

The Impacts of Preferential Trade Agreements on the Multilateral Negotiations on Agriculture

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Introduction

- As in 1994, the regional, bilateral and multilateral negotiating processes are converging
- Push for agreement on Modalities at WTO Ministerial in December
- US bilateral talks reaching fruition
 - CAFTA passed by Senate and under consideration by House
 - Andean talks revived, and other bilaterals underway
- PTAs among trading partners becoming an important consideration for the US

Introduction

- Agriculture is at the hub of all of these trade talks
- WTO negotiations have more direct impact on farm policy and US agriculture
- Impact of bilaterals on US Programs likely to be mostly indirect
- Some commodities likely to be more affected by preferential pacts
- Impact of third country PTAs on competitiveness could be quite significant for US

Outline

- I. Changing views on relationship between PTAs and WTO
- II. What issues to negotiate where?
- III. Links between preferential and multilateral negotiations
- IV. Examples of linkages in DDA
- V. Conclusions

I. Changing views on relationship between PTAs and WTO

- Traditional view: PTAs divert trade and divert attention from multilateral trade system
- Trade Diversion hurts both importers in PTA and competitive third country exporters
- PTAs only allowed in GATT/WTO as an aberration of MFN
- Though PTA can be welfare-increasing, linkages broadly negative

Changing views

- Revisionist views: PTAs and WTO are alternative paths to liberalizing trade
- Can be “building blocks” to free trade (competitive liberalization)
- PTAs are coalitions of countries playing together in multilateral trade policy space
- PTAs serve political ends through trade policy: should not be confused with multilateral process

Changing views

- Pragmatic view: Both exist, and the trade system is a mix of global and sub-global rules
- Different strengths and weaknesses to the two systems
- Linkages are sometimes positive and sometimes negative, and go both ways
- Issue for trade policy is to develop complementarities (complementary liberalization) and avoid conflicts

Changing views

- Agriculture is at core of this debate
- Tariff levels (MFN) higher than for most other sectors
 - Trade diversion more likely
 - Rents greater
- Sensitive agricultural sectors often excluded from PTA/bilateral coverage
- Some agricultural sectors specifically included to generate rents (EU ACP preferences)

II. What agricultural issues to negotiate where? (“Horses for Courses”)

- Market Access is at the core of both preferential and multilateral liberalization
 - PTAs assume tariff free access (sometimes non-reciprocal) unless specifically excepted
 - WTO binds and negotiates down tariffs on an MFN basis but not (yet) to zero
- Sensitive commodities tend to be liberalized only slowly in PTAs
- WTO talks may be only way to include such sectors in integration (more “winners”)

“Horses for Courses”

- TRQs used in both WTO and PTAs
 - WTO implemented TRQs to preserve access when QRs were abolished
 - Now may be alternative to tariff cuts for sensitive products
 - Bilateral TRQs used as a transition device
 - Preferential TRQs used as a way of assigning rents to trade partners
- Clarification of MFN nature of WTO TRQ allocation needed

“Horses for Courses”

- Safeguards used in both WTO and PTAs
 - SSG in URAA
 - General Article XIX safeguards
 - AD/CVD options
 - Renegotiation option
 - Safeguards in PTAs usually “additional”
- Clarification of relationship between WTO and PTA safeguards needed

“Horses for Courses”

- Export subsidies pose problems for both PTAs and the WTO
- Internal use of export subsidies often restricted in RTAs and Bilaterals
- Limited value to such agreements
 - Trade displacement
 - Third country subsidies
 - Reduction in internal trade (less trade diversion?)
- WTO has proved more appropriate venue for controlling export subsidies

“Horses for Courses”

- Domestic support also problematic for both PTAs and WTO
- Few regional agreements cover domestic support (EU exception)
 - Fear of “free ride” by third country suppliers in internal market
 - Difficulty in targeting domestic subsidies to external markets (cotton case)
- WTO clearly better locus for domestic support restraints

“Horses for Courses”

- GIs sensitive issue in regional and multilateral trade relations
- WTO/TRIPS Framework exists
 - Ongoing talks about GI lists
 - Difficulty in agreeing on extent of WTO protection of GIs
- Usually included in Bilaterals
 - Easier to negotiate bilateral GI protection
 - Less GIs involved in Bilaterals

“Horses for Courses”

- SPS and TBT Regulations often easier to tackle at regional level
 - Similarity of conditions
 - Confidence in authorities
 - Hegemonic standards often adopted
- But reconciling different regional standards may be challenge for WTO, multilateral bodies

“Horses for Courses”

- Rules of Origin more important at PTA level (FTAs and non-reciprocal PTAs)
 - Prevention of trade deflection
 - Bilateral/regional ROO can be protectionist
- WTO rules of origin not adequate to cover RTA differences

III. Linkages in Agricultural Talks

- Limited benefits of bilaterals for WTO talks on Market Access
 - Partial opening of markets may pave way for MFN tariff cuts
 - Some coordination of WTO positions among members of CUs
- PTAs unlikely to help WTO talks on export or domestic subsidies

Linkages

- Potential costs
 - Trade encouraged from high-cost suppliers
 - Establishment of vested interest in regional preferences
 - Diversion of effort away from WTO talks
 - Illusion of an alternative trade system with different rules

Linkages

- More benefits flow from WTO to PTAs
 - Lower MFN tariffs reduce possibility of trade diversion from PTAs
 - Establishment of TRQs helps rent-allocation in PTAs

Linkages

- WTO constraints on domestic support help PTAs
 - Move to Green Box policies reduce intra-regional conflicts
 - Reduction of AMS improves scope for regional pacts
- Elimination of export subsidies in WTO will improve competition in PTAs

Linkages

- But also some costs for PTAs
 - Lower MFN tariffs reduces “rents” from preferred access
 - WTO rules may lead to inefficient PTAs
 - WTO negotiations may delay conclusion of PTAs
 - WTO progress will tend to limit PTA growth

Balance?

