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## **Opportunities in Agri-Food Trade from a Modernisation of the EU-Chile Association Agreement**

**Bruno Henry de Frahan and Alberto Valdés**

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# Opportunities in Agri-food Trade from a Modernisation of the EU- Chile Association Agreement

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# Overview

1. Context
2. Trade Development in Agri-food Products b/w Chile and the EU
3. Main Drivers in Agri-food Trade b/w Chile and the EU
4. How Big Could Be the Deal?
5. Conclusions

Main reference:

ECORYS - CASE (2017). "Ex-ante Study of a Possible Modernisation of the EU-Chile Association Agreement", Final Report prepared for the Directorate-General for Trade of the European Union of the European Union by ECORYS-CASE. Luxembourg: Publications Office for the European Union, February 2017.

# 1. Context

- 2002 EU-Chile Association Agreement
  - The most comprehensive EU FTA at that time
  - Important tariff concessions, except for sensitive agri-food & fishery products
  - Liberalisation for trade in services and FDI
  - Provisions for SPS measures > WTO
  - Access to government procurements
  - Protection of IPR
  - SIA procedure

# 1. Context

## ■ New generation of EU FTA

- S. Korea, Singapore, CETA, JEFTA, TTIP?
- Colombia, Peru + Ecuador, Central America

## ■ Chile FTA

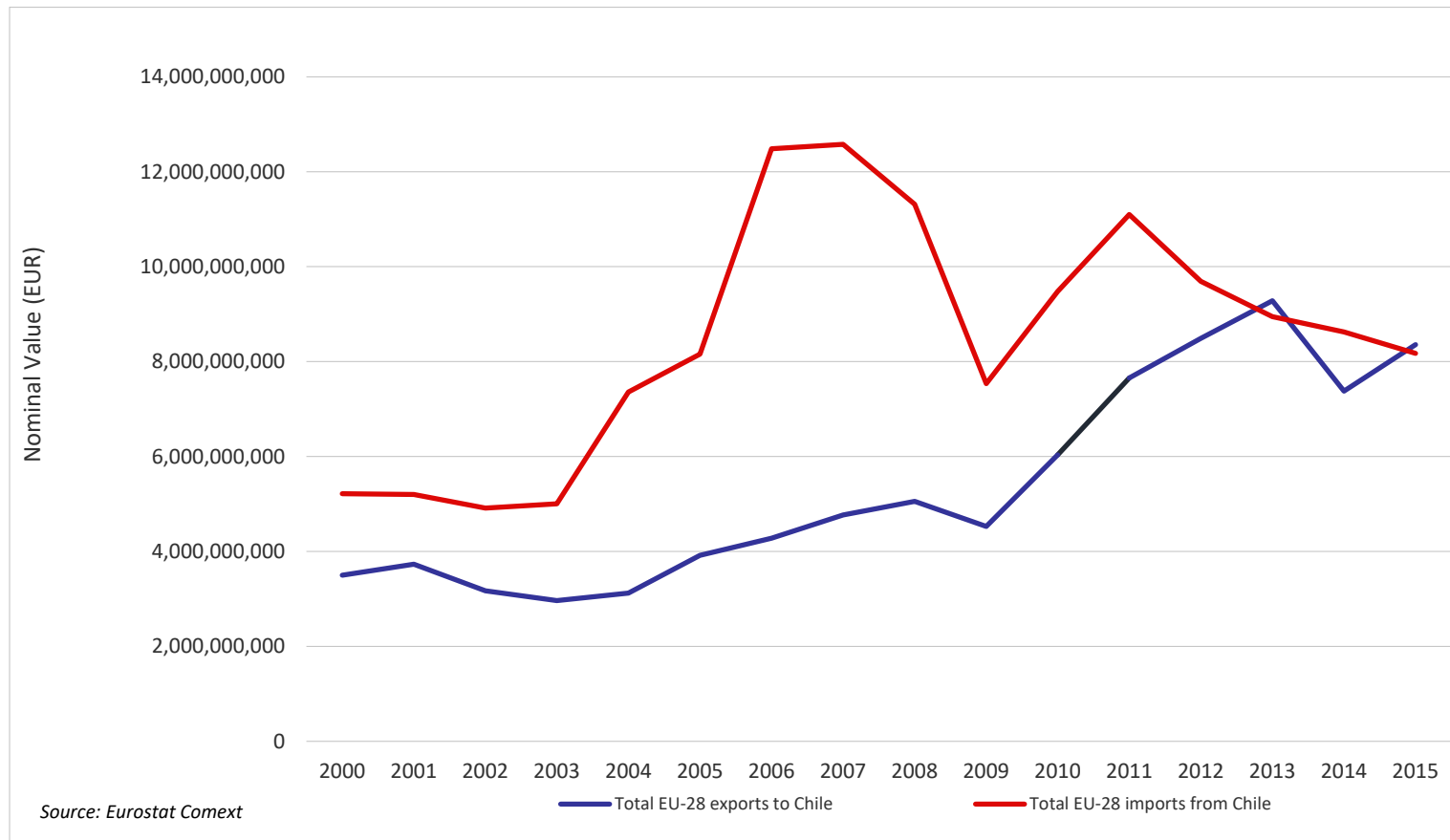
- Pacific Alliance, TPP
- Canada, Mexico, EFTA, S. Korea, USA, China, NZ, India, Japan, Australia, Colombia, Peru

⇒ Risk of trade erosion (Figures 1 & 2)

