous exemptions and tariff rate quotas (TRQs) in most PTAs.

Nonetheless, it is estimated that approximately 90% of agricultural tariffs will have been eliminated in the completed majority of agreements. In the remainder, extension of tariff rate quotas (TRQs) to partners plays a major role.

One of the outstanding features of many of the PTAs is that they are ‘WTO-plus’ in nature. In other words, they provide advantages which go beyond those which can be gained in multilateral arrangements. This is particularly true of the elimination of non-tariff barriers. But the scale of dismantling of tariffs on agricultural products in most PTAs also exceeds that achieved in existing multilateral agreements or even envisaged in the various drafts in the Doha negotiation. This has been most notable in South-South agreements between developing and emerging economies, with their share of duty-free tariff lines increasing from 28% to approximately 92%. Less advantageous to developing countries have been the terms of the various North-South agreements, which show an increased share of duty free lines from 68% to 87%.

The impact of agreements on the pattern of world trade clearly depends on their nature and scale. While a straightforward bilateral agreement between two relatively small economies will have little wider impact, large-scale ‘hub and spoke’ agreements like those of the European Union and the United States with other developed and less developed countries will have a highly significant, widespread impact. Often the greatest gain is to the trade of the lead partner at the centre of the hub. The growth of these wider arrangements clearly also play a major role in the development of what has been aptly dubbed the ‘spaghetti bowl’ of trade agreements. The conclusion of the planned Transatlantic Trade and Investment
Partnership (TTIP) will make the pattern of interlocking agreements even more complex, due to the obligations of both the US and the EU to partners in their existing agreements.

What matters in the effectiveness of PTAs in terms of tariff reduction advantage are the preferential margins achieved. They are key to reduction of the impact on prices of traded goods. A study of 78 RTAs analysed by the OECD showed that preferential margins for the agro-food sector, as measured through their impact on tariff-inclusive prices, nearly doubled within eight years of entry into force of an agreement, rising from 4.7% to 8.9% on average. While the preferential margin for South-South agreements is close to this average, North-South agreements display important asymmetries: south exports to the high-income OECD countries gain a preferential margin of nearly 15% after eight years, while North exports to the South have achieved only a 4.2% preferential margin.

Whether PTAs actually increase trade, or merely divert it, remains a controversial issue. Most analyses of existing agreements indicate, however, that there is generally a net gain in trade to the participants and that the diversion of trade is relatively insignificant. The World Trade Organisation has concluded that PTAs have tended to establish a 'level-playing field' for countries which had faced the worst market access conditions. Overall, the level of tariffs faced by exporters is lower, and the proportion of trade suffering negative preference margins has declined. Given that the WTO draws its conclusion from averages, it can be deduced that many countries are achieving larger benefits accruing from preferential tariffs on trade. Regulatory issues and other non-tariff barriers are becoming larger issues than tariff reduction in PTA formulation, as demonstrated in the current TTIP negotiations between the EU and the US.

The most common provisions in PTAs, beyond the basic tariff elimination process, concern mutual recognition of conformity assessment, harmonization of technical regulations, transparency provisions, and the establishment of the administrative machinery necessary to ensure conformity with mutually agreed standards on health, labelling welfare and other trade harmonisation regulation.

The Doha Round

Progress on multilateral trade negotiations since the launch of the Doha Round in 2001, has been painfully slow. Twelve years after the Round was launched, with its focus on the further reduction of agricultural support and protection, and with particular emphasis on the less developed countries, at least the elimination of export subsidies has been achieved, alongside improvement in the operation of tariff rate quotas (TRQs). The WTO ministerial meeting in Bali at the end of 2013 established a set of rules for the better management of tariff rate quotas, and the 2015 Nairobi Ministerial committed WTO members to export subsidy elimination.

Progress in the round as far as agriculture is concerned is stalled over the fundamental clash between the United States’ desire for greater market access worldwide into both developed and developing countries, and the desire of both the European Union and the developing countries to continue to protect sensitive parts of their agriculture sectors. There is also the objective of emerging and developing agricultural exporting countries to seek both US and EU undertakings to scale down and limit their subsidisation of domestic agriculture. This has become concentrated on the need of India and other less developed
countries to achieve greater food security through protection and subsidisation of their agriculture sectors and the desire of the US for open markets for its agricultural exports.