- WTO talks simplify PTA formation but limit their attractiveness
- PTA talks distract attention from WTO but can tackle some complementary issues
- PTA rent-holders will resist WTO liberalization
- Countries without PTA rents will welcome WTO talks as a way of limiting negative impacts

IV. Examples of Linkages in current DDA

- US bilaterals
- FTAA
- EU-Mercosur
- Asia
- EU

Examples: US Bilaterals

- Four recent “small” bilaterals
 - US Chile FTA
 - US Australia FTA
 - US CAFTA
 - US Andean FTA
- Each has limited significance for WTO talks

US Chile FTA

- Little trade creation in Chilean market: Chile has low tariffs
- Better access for Chilean goods in US market (but seasonality limits impact)
- Replaces WTO-illegal price bands with safeguard system
- Tackles issues of SPS
- Limited GI content (wines)
- Impact greater on US-MERCOSUR relations

US Australia FTA

- Opens up Australian market for US farm goods (but Australia has relatively open market)
- Opens up US market to Australian goods (but with very long transition periods)
- Tight safeguards established (dairy, beef)
- Sugar excluded from agreement
- Sensitive SPS issues resolved
- Could have effect of countering Australian challenge to US policies in WTO

US CAFTA

- Locks in CBI preferences for CA in US market: reduces interest of CA in WTO
- Gives slow access to US agricultural goods, with safeguard against import surges
- Quota increase for CA sugar but no change in above-quota tariff
- Significant in FTAA talks

US Andean FTA

- Would lock in Andean Trade Preference Act access to US market (to avoid future lapses)
- Sensitive imports into Colombia will be a problem: Andean Community Price Band may need to be replaced
- May reduce AC interest in WTO talks
- AC discussions with MERCOSUR also important

Examples: Free Trade Area of the Americas

- FTAA-Lite example of dividing agenda
- DDA will reduce tariffs, but move to free trade will remain problematic
- Agreement to limit export subsidies on intra-Americas trade was relatively easy, but WTO will replace it
- No progress possible on Domestic Support
- Waiting for WTO to give boost to FTAA talks - either by dealing effectively with Domestic Support or by stalling

EU - MERCOSUR

- EU views trade deal with MERCOSUR as part of its trade policy (insurance against FTAA?)
- MERCOSUR insists that market access for agriculture is included
- EU does not want to “pay twice”: attempt at conditional deal
- MERCOSUR-EU pact on hold but could change if WTO talks falter

Asian RTAs and Agriculture

- Singapore has negotiated several bilaterals – including US-Singapore FTA – but it has no agriculture to protect
- Japan bilaterals more significant: FTAs with Mexico, New Zealand include some agricultural access
- Little impact of these on WTO, except to get Japanese farmers ready for more competition

Asia

- Other Asian bilaterals could be much more significant
- China and India have been in discussions on an FTA: significant trade prospects?
- China negotiating with Australia and New Zealand
- ASEAN has revived interest in an Asian FTA that excludes the US and Canada

Asia

- Raises question as to whether Asia will maintain its strong support for the WTO process?
- Poses challenges to US agriculture in Asian markets
- Key may be Japanese and Korean reactions to prospect of allowing preferential access to Chinese imports

Europe

- EU now 25 countries: soon to be 27, and talks with Turkey, Croatia will start soon
- Replacing preferential trade agreements with 80 developing countries by reciprocal free trade agreements
- “Neighborhood” policy for Mediterranean region and Balkans, Central Asia will include trade preferences
- Tariff and Quota free access for LDCs (EBA)

Europe

- Problems for preference holders as MFN tariffs are reduced (G-90)
- TRQs used as development aids, pre-membership assistance
- Ambiguity of EU position in WTO: EC is a member, along with individual members

V. Conclusions

- WTO talks dominant activity at present
 - Reductions in tariffs on an MFN basis will set parameters for further reductions on a bilateral basis
 - Export subsidies are on the way out along with similar programs in US and Canada as a result of WTO negotiation: PTAs will benefit
 - Domestic support programs will continue to be under international scrutiny in WTO to see that they do not affect other countries: regional pacts will also benefit
- Farm Bill will have to deal with impact of both bilateral and multilateral agreements

Conclusions

- Failure in the WTO talks could change the rankings:
 - Preferential agreements may become the prime location for trade policy
 - US could conclude its planned trade agreements in the Americas and Africa, along with those in Asia and the Middle East
 - EU could consolidate its FTAs with other countries and blocs and could turn to Asia
 - Asia could decide to focus on preferential rather than multilateral trade agreements
- Result could be weakening of multilateral trade system and increasing tension among regions

Conclusions

- Co-ordination of PTA and WTO processes could be useful “insurance policy”
 - Enforcement of Article XXIV?
 - Sunset on non-reciprocal preferences?
 - Plurilateralize regional preferences?
 - Progressively relax Rules of Origin?
 - Open membership for bilateral standards institutions
- WTO needs to internalize sub-global rule systems so as to avoid conflicts and maximize complementarity

Thank You