

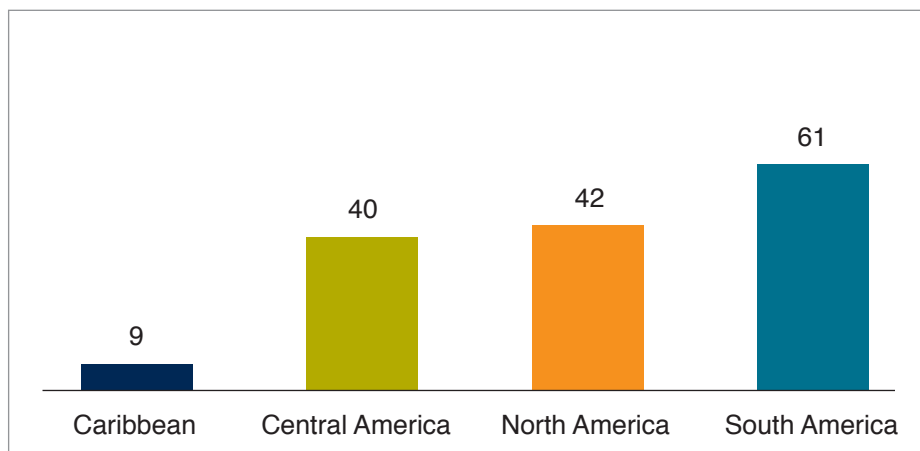


# Preferential trade agreements as tools to support agricultural trade<sup>1</sup>

This technical note, geared towards the ministers of agriculture of the countries in the Americas, seeks to provide an understanding of the importance of capitalizing on and making proper use of preferential trade agreements (PTAs).

This is in light of the fact that over the last two decades these countries have signed just over 140 PTAs, in a bid to increase and diversify products and export markets, while boosting competitiveness (see Figure 1)<sup>2</sup>, and

**Figure 1. Preferential trade agreements in the Americas.**



Source: WTO 2019.

1. Prepared by Anabel González, member of the Network of Permanent Consultants of IICA's International Trade and Regional Integration Hemispheric Program.

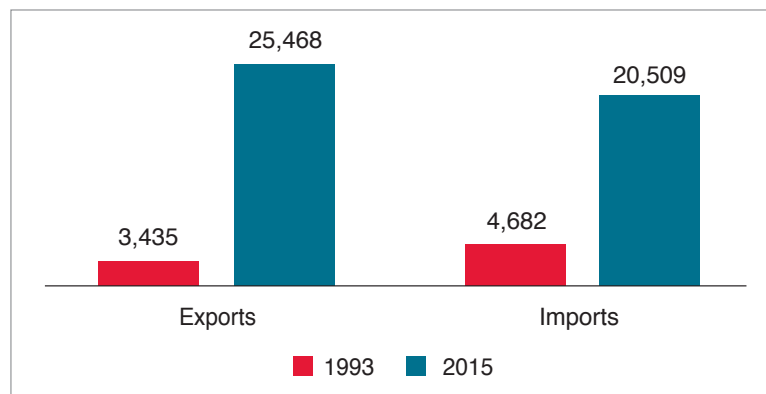
2. The agreements can be accessed at [http://www.sice.oas.org/agreements\\_e.asp](http://www.sice.oas.org/agreements_e.asp).

in turn to generate growth, create employment, transform production processes and reduce poverty. By establishing a framework of clear, transparent and non-discriminatory rules that provide assurance to economic agents and by liberalizing the trade of goods and service, PTAs facilitate the achievement of these objectives.

In the agriculture sector, where trade barriers are higher, PTAs play an even

more important role in facilitating market access. A recent study on the evolution of agricultural trade in the context of 74 PTAs during the 1998-2009 period estimates that PTAs boosted exports to partner countries by between 30% - 40% on average (Jean and Bureau 2015). In the Americas, for example, under the North American Free Trade Agreement (NAFTA), agricultural trade in Mexico between 1993 and 2015 grew by

**Figure 2. Mexico: exports and imports of agricultural goods under NAFTA, 1993-2015 (in thousands of millions of USD).**



Source: IDB 2018.

**Figure 3. Chile - a leader in world exports.**



Source: Direcon 2019.

leaps and bounds, with exports and imports increasing by 642% and 338%, respectively (see Figure 2). In Chile, PTAs cover 95% of exports and have stimulated the growth and increased dynamism of non-traditional exports (Direcon 2019). Under these agreements, Chile has diversified its agricultural exports and today is the largest, second largest and third largest global exporter of a series of products (see Figure 3).

However, the signing of a PTA is often insufficient to drive trade. Other than basic conditions that affect positioning in international markets, such as competitiveness and productivity, a variety of other factors can limit a sector's ability to capitalize on these agreements, particularly as tools to foster new exports or new exporters<sup>3</sup>. Most relevant among these are:

- **Market access conditions:**

Notwithstanding the differences between PTAs, it is not unusual for them to exclude some goods from the tariff elimination program, making their importation subject to the most favored nation tariff, or in some cases, to import quotas with a preferential tariff for a specified volume of imports (FAO 2017). Evidence shows that the higher the preferential tariff, the higher the probability of exporting (Jean and

Bureau 2015). Similarly, stringent or complex rules of origin<sup>4</sup> can constrain trade, particularly for small and medium enterprises (Ecorys 2018). Lax discipline in certain areas, such as export restrictions, special safeguards or sanitary or phytosanitary measures, can also limit the potential use of the PTAs (OECD 2015).