The major proposals still on the table for the continuation of the DDA cover further domestic support reduction, tariff reduction and rationalisation of food stockpiling in LDCs. On domestic support, the proposal that all non ‘Green Box’ subsidisation should be cut by amounts of up to 80%, and Green Box criteria revised to ensure that such subsidies really are decoupled from production and are therefore non-market distorting remain on the table.

The basic obstacle to progress in the DDA is the preoccupation of many of the major players with other major issues - principally recovery from the 2008-09 economic crash – and the creation of PTAs such as the US/EU trade partnership. It is increasingly obvious that there is a continuing move towards rejecting multilateral negotiations in favour of bilateral and regional trade initiatives. Plurilateral agreements within WTO rules between groups of like-minded countries are also appearing to be a more attractive option. Such arrangements are being seen as a more effective way of eliminating the obstruction of trade by non-tariff barriers.

The further major attraction of bilateral or plurilateral agreements is that they not only allow the more rapid removal of tariffs and NTBs, but also allow strategic advantages beyond trade considerations.

**Disadvantages of the bilateral approach**

The disadvantages of the formation of such non-multilateral agreements are that in the longer run, the preferences achieved against competitors tend to be short-lived because of the general growth of such arrangements. The more agreements there are, the less ‘preferential’ the preferences become.

It is also extremely difficult for bilateral agreements to solve systemic issues such as rules of origin or antidumping measures. Also at the bilateral level, agreement on domestic policy issues such as elimination or reduction of trade distorting agricultural subsidies is more difficult, and hence less likely.

The contrary argument against PTAs from the point of view of many small and weak developing countries is that signing up to a bilateral agreement with a powerful big country means less leverage and a weaker negotiating position than they would have in multilateral negotiations.

The worldwide proliferation of PTAs also raises the question of whether they help or hinder progress on a multilateral deal. PTAs may be hindrances for a number of reasons. Most countries lack the administrative resources to pursue both regional and global negotiations. And they may hold back on reducing tariffs in multilateral negotiations so that reductions can be offered as bargaining chips in bilateral or regional trade talks.

The alternative view is that PTAs can be building blocks in the construction of eventual multilateral agreements. Countries may feel pressured to participate in a broad agreement because they could lose out if their PTA partners shift trade toward countries involved in global negotiations. PTAs may also boost political support for a broader free trade agreement when the advantages of liberalisation are enjoyed by domestic businesses.
The Transatlantic Trade and Investment Partnership (TTIP)

Potentially the largest free trade area ever created, the planned transatlantic trade and investment agreement between the European Union and the United States of America is estimated to involve 46% of the world’s total Gross Domestic Product (GDP), and would account for a dominant share of world trade and foreign direct investment. A detailed study for the European Commission by the Centre for Economic Policy Research says that establishment of this transatlantic trade and investment agreement (TTIP) would result in major economic gains as a whole for both the European Union (€119 billion a year) and the United States (€95 billion a year). It is claimed by its supporters, that the TTIP will not result in diversion of trade from Europe and America from the rest of the world, but rather result in a general net gain in world trade.

Critics, on the other hand, argue that these dominant large trading blocs will only end up dealing more with each other, while exports to other world regions and especially imports from Latin America, Asia and Africa into this planned mammoth free trade zone could decrease.

A major focus of the negotiations for formation of the new trading bloc, certainly for the Americans, is the reduction and elimination of non-tariff barriers (NTBs). Critics argue that this is likely to lead to a lowering of health and quality standards in Europe - particularly in the food and agriculture sectors. Bearing in mind the number and scale of trade disputes between Brussels and Washington over the years — many of them in the agricultural and food sector - the reduction of non-tariff barriers will be a key part of this transatlantic trade liberalisation process. It is estimated that as much as 80% of the total potential trade gains could come from cost-cutting gained from reduced bureaucracy and regulation, as well as from liberalising trade in services and public procurement.

Tackling these so-called ‘beyond the border’ issues is expected to give gains on both sides of the Atlantic - much greater than from tariff reduction or elimination. The trade effects of cutting domestic regulation are expected to have great potential effect on economic growth, with large potential gains being claimed— as much as a 2.5 to 3% increase in GDP to be gained from the total elimination of regulatory trade barriers, according to some analysts.

