

Treatment of Sensitive Issues in RTAs: The Case of Agriculture

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Importance of the Issue

- achievement of APEC-wide liberalisation via RTAs implies eventual convergence of the region's RTAs
- convergence will be facilitated/hindered by consistency/inconsistency in provisions of RTAs
- consistency likely to be especially difficult to achieve in the treatment of “sensitive” issues especially agriculture
 - need to explore the issues relating to the treatment of agriculture in RTAs

Features of existing situation

- **agriculture routinely excluded to a significant extent from EU RTAs**
- **Japan's choice of RTA partners appears partially motivated by ability to exclude agriculture**
- **agriculture appears to have been included to a significant extent in Korea-Chile FTA**
- **agriculture generally has extended timetable in most Asia-Pacific RTAs**
- **agriculture problematic in FTAA and even in proposed US-Australia FTA**

Issues

- **what guidance from WTO rules**
- **what guidance from APEC “Principles”**
- **existence of issues not amenable to treatment within RTA framework**
- **welfare implications**
- **implications for multilateral liberalisation**

Guidance from WTO Rules

GATT Article XXIV

- **interpretation of “substantially all trade”**
 - is it just a quantitative issue (percentage of trade covered, or percentage of tariff lines)
 - does it allow for exclusion of an entire major sector?

WTO members have failed to agree

- **Preamble to 1994 “Understanding” on Interpretation of Article XXIV emphasises importance of not excluding any major sector**
 - legal status?

Guidance from APEC Principles

- Two key principles are “comprehensiveness” and “flexibility”
 - hard-fought compromise in Osaka Action Agenda
- “Comprehensiveness” indicates that agriculture must be included
- “Flexibility” indicates that allowance must be made for economies with major sensitivities in particular sectors (such as agriculture)
- extended timetables for agriculture in many Asia-Pacific RTAs a reasonable reflection of the combined effect of these principles
- What if timetable extends beyond 2010 for developed economy RTA members?

Issues Not Amenable to RTA Treatment

- **Agricultural trade liberalisation involves three elements**
 - Increase in market access
 - Reduction/elimination of domestic support
 - Reduction/elimination of export subsidies
- **Only market access readily treated in RTA framework**
- **Export subsidies may be handled with difficulty?**
- **Domestic support probably impossible to handle within RTA framework**

- **Suggested solution (by some)**
 - negotiate market access within RTA
 - negotiate export subsidies and domestic support in the WTO
- **Satisfactory RTA outcome depends on satisfactory WTO outcome**

Q: Implications for RTA if WTO negotiations fail to produce a satisfactory outcome?

Welfare Implications

- **Depends on whether RTA contains competitive agricultural producers**
- **In an RTA containing competitive agricultural producers:**
 - **agriculture a source of trade creation**
 - **excluding agriculture reduces the potential welfare gains of both agricultural importing and exporting economies**
- **In an RTA containing only uncompetitive agricultural producers**
 - **agriculture a source of trade diversion**
 - **excluding agriculture increases the potential welfare gains of importing economies, reduces the potential loss of exporting economies**

(Conclusions supported by empirical studies)

Implications for Multilateral Liberalisation

- **inclusion of “sensitive” sectors may prepare the way for later multilateral liberalisation**
- **ability to exclude agriculture from RTAs may encourage economies with sensitive agricultural sectors to increasingly focus on RTAs at expense of commitment to multilateralism**
 - **RTAs without agriculture may become one of the “models” of Asia-Pacific RTAs**
 - **difficult to converge with other RTAs**