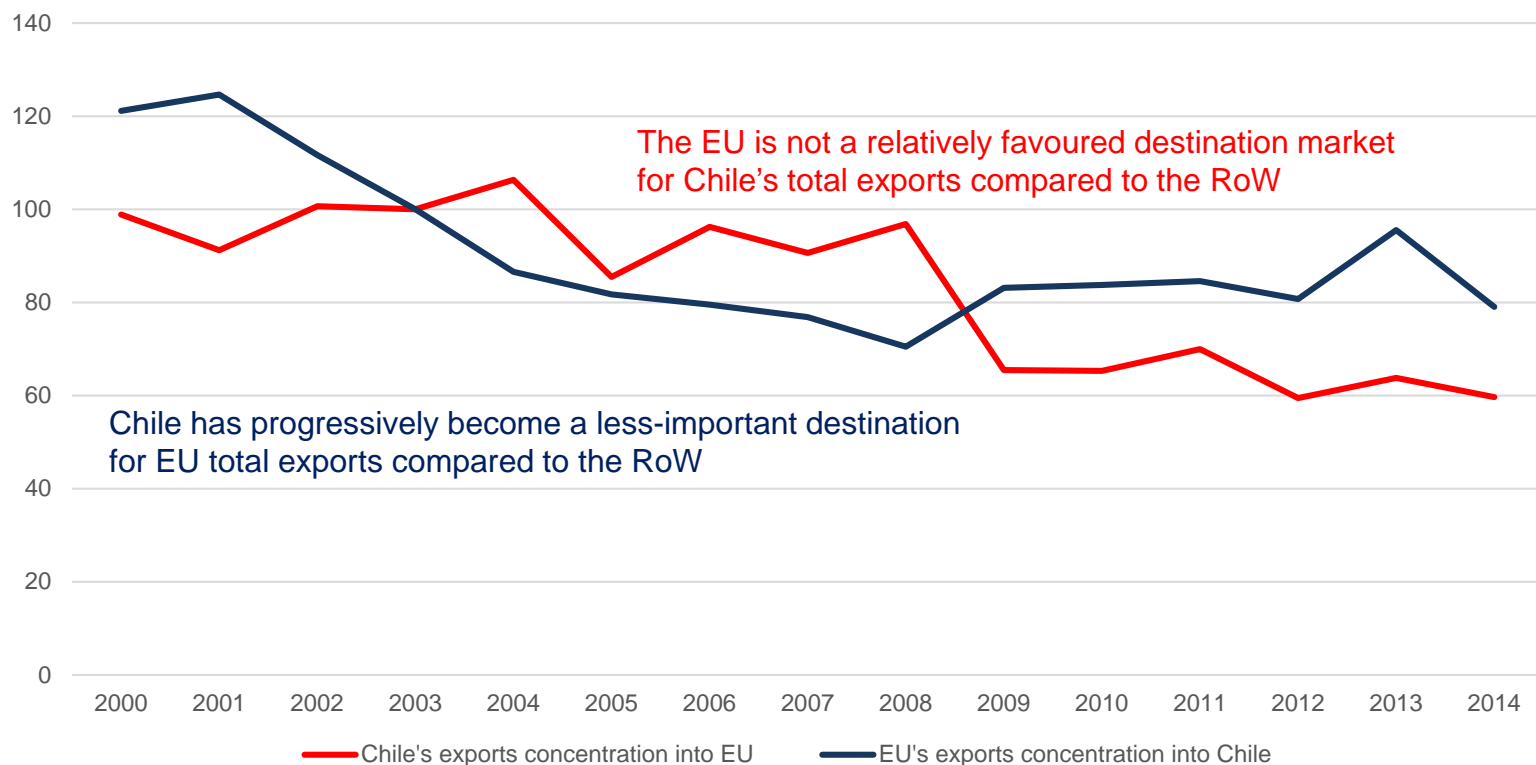
⇒ Key interests

- Sensitive agri-food & fishery products
- Services and investments
- Public procurement markets

# Figure 1: EU-28's Total Imports and Exports of Goods with Chile, 2000-2015



## Figure 2: Relative Trade Indices for Goods between the EU and Chile, 2000-2014 (100 = 2003)



Source: United Nations Comtrade

To control for effects of possible changes in exporter and importer characteristics on trade flows  $X$  for product category  $k$  over time  $t$ :