- **Lack of information and knowledge:**

There is a positive correlation between business' awareness and understanding of PTA's and their use of them (PwC 2018). Conversely, insufficient knowledge about the content and impact of the PTAs limits their usage. Specialized technical language in these agreements makes them difficult to understand and to apply in practical terms. (IICA 2016, Ecorys 2018)

- **Lack of effective programs to support the exporter:**

In addition to the PTAs, potential exporters also need support in garnering market-related information and developing these markets. The absence of this type of program reduces the possibility of exporting, in particular for small- and medium-scale agroexporters. In contrast, an effective promotion agency contributes to increasing exports (Lederman *et al.* 2009).

3. PTAs also contribute to improving the competitiveness and productivity of agricultural producers, by enabling them to access inputs and equipment that are of a higher quality and more technologically advanced, and at a cheaper cost.

4 All products in a PTA must satisfy established criteria to determine their origin, in order to benefit from preferential tariff treatment specified in the agreement.

- **Limitations related to the quality or volume of exports:** The entry of agricultural products into markets is subject to satisfying sanitary and phytosanitary regulations, as well as adhering to food safety and quality measures. Weaknesses in public or private capacities to consistently satisfy these standards or to negotiate the relevant protocols, limit or impede market access. Chile's experience in exporting fruit to various markets demonstrates the importance of the respective phytosanitary permits to drive exports. Similarly, a smaller exportable supply can be difficult to place on the market.
  - **Trade costs:** In Latin America, the costs involved in the trade of agricultural products—including tariff and non-tariff measures, transportation, logistics and customs procedures, to name a few—are very high (Arvis 2012). In particular, the time and cost of exporting and importing far exceed the average for the developing countries in the Organization for Economic Co-operation and Development (OECD) (ECLAC 2017). The ensuing friction can nullify the comparative advantages of the country, impacting, in particular, the capacity of small- and medium-scale agricultural producers to participate in agrifood value chains.
  - **Institutional weaknesses:** The lack of trained personnel in the public sector, insufficient inter-institutional coordination and limited financial resources, among other deficiencies, can affect the effectiveness of government actions in relation to the use of the PTAs. The absence of specialized business organizations can also have a negative impact on the management of production interests in dealing with the government, as can the lack of a more business and export-oriented culture (IICA 2016).
- Conditions that enable producers and businesses to make better use of the opportunities arising from PTAs can be improved through public policy actions and better public-private coordination. Among the most significant actions that can increase the use of the PTAs as an export platform are:
- **Policy priority:** Prioritizing increased exportation and participation in agrifood value chains, by coordinating institutional efforts and assigning the resources needed to support the use of trade agreements, helps to send a clear signal to the production sector.
  - **Specialized analysis:** Undertaking specialized studies on the market- and product-specific factors that affect the use of the PTAs assists in informing and more effectively

targeting programs and the requisite resources to strengthen conditions to enhance their use. (ECLAC 2012).

- **Improved market access**

**conditions:** PTAs should be considered as “living” instruments, that should be reviewed and adjusted in keeping with market conditions. In the agriculture sector, in particular, product exclusions, rules of origin and other factors that can constrain use of the PTAs should be reviewed on an ongoing basis. Successful experiences with other products and markets can support this exercise, as can experiences in other countries. More stringent adherence to sanitary and phytosanitary measures, through transparency, the convergence of standards, including the adoption of international standards, regionalization and equivalence, contribute to the effective openness of markets (OECD 2015).

- **Information dissemination and knowledge sharing:**

Even if the text of the PTA is accessible, the information or relevance to the production sector should be “translated” into a format that allows it to be of practical use. Electronic platforms are valuable tools that can assist in the organization of events and the preparation of publications with detailed information on the opportunities available through

the agreement. The dissemination should be done upon the entry into force of the agreement and should continue, as part of ongoing efforts to encourage its use.

- **Market intelligence and trade promotion programs:**

Export promotion agencies play a critical role in building the image of the country, by providing export support services, such as export training, technical support and export capacity building; undertaking marketing activities, such as trade fairs, export and import missions, as well as the identification of international contacts, *inter alia*; and by providing trade intelligence, market studies and publications in support of the sector.