The problems as well as the advantages to be gained from the elimination of Technical Barriers to Trade (TBTs) have been highlighted by the joint High Level Working Group established by both sides at the start of the negotiating process. As a result it is likely that a comprehensive “TBT-plus” chapter, based on the horizontal disciplines in the WTO Agreement on Technical Barriers to Trade (TBT), including establishing an ongoing mechanism for improved dialogue and cooperation for addressing bilateral TBT issues, will be incorporated in the eventual agreement. The objectives would be to provide greater openness, transparency, and convergence in the operation of regulatory mechanisms and related standards developments. At the same time, the objective would be to reduce redundant and burdensome testing and certification requirements. There would be a commitment to improved cooperation on conformity assessment and standardization issues.

Sanitary and phytosanitary (SPS) issues in the agrifood sector and their impact on trade are the most difficult part of the FTA agriculture negotiations. Both the EU and US are party to the WTO SPS agreement, which states that measures taken to protect human, animal or plant life or health should be science-based and applied only to the extent necessary to protect life or health. However, EU policy is guided additionally
by the precautionary principle and the concept of "other legitimate factors." The definition and application of the 'precautionary principle' remains a major bone of contention between Washington and Brussels.

While US negotiators are pressing for a comprehensive agreement on the resolution of the many outstanding SPS issues between Washington and Brussels, on the EU side top priorities include the protection of geographical indications (GIs) and better access to the US market for dairy products. EU environmental groups are anxious to protect EU controls on animal welfare, genetic modification, and agricultural biotechnology.

There is considerable resistance on the European side to the US desire to have legal rights of recompense against EU Governments built into the agreement. The US food industry lobby want the right to sue EU member state governments (or the US government) over SPS regulations and implementation measures through the investor-state mechanism. The EU position on these demands is likely to remain ambivalent, since there is wide division between the EU member state governments on these 'behind the border' issues in agriculture.

Since for both the EU and the US the major proportion of their food and agriculture exports to each other are made up of finished food products, the diminution of NTBs is likely to provide a major gain to the food industries of both. The US continues to remain the EU's biggest market for agricultural exports, while the EU is the fifth biggest market for food and agriculture products from the US.

After a recovery in 2010 and a moderate increase in 2011, EU deliveries to the US market continue to grow – up by 13% in 2012 compared with 2011, to reach an all-time high of over €15 billion, representing 13% of EU agricultural exports in 2012, and subsequently settling at around €14 billion in 2015. Significantly, these gains were in finished foods – the area where both blocs have the most to gain from removal of NTBs. The increase in the value of final goods increased 14% in 2012 and continued to increase through to 2015. The EU surplus in value of food products with the US in 2015 reached a record €7+ billion.

While tariffs on non-agricultural products are not a major issue between the two potential partners, tariffs on agriculture and food products remain significant. They are more significant on the EU side than on the US. According to the WTO's tariff profiles, the average final bound duty on agricultural products currently entering the US is just 4.9% ad valorem. Nearly 33% of US agricultural tariff lines are duty-free already and an additional 43% are between zero and 5%. Thus, 76% of US agricultural tariff lines are at 5% or less. Tariff-rate quotas affect 4.5% of US agricultural tariff lines and 2.9% have special safeguard measures in effect.

The EU's tariff incidence, by contrast, is very much greater. Most significant is the impact of tariff-rate quotas, affecting 11.3% of EU agricultural tariff lines with 23.9% having special safeguard measures in effect. Average final bound tariff rates on agricultural imports for the EU are 13.8% ad valorem. Duty-free lines are however similar to those of the US. Approximately 32% of the EU’s agricultural tariffs lines are at zero, and an additional 10% of tariff lines are five percent or less. Therefore, roughly 42% of the EU's agricultural tariff lines are at 5% or less - considerably less than the US equivalent.