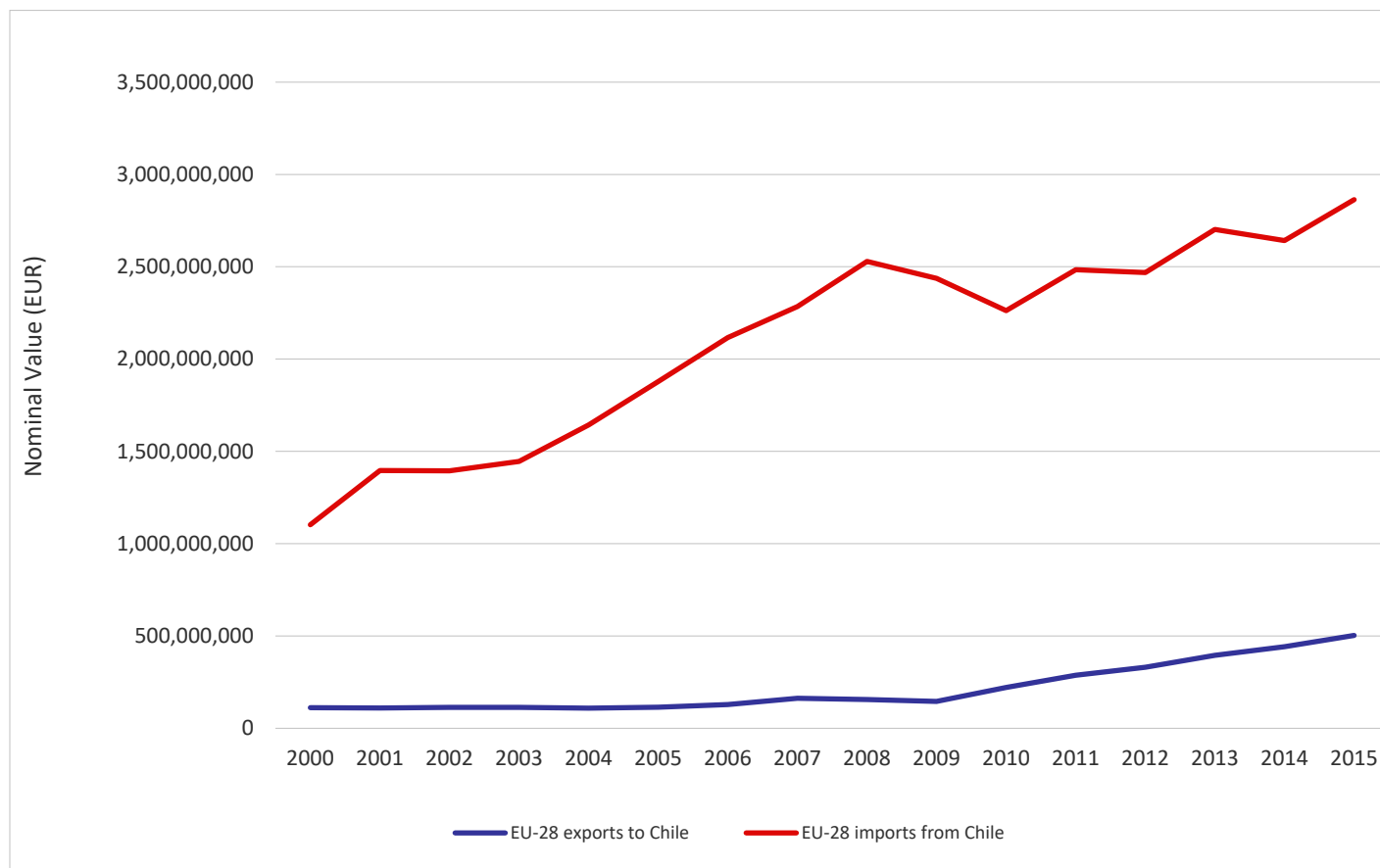
$$\frac{X_{EU\ CL\ k\ t}/X_{RW\ CL\ k\ t}}{X_{EU\ RW\ k\ t}/X_{RW\ RW\ k\ t}} \text{ and } \frac{X_{CL\ EU\ k\ t}/X_{RW\ EU\ k\ t}}{X_{CL\ RW\ k\ t}/X_{RW\ RW\ k\ t}}$$



## 2. Trade Development in Agri-food Products b/w Chile and the EU

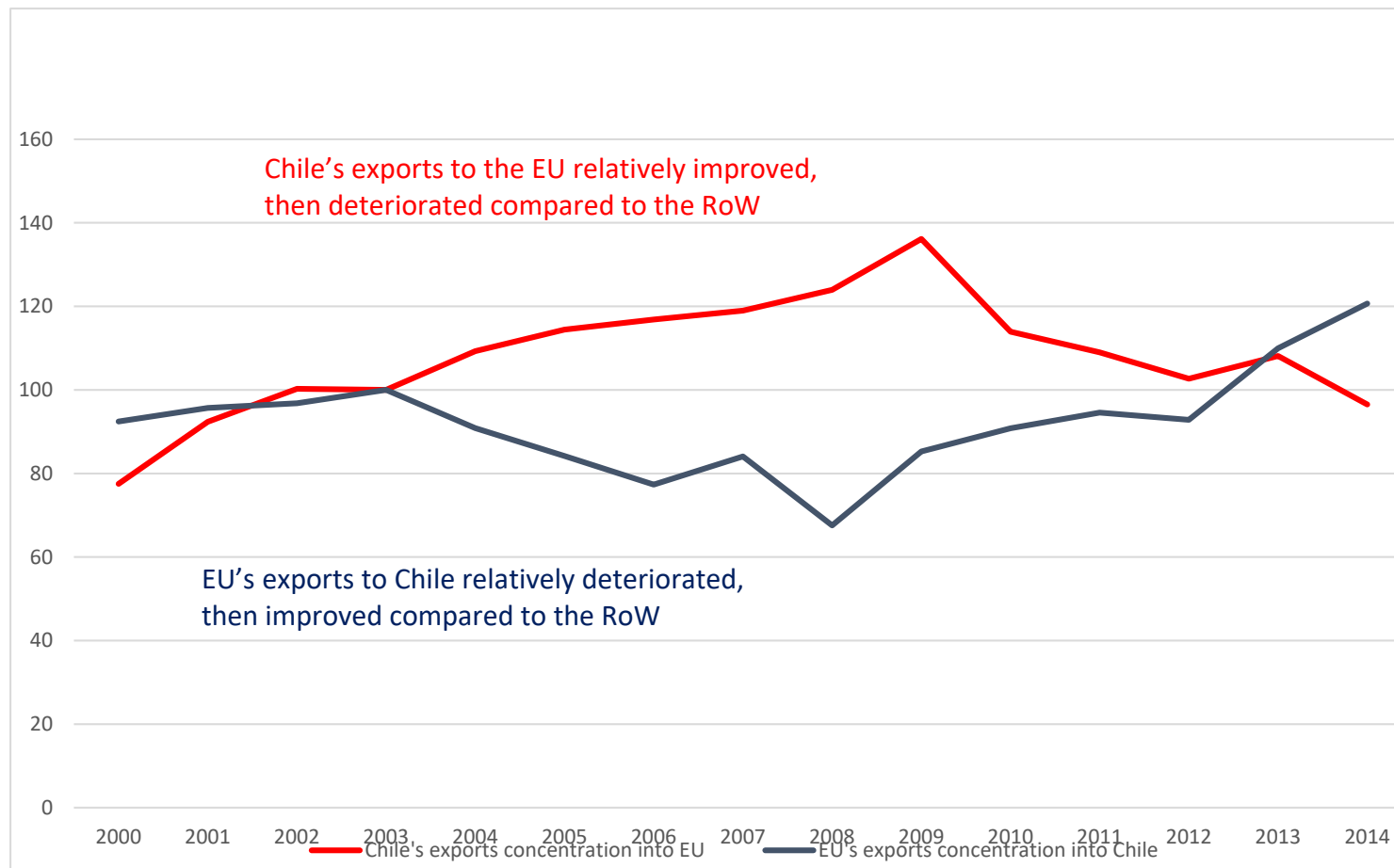
- Importance for Chile (2015):
  - €3 billion in export revenues
  - 35% of Chilean total exports to the EU
  - 18% of Chilean total agri-food exports go to the EU market
- Importance for the EU (2015):
  - €0.5 billion in export revenues
  - 6% of EU total exports to Chile