- **Capacity strengthening and compliance with standards:**

The export capacity of agricultural goods is linked to the ability to comply with standards in export markets, as well as to demonstrate compliance with these standards. Consequently, the strengthening of public and private capacities in terms of food safety and plant and animal health is essential. This includes improving technical capacities for testing, inspection, certification and approval procedures for quarantine regimes. It also involves improvements in conducting risk analysis and

### Inset 1. Use of blockchain technology to streamline trade under NAFTA and CAFTA-DR

In September 2018, the United States Customs and Border Protection (CBP) agency conducted a proof of concept to evaluate the application of blockchain technology to streamline the tracking of cargo under NAFTA and the Free Trade Agreement between the United States, Central America and the Dominican Republic (CAFTA-DR). The main objective was to assess the feasibility of utilizing this technology to receive information related to the certificate of origin and to carry out verifications of origin. The test assessment determined that the use of the technology enabled virtually instantaneous communication between CBP and trade, improved receipt of documentation and expedited processing by CBP. It also eliminated the need for manual documentation and duplication of data entry information, as well as enabled early detection of potential problems, receipt of all information from the start of the process, easier access and more direct communication with the importer, and more timely access to back-up documentation.

**Source:** CBP 2019.

determining adequate levels of protection, as well as improving the efficiency of information services. Capacity building in the area of product traceability is also important.

- **Trade facilitation:** Enhancing the competitiveness of export products will hinge on having a decisive implementation agenda for the Trade Facilitation Agreement of the World Trade Organization (WTO), and in a broader sense, on reducing trade costs. This should include improving customs

management and the facilitation and streamlining of transactions, greater public investment and improved inter-institutional coordination. Transparency and simplification should be the basis of these efforts, and the use of new technologies, such as blockchain, should be explored as a means of streamlining trade (see Inset 1).

- **Strengthening of institutional capacities:** It is imperative that the capacity of public sector institutions be improved, in particular, the ministries of agriculture and of

commerce, as well as customs procedure and border administration agencies, in order to ensure that the public sector develops an effective approach that facilitates the use of trade agreements. Coordination with strengthened and specialized private sector organizations that are representative of production interests is critical.

- **Support of the international community:** The support of international cooperation is

important, in order to build capacities, share best practices, secure financial resources, and in general, to strengthen the export culture of the region.

In prioritizing these actions in each country, it should also be emphasized that a comprehensive approach that incorporates various measures is more likely to produce results than isolated actions. Chile's success in exporting fresh fruits to China is an example of this (see Inset 2).

### **Inset 2. Success story: the export of fresh fruits from Chile to China.**

With an export basket that includes cherries, plums, grapes, apples, avocados and kiwis, among other items, Chile, in 2017, became the second largest exporter of fresh fruit to China. With more than USD 1,000 million in exports, Chile supplied 18% of this market, surpassing other suppliers such as Vietnam, the Philippines, the United States, New Zealand and Australia.

A combination of factors led to Chile's success in conquering the Chinese fresh fruit market:

- **Strategic focus:** China is a priority market for ProChile—the export promotion agency—and for the government overall. As a means of building a relationship, ProChile adopts a long-term strategy that focuses on introducing one new product each year, learning from previous experiences and expanding its network of contacts.
- **Preferential market access conditions:** The free trade agreement between both countries facilitates the entry of Chilean products to the market, whereas

sanitary and phytosanitary agencies have played a pivotal role by using the privileged sanitary status of the country to open new markets.

- **Effective trade promotion:** Chile has four trade offices in China (in Shanghai, Guangzhou, Beijing and Hong Kong), as well as an agricultural advisor based in Beijing. It also conducts a series of promotional events and market activities to increase market presence, including the political support of high-level envoys. For example, the marketing campaign: “Enjoy your Red Moment”, seeks to expand the consumption of cherries throughout the year.
- **Public-private partnerships:** ProChile works closely with fruit export associations to improve quality, improve market positioning and to fund market intelligence efforts to identify trends and opportunities.

Chile is also exploring the possibility of exporting dry fruit, of developing linkages with Chinese companies and training local businesses to enable them to capitalize on the benefits of electronic trade.

**Source:** González 2018.

The Inter-American Institute for Cooperation on Agriculture (IICA) is a key partner in assisting the countries of the Americas to make better use of the PTAs, by providing analytical instruments; disseminating and sharing information and knowledge; designing strategies; fostering institutional alignment; facilitating capacity building and training public and private agents.

Moreover, the IICA International Trade and Regional Integration Program provides technical cooperation which focuses on promoting agrifood trade

and supporting processes of regional integration and trade policy alignment.

To drive agrifood trade, the Program promotes **trade policy-related actions** to improve the administration and use of international trade agreements in the countries of the Americas; supports the effective participation of these countries in international forums; provides information on trade agreements; undertakes prospective analyses of trade scenarios and their repercussions and impact on free trade agreements (FTAs); and



provides support in conducting follow-up on new agricultural trade negotiations between countries. Moreover, it develops trade promotion and internationalization activities to assist businesses and producer organizations from the agrifood sector to take full advantage of opportunities in trade agreements and processes of integration.

The actions promoted by the Program to **improve the administration and use of international trade agreements** in countries of the Americas include the harmonization and reduction of trade barriers as well as

standardization and modernization of some non-tariff barriers. It also supports member countries in the follow-up to trade policy-related negotiations and commitments, as well as in understanding the trade agreements that have been negotiated and trade opportunities to import or export specific products within the framework of these agreements.

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