Agreement upon and establishment of the TTIP would be of significant benefit to the agrifood industries on both sides of the Atlantic. Significant expansion of agriculture and food trade can be expected in what will
be a free trade area covering almost half the global GDP. At the same time, it is probable that the establishment of the TTIP would be unlikely to harm the level of food and agricultural imports from other exporting countries to either Europe or the US. Most analyses indicate that this transatlantic FTA could well stimulate increased trade from third countries. Increased economic growth resulting from formation of the FTA would be likely to increase demand for quality finished food products - particularly those having greatest elasticity of demand - EU specialty cheeses and Californian wines for example.

The European Union’s web of trade agreements

The European Union currently has preferential trade agreements with nearly fifty partners. In addition, at the end of 2015 the EU had completed negotiations on thirteen trade agreements that had yet to enter into force, while nine further trade negotiations were under way and several more trade and development negotiations (EPAs) were in progress.

The EU’s preferential agreements vary according to the partners’ preferences. Principally they take the form of Comprehensive Economic Trade Agreements or Economic Partnership Agreements. Some are part of broader political cooperation agreements, where trade is one of several economic and political areas covered. The Association Agreement with Central America is such an example. If the EU already has an overall agreement framework for political cooperation with the country concerned, it is more likely that the Free Trade Agreement will be a stand-alone arrangement.

It is notable that the EU excludes, wholly or partially, important agricultural products from most of its targeted free trade arrangements - principally to maintain its continuing domestic protection and support pattern for certain agricultural products. Rather than liberalisation, the EU tends to offer limited concessions by admitting market access within the limits of tariff rate quotas (TRQs).

The preferences granted to agricultural products in EU Free Trade Agreements are likely to be similar to WTO provisions. In recent EU free trade agreements with developing countries agricultural liberalisation is still limited compared to that of industrial products - any advanced concessions are strictly defined for single products and countries.

The EU generally negotiates PTAs on the basis of five main principles:

i. tariff concessions, either complete or partial reductions on the basis of WTO MFN rates;
ii. TRQ concessions with seasonal limitations of favoured imports and adjustments of quantities;
iii. special safeguard clauses for agriculture on both imports and exports,
iv. specific rules of origin for agricultural products to ensure the exclusive application of preferences only to FTA members
v. options for flexible adjustments to a partner’s market access through review clauses allowing partners to modify an agreement if one of the parties changes its domestic agricultural policies.

The most important of the EU’s current trade agreements, from an agricultural trade point of view, are:
• The Euro-Mediterranean Association Agreements;
• EU African, Caribbean and Pacific countries (ACP) Economic Partnership Agreements;
• EU Agreements with South Africa, Mexico and Chile;
• the EU-Turkey Customs Union
• the EU-Mexico Free Trade Agreement.
• CETA the EU-Canada agreement completed in 2015 and being implemented in 2016

Agreements being negotiated at the beginning of 2016 with important agriculture and food trade implications include:

• The EU-Ukraine Deep and Comprehensive Free Trade Area DCFTA
• The EU-Singapore Free Trade Agreement (FTA)
• The EU-Central America Association Agreement
• The Transatlantic Trade and Investment Partnership (TTIP) with the United States
• The EU-Japan FTA
• The EU-Mercosur trade agreement

**Operation of the major agriculturally significant preferential trade agreements**

Probably the largest PTA in terms of volume of trade currently operating is the **North America Free Trade Agreement (NAFTA)**; it combines the markets of the United States, Canada and Mexico. This trilateral agreement was completed in January 2008, with all remaining duties and quantitative restrictions being eliminated between the partners.

Trade between the United States and its two partners has expanded dramatically since the agreement entered into force. US goods and services trade with NAFTA now totals over $1.6 trillion, and the US has a goods and services trade deficit with NAFTA of more than $41 billion. The United States has more than $918 billion in total two-way goods trade with Canada and Mexico.

An important feature of the NAFTA deal is the elimination of non-tariff barriers. NAFTA recognizes the right of each member country to operate its own SPS measures - within the rules laid down in the URAA. There is a NAFTA Committee on Sanitary and Phytosanitary Measures to facilitate technical cooperation between the countries in developing, applying, and enforcing such measures. To fulfil these responsibilities, the NAFTA governments have engaged in a concerted effort to fine-tune their SPS measures in ways that facilitate trade.