## Figure 3: EU-28's Agricultural and Food Imports and Exports with Chile, 2000-2015



Source: Eurostat Comext

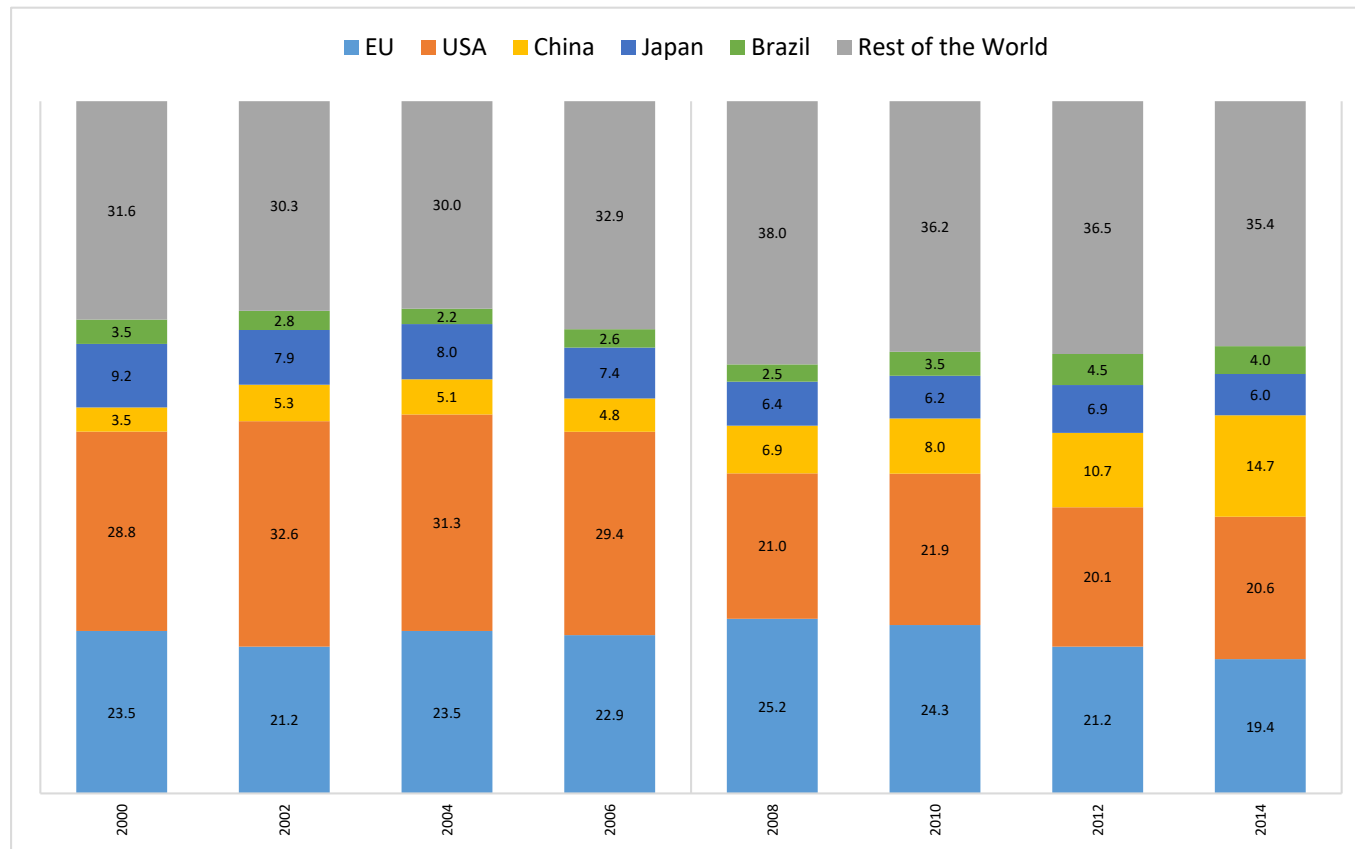
# Figure 4: Relative Trade Indices for the Agricultural and Food Sector between the EU and Chile, 2000-2014 (100 = 2003)



Source: United Nations Comtrade

$$\frac{X_{EU\ CL\ k\ t}/X_{RW\ CL\ k\ t}}{X_{EU\ RW\ k\ t}/X_{RW\ RW\ k\ t}} \text{ and } \frac{X_{CL\ EU\ k\ t}/X_{RW\ EU\ k\ t}}{X_{CL\ RW\ k\ t}/X_{RW\ RW\ k\ t}}$$

**Figure 5: Share of Chilean Agricultural and Food Exports to the EU, the U.S., China, Japan, Brazil, and the ROW, 2000-2014 (%)**

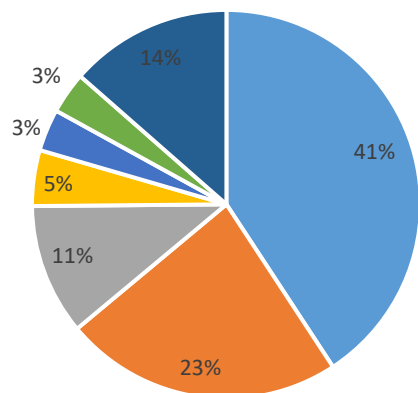


Source: ODEPA

# Share of Agricultural and Food Products in Chile-EU Trade, 2014

**Figure 6: Share of Agricultural and Food Products Imported by the EU-28 from Chile**

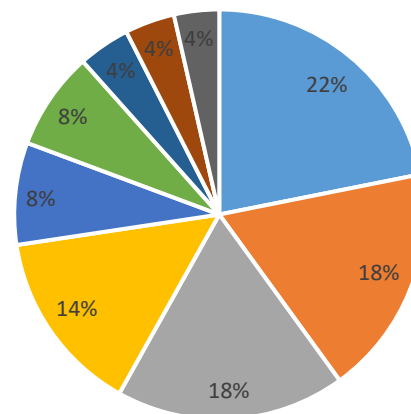
- Edible fruits and nuts
- Beverages, spirits and vinegar
- Fish and crustaceans, molluscs and other
- Preparations of meat, fish and seafood
- Oil seeds and oleaginous fruits
- Meat and edible meat offal
- Other products



Source: United Nations Comtrade

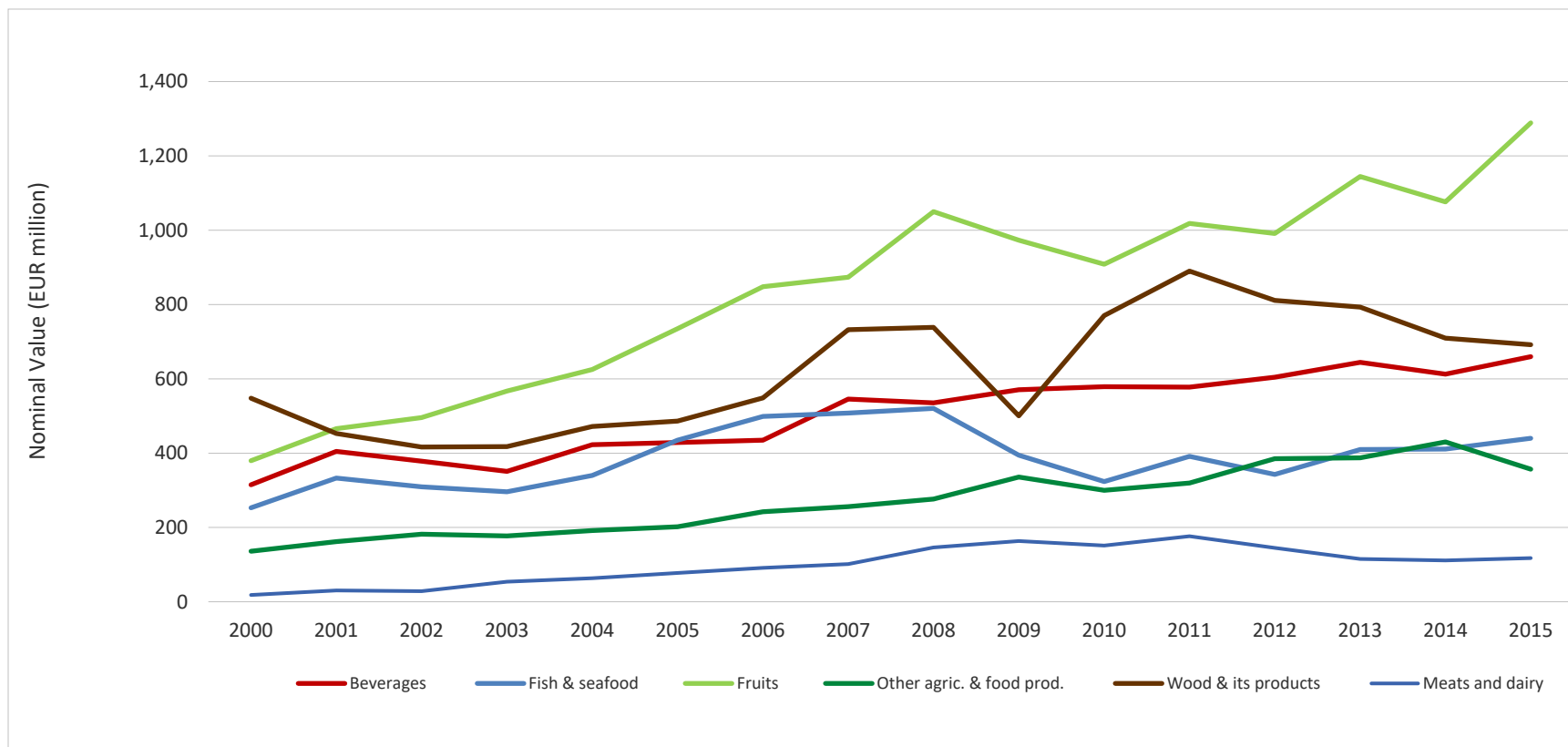
**Figure 7: Share of Agricultural and Food Products Exported by the EU-28 to Chile**