A high degree of integration of the agriculture and food markets of the three countries has evolved during the nineteen-year life of the developing NAFTA arrangement. These include cross-border investments in grain milling, linkages between US grain and oilseed growers and Mexican pig and poultry producers and Mexican direct investment in US baking and tortilla industries. There has been a high degree of integration in production of cattle, beef, pigs and pork. Sales of Canadian and Mexican affiliates of US processed food companies still exceed US processed food exports to those countries. There is now substantial US and Canadian direct investment in each other’s processed food industries.
The Central American Common Market (CACM) was established by the Organization of Central American States under the General Treaty of Central American Economic Integration signed in Managua, Nicaragua, in December 1960. Its members include Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Its original goals included the establishment of a Central American regional free-trade area, a customs union, and the integration of the industrialization efforts of its member countries. Despite the continued existence of the organization, most intraregional economic relations have been handled on a bilateral basis since 1970.

After 40 years of integration, the CACM is now said to be somewhere between a free trade area and an imperfect customs union. There has been significant progress in harmonizing external tariffs. The common external tariff applies four tariff levels - zero, 5, 10, and 15% - to capital goods and raw materials, raw materials produced in the region, intermediate goods, and consumption goods respectively.

The Common Market for Eastern and Southern Africa (COMESA) is a free trade area with nineteen member states stretching from Libya to Swaziland. Agriculture and agricultural trade are major economic driving forces in this group of countries.

COMESA was formed in December 1994, replacing a Preferential Trade Area which had existed since 1981. Nine of the member states formed a free trade area in 2000 (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe), with Rwanda and Burundi joining the FTA in 2004, the Comoros and Libya in 2006, and Seychelles in 2009. In 2008, COMESA agreed to an expanded free-trade zone including members of two other African trade blocs, the East African Community (EAC) and the Southern Africa Development Community (SADC). Agriculture accounts for more than 32% of COMESA's gross domestic product (GDP), provides a livelihood to about 80% of the region's labour force, accounts for about 65% of foreign exchange earnings and contributes more than 50% of raw materials to the industrial sector.

The Comprehensive African Agricultural Development Programme (CAADP) of the New Partnership for Africa's Development (NEPAD) under the African Union (AU) is intended as a framework for the restoration of agricultural growth, food security and rural development in Africa within an integrated and coordinated approach. There has been an increasing trend in intra-COMESA total trade and agricultural trade from year 2003 until the slowdown in 2008 and 2009. Agricultural trade is an important component of the total trade in the COMESA region, currently accounting for about a third of the total. Agricultural trade (represented by agricultural raw materials and food products) accounts for about 32% of the total intra-COMESA trade with a value of US$6 billion. Of this, food and agricultural raw materials constituted US$ 1.9 billion.

The EFTA-Turkey Free Trade Agreement, signed in 1991 and operating since April 1992, with the elimination of tariffs and non-tariff barriers in trade between the parties. While the average protection rate for industrial products was down to 4.2% by 2005, some agricultural goods still remain protected by steep tariffs. Trade volume between Turkey and EFTA States increased to US$7.9 billion in 2012, a 2.1% increase on 2011. In 2012, imports from EFTA States were US$5.3 billion, whereas exports to EFTA States were US$2.6 billion.
New Zealand-Singapore Closer Economic Partnership (ANZSCEP). Concluded in August 2000, the ANZSCEP is a comprehensive free trade agreement covering trade in goods and services, investment and government procurement. As far as trade in goods is concerned, most importantly food and beverage products on the NZ side, the agreement involved the complete elimination of all tariffs on goods originating in either country from the date of entry into force of the agreement. All tariffs on goods originating in either country remained tariff free after that date.

Singapore is New Zealand's sixth largest trading partner in terms of two-way trade, with total exports to Singapore worth NZ$845 million and total trade between the two countries worth NZ$2.9 billion in 2012. New Zealand's exports to Singapore are primarily made up of food and beverage, of which dairy products account for approximately 35%.

The Australia – United States Free Trade Agreement (AUSFTA) is a preferential trade agreement between Australia and the United States modelled on the North American Free Trade Agreement (NAFTA). It came into force on 1 January 2005 and contains a significant agriculture and food trade element.