- Beverages
- Waste from food
- Edible preparations
- Preparations of vegetables, fruits
- Cocoa
- Preparations of cereals
- Oil seeds & oleaginous fruits
- Products of animal origin
- Animal or vegetable fats



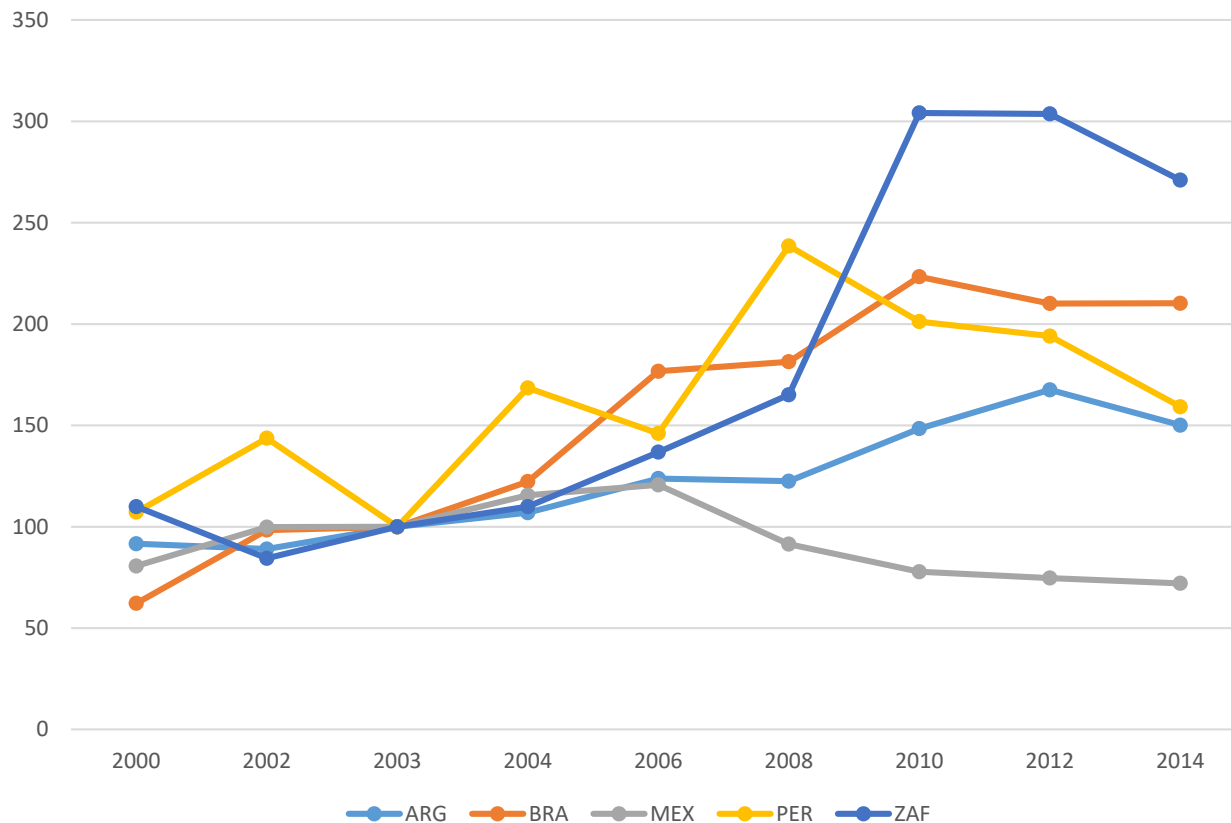
Source: United Nations Comtrade

# Figure 8: Selected Agricultural, Food and Forestry Imports of the EU-28 from Chile, 2000-2015



Source: Eurostat Comext

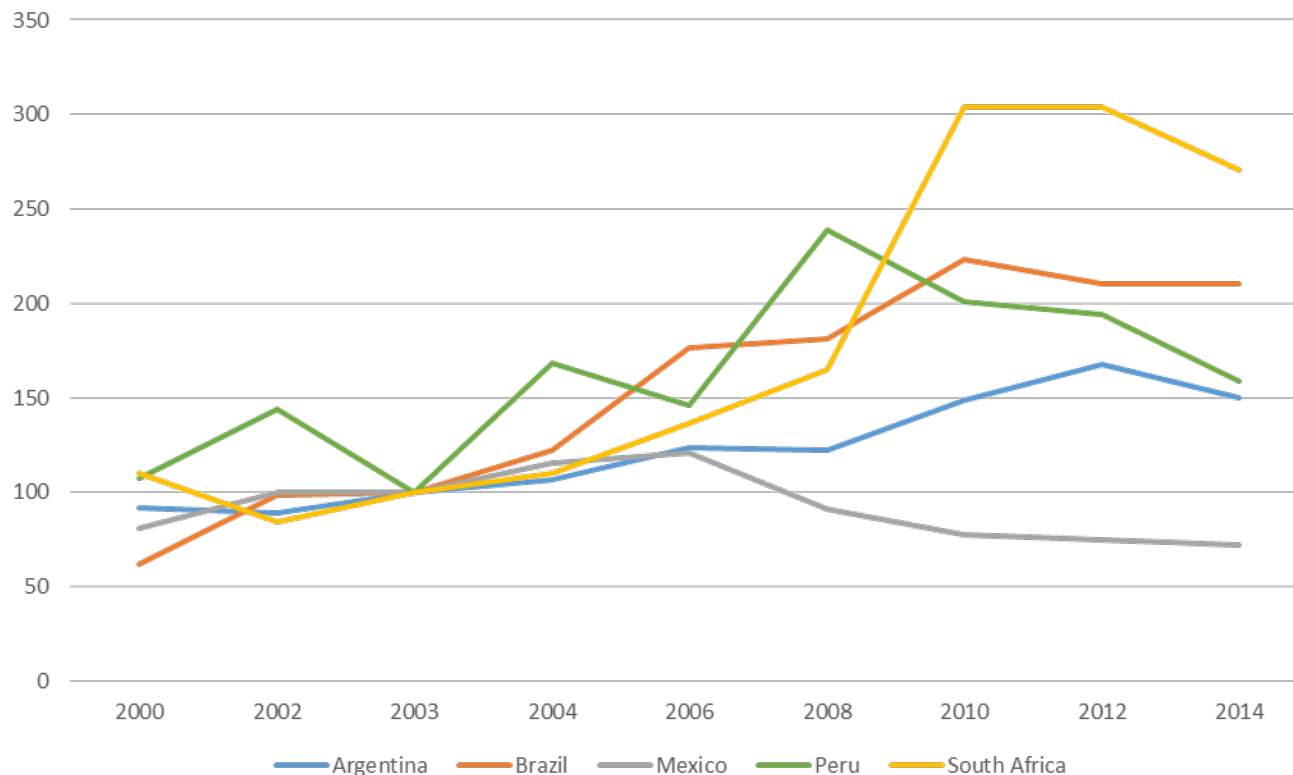
**Figure 9: Relative Trade Indices for Chilean Agri-food Exports to the EU with respect to Comparator Countries (SH), 2000-2014 (2003=100)**



Source: United Nations Comtrade

$$\frac{X_{CL\ EU\ k\ t} / X_{RW\ EU\ k\ t}}{X_{CL\ RW\ k\ t} / X_{RW\ RW\ k\ t}} \bigg/ \frac{X_{SH\ EU\ k\ t} / X_{RW\ EU\ k\ t}}{X_{SH\ RW\ k\ t} / X_{RW\ RW\ k\ t}}$$

**Figure 9: Relative Trade Indices for Chilean Agri-food Exports to the EU with respect to Comparator Countries (SH), 2000-2014 (2003 = 100)**



Source: United Nations Comtrade

$$\frac{X_{CL\ EU\ k\ t} / X_{RW\ EU\ k\ t}}{X_{CL\ RW\ k\ t} / X_{RW\ RW\ k\ t}} \bigg/ \frac{X_{SH\ EU\ k\ t} / X_{RW\ EU\ k\ t}}{X_{SH\ RW\ k\ t} / X_{RW\ RW\ k\ t}}$$



### 3. Main Drivers in Agri-food Trade b/w Chile and the EU

1. Remaining trade barriers faced by Chilean exports to the EU. Three product categories in schedule of liberalization:
  - a) Completed the 10-year schedule (e.g., fresh fruits, wine)
  - b) No schedule was established but the EU offered import quota system (meats, cheese, some fish and processed products)
  - c) Non-negotiated products, excluded from preferential system (olive oil, some dairy, horticultural and processed food products)

Categories (b) and (c) include products with ample scope for export growth from Chile. Main requests from the Chilean sector include removal or expanding import quotas (meats), removal of specific duties (some processed foods), and incorporating new products in an import liberalization schedule (olive oil and processed foods).