While Australia may have gained from the AUSFTA in industrial, trade, hard commodities and business sector, many independent analysts regard the agreement to be heavily loaded against Australia in the agriculture sector. Duties on more than 97% of US non-agricultural tariff lines imported into Australia became duty-free from the inception of the Agreement, with all trade in goods free of duty by 2015. No such preferences were granted on trade in the opposite direction. For Australia’s key agricultural export commodities, dairy products and beef, the US is maintaining both tariff rate quotas (TRQs) and out-of-quota tariff regimes. It is making no concessions at all on sugar, where Australia might have expected to gain. Complete elimination of tariffs on sensitive agricultural products including beef and dairy products, will not be achieved until 2022.

United States-Chile Free Trade Agreement came into effect in January 1, 2004. Tariffs on 90% of US exports to Chile and 95% of Chilean exports to the United States were eliminated. The agreement also established that Chile and the US would establish duty-free trade in all products by 2016.

The main agricultural trade provisions included the following:

- Chile to eliminate tariffs immediately on pork and pork products, beef offal, durum wheat, barley, barley malt, sorghum, soybeans and soybean meal, pasta, breakfast cereals, cereal preparations, and sunflower seeds
- Access for beef on both sides liberalised over 4 years
- Access for poultry on both sides completely liberalised over 10 years
- Chile’s duty on many dairy products, including skim milk powder, whey, and cheeses, eliminated over 4 years; duties on other dairy products eliminated over 8 years.
- Tariffs on US and Chilean wines being progressively harmonized down to the lowest wine tariff rate and will be eliminated by 2016.

Higher effective tariffs have remained for wheat, wheat flour, and sugar during the 12-year transition period under the FTA, with an import price band system.
The Canada-Israel Free Trade Agreement (FTA), was implemented on January 1, 1997. It was aimed at improving market access for agrifood products of export interest to both Canada and Israel, and eliminating tariffs on virtually all industrial goods. The principal measure in the agrifood sector was the introduction of duty-free access or low duties on a variety of agricultural and fisheries products exported by both countries. For Canada, this includes grains, grain products, beef, maple sugar, alcoholic beverages and processed foods. Both sides have excluded dairy, poultry and egg products from the agreement. Canada and Israel are currently re-negotiating the CIFTA agreement and Canada hopes to further liberalize trade in agrifood products. Significantly however, Canada and Israel agreed at the outset of the next round of negotiations to exclude the mutually sensitive supply managed sectors of dairy, eggs and poultry.

Impact of PTAs on agricultural trade

The effect of preferential trade agreements, whether bilateral, regional or plurilateral, is extremely difficult to estimate. One fact is certain: the effect of such agreement is likely to have been much less on agricultural than on industrial goods and services trade. This is because most countries still subsidise and protect their agriculture industries; maintenance of import protection is therefore necessary to sustain such favouring of domestic industries.

The development of a complex ‘system’ of phased tariff reductions, of exclusions, extension of the tariff rate quotas and undertakings on phasing out of export subsidies and hidden export subsidies contained in domestic support polices, is reflected in most of the major PTAs examined in this report. This is particularly true of the dairy and beef sectors. In some agreements it is clear that the weaker partner has made concession on agriculture and food products to gain concessions in other areas. The US-Australia agreement is a good example of this phenomenon. Regional preferential trade agreements have however proved to be more effective in expanding agricultural trade and opening markets in developing countries when developing-country trading partners are part of the same agreement.

However, the impact of PTAs on non-tariff barriers is likely to have been significant. For goods to move more freely between countries it is necessary to establish and maintain common standards.

At least one study of the subject indicates that RTA membership boosts agricultural trade between member countries, on average, between 34 and 93% in the long run. It has to be admitted however that the expansion of trade between RTA members typically comes at the expense of trade with non-member countries. It has been shown that agricultural trade falls, on average, between 26 and 46% in the long run between two countries when one of them does not belong to an RTA to which the other is a member. On average, agricultural trade increases 105% between two trading partners that belong to the same agreement in the long run but falls 49% between an RTA member country and a non-member trading partner. RTAs are particularly effective in expanding agricultural trade and opening markets in developing countries when both developing-country trading partners are members of the same agreement.

The impact on trade in individual commodities is obscured by the many special arrangements which exist in many liberalised or partially liberalised common markets. Among importing countries, most favoured nation tariffs can be set high, and bound tariffs even higher, especially when these result from tariff rate quotas. It is therefore clear that even in the cereals trade, where tariff levels have been reduced more than those on
other commodities since 1994, there are considerable advantages to exporters and importers to be gained from FTA arrangements.

Most gains for exporters and consumers from liberalisation occur in the international market for rice. Unlike wheat and other commodities, for which most of the distortion in world markets is attributed to the policies of high-income countries, rice is protected in both developed and developing countries. The average level of protection on rice is calculated to be over 70%, the highest of all major food commodities. Perhaps because it is an important source of income for many farmers in developing countries, rice is one of the most protected agricultural commodities. Hence, the advantage of trade arrangements which reduce these tariffs is substantial.

Gains from preferential arrangements are also potentially large in the sugar market. The market for sugar is one of the most distorted in the world; almost every major producing country over-protects its domestic producers with consequent significant loss to consumers in both exporting and importing countries. The gains from preferential trade agreements are therefore potentially large. Significantly however, even in EU and US FTAs, little concession is made on access for sugar into their highly protected markets - apart from the EU's concessions to ACP producers and others through the 'Everything but Arms Treaty' arrangements (EBA). The average level of protection for sugar is over 50%, the second highest level among nine major agricultural products.

But probably the most protected sector, and subject to special conditions, in almost all PTAs are dairy products. Despite increasing global demand for dairy products, the past decade has seen an escalation rather than a contraction of trade protectionism in this sector. Almost all of the PTAs examined in this report tend to designate dairy products as in the 'sensitive' category and therefore subject to special continuing protection even within preferential agreements.

In the meat market the single most important objective of governments is to regulate markets so as not only to protect domestic producers, but also to supply consumers with the desired types of meat. By the same token however, liberalisation can have a dramatic effect on markets. The Uruguay Round and its six-year phase-in period provide a strong example of what the reduction of trade barriers can do for exports. In the six years prior to the implementation of the Uruguay Round, US pigmeat exports to Japan, for example, grew by a little over 36,000 tonnes, then during the six-year phase-in period, US pork exports increased by more than 168,000 tonnes. At the end of the phase-in period, US pork exports to Japan had increased by an outstanding 245,000 tonnes.

**Doha and the future of preferential trade agreements**

While it can justifiably be claimed that the December 2015 Nairobi WTO ministerial agreement on the elimination of export subsidies on agricultural products was a major achievement, various aspects of the ongoing multilateral Doha Round of multilateral trade negotiations still remain to be tackled. Most importantly, the limitation of subsidisation of domestic agriculture by developed countries is a continuing outstanding issue.
To the US, the EU and other major players in the world trade sphere, bilateral agreements not only offer a more focussed solution to liberalising key markets, but they also give quicker results. An example is the Trans-Pacific Partnership signed in 2016. For Washington, the importance of counteracting the increasingly dominant role of China in Asia leaves Doha very much on the back burner. The TPP in a nutshell involves 12 countries: the US, Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. The pact aims to deepen economic ties between these nations, cutting tariffs and fostering trade to boost growth.

Member countries are also hoping to foster a closer relationship on economic policies and regulation. The agreement is seen as likely to create a new single market something like that of the EU. Tariffs on US manufactured goods and almost all US farm products will go almost immediately once the deal is ratified.

The EU is adopting a very similar approach. The EU's increasingly extensive network of regional trade agreements and unilateral trade preferences mean that only nine WTO Members actually trade with the EU under its most-favoured nation (MFN) tariff and are thus therefore fully affected by its full tariffs on food and agricultural products.

Of all the preferential trade agreements currently under negotiation, the most significant is likely to be the planned EU-US Transatlantic Trade and Investment Partnership (TTIP). Though ostensibly a bilateral deal, it is very much more plurilateral in nature, involving the 28 members of the EU plus the US's partners within NAFTA. It is unlikely to be a major contribution to the furtherance of multilateral trade liberalisation. Agreements such as the TTIP are as important for what they exclude as what they may include. In no sector is this more important than in trade in agricultural products. Both Europe and North America have massively expensive agricultural protection policies, much of which they will no doubt strive to preserve in any eventual agreement.

For agricultural trade relationships, the planned TTIP probably marks the pinnacle of the retreat from the progress made in multilateral trade liberalisation achieved in the 1994 Uruguay Round. The 1994 Marrakech agreement forced both Brussels and Washington to scale back excessive agricultural protectionism and begin the process of (slowly) winding down their gross agricultural support policies. Prior to that agreement, neither the EU nor the US had been prepared to make any concessions on agricultural trade. And despite the post-Marrakech Agreement progress, import charges on agricultural products worldwide still average out at over 60%, while average industrial tariffs are little more than 3%.

**Conclusion**

The lack of progress in multilateral trade negotiations has undoubtedly been a major reason for the proliferation of bilateral and regional free-trade agreements during the last fifteen years. More than 60% of the trade in Asia is now likely to be taking place within the framework of such arrangements. According to the WTO there were 186 such agreements in force in 2005, compared with 50 just prior to the completion of the Uruguay Round in 1994, less than 25 in 1985, and only thirteen such agreements in 1975. The share of world trade now taking place within PTAs is estimated by the WTO to have risen from 22% in 1975 to over 50% in 2005.
The losers from the growth of bilateralism will be competitive, but unsubsidised, agricultural exporters in both developing and developed countries. To counterbalance the challenge to its traditional tendency to orchestrate trade arrangements, both within and outside the Union, the EU has intensified negotiations on bilateral trade deals with developing and emerging economies.

Both the EU and the US are accused of using the development of PTAs to exploit their hegemonic power and of using the lure of preferential access to their rich markets to exploit economically weaker nations. To a great extent, Washington is said to have adopted bilateral FTAs to advance the agendas of domestic lobbies. This strategy, it is argued by some observers, is weakening the power of poor countries in multilateral trade negotiations. Bilateral deals fragment the coalitions of developing countries, it is argued, as each abandons its legitimate objections to the inclusion of extraneous issues in trade treaties. Having abandoned these objections in a bilateral deal with the US, how can those countries pursue them in WTO negotiations?

But how far can plurilateral regional trade deals compensate for the lack of multilateral agreement? Some say that existing RTAs are in general so limited in nature that they make little actual difference to trade, and attempts to widen and deepen them have run into problems. Mercosur, for example - the South American agreement led by Brazil - has little prospect of extending its reach or its scope in the medium term.

The alternative view is that the gains from PTAs can be greater than anything that could be won from multilateral agreements. Participants in a straightforward bilateral free trade agreement could secure ‘WTO-Plus’ benefits which would enhance growth in both economies and not have a negative impact on trading partners or the global trading system.

But there are commodity sectors where the multilateral approach will achieve optimum gain for the largest number of traders, in a way which could not be achieved through establishment of any number of PTAs. The dairy sector is the most obvious example. The EU’s milk market management system would be likely to come under serious pressure for further liberalisation by any eventual agreement in the Doha Round.

The problem for the international community is that the large developed countries can bank on gaining more from PTAs, certainly in the shorter term, than they would get from an extension of the multilateral trading system. The United States, for example, would gain, it is estimated, only a small advantage from Doha in agriculture and non-agricultural market access (NAMA) trade. This is because the US already has free trade agreements or low barriers with most of the other major trading countries.

But America’s gain from potential new bilateral relationships to the exclusion of a multilateral agreement is likely to result in loss for other major exporting countries. According to the European Commission’s Trade Directorate, only a handful of big agro-food exporting countries would be likely to benefit from any increased agricultural market access resulting from a Doha accord. These major agricultural exporters are effectively the ‘Cairns Group-plus’ nations, i.e. Australia, New Zealand, Brazil, Argentina, Chile, Thailand and South-Africa.

For all of these reasons - and above all, because of the fact that it is demonstrably possible for PTAs to be negotiated and implemented in a timeframe which throws the glacial progress of the Doha Round into critical relief – the growth in such regional and bilateral trade agreements is likely to continue for some time yet.
The Heckscher-Ohlin model is a general equilibrium mathematical model of international trade, developed by Eli Heckscher and Bertil Ohlin at the Stockholm School of Economics. Based on David Ricardo’s theory of comparative advantage, it attempts to predict patterns of commerce and production based on the factor endowments of a trading region. The H-O model suggests that countries will export products that use their abundant and cheap factor(s) of production and import products that use their countries’ scarce factor(s).


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