### 3. Main Drivers in Agri-food Trade b/w Chile and the EU

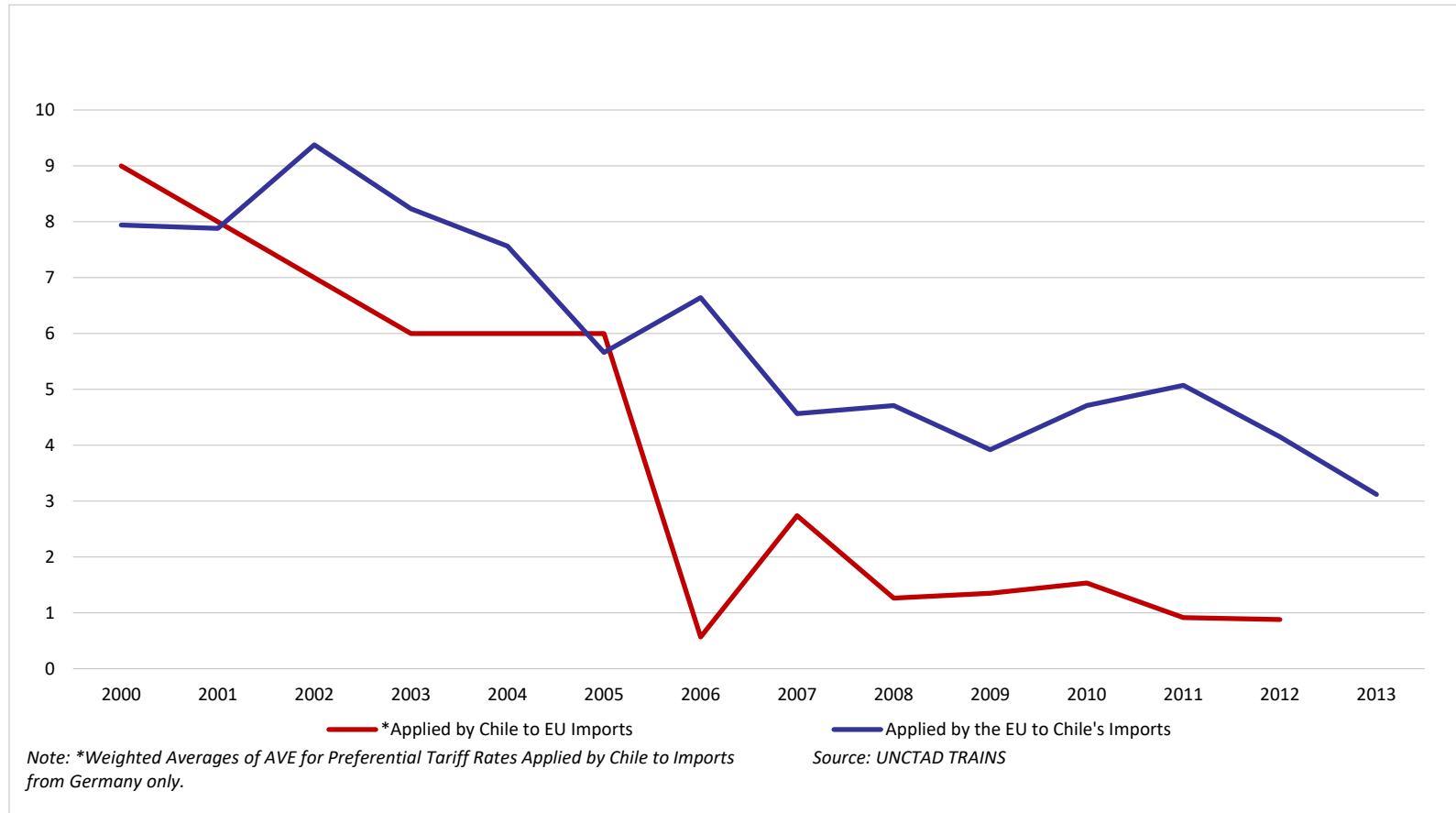
#### 2. Remaining trade barriers faced by EU exports to Chile:

Tariff structure is simple. Most tariffs faced by EU imports are below 2%, and there are no specific duties, nor import quotas, nor entry prices. Chile complies with WTO and Codex guidelines.

Main requests relate to the following:

- a) Streamline procedures for pest risk analysis for fruits and vegetables. Chile has finished the PRA analysis for apples, pears, stone fruits, shallots and garlic. The two parties are still in negotiations on the Chilean import condition proposals.
- b) Agreement has recently been reached on the equivalence between the name of cuts of meats and classification of carcasses applied by both parties.
- c) Chile has modified the animal health certification system for importing horses and pork.
- d) Genetic material approval procedures are been defined.

**Figure 10: Import-weighted Averages of Ad Valorem Equivalents for Preferential Tariff Rates Applied by the EU and Chile for the Agricultural and Food Sector, 2000-2013 (%)**



## 4. How Big Could Be the Deal?

- For the EU: small effects, given small size of the Chilean economy
- For Chile: trade effects larger than welfare ( $< 1\%$  GDP), trade small except for specific Xagr. facing QR. On Ma's effects are small, given trade openness
- In agri-food trade, Chile's exports concentration on non-commodity products, well functioning dispute settlement procedures particularly important - SPS rules, customs mechanisms and cooperation
- GE modelling - several studies - main impact for Chile goes beyond the narrow trade aspects (creation/diversion). Involves wider non-trade dimensions: legal and regulatory framework, administrative practices, liberalization of K movements, non discriminatory treatment of financial services compared to domestic producers, telecommunications, infrastructure investment

## 4. How Big Could Be the Deal?

- FTA contributes to institutional development - stronger policy credibility and lower country risk premiums - lower  $r$ 's and K inflows
- For Chile, potential EU-Chile FTA has a direct impact on TFP is critical - larger exposure of Chilean economy to technological advances in the EU - via rising import of intermediate inputs, including equipment and machinery, stock of knowledge and R&D associated in part to EU FDI

## On labour markets

- Labour markets: GE simulations show small changes in Chilean labour markets and negligible in the EU. In Chile real wages increase between 0.35 and 0.6% for unskilled workers under conservative and ambitious scenarios - its pro gender given increases are higher for women
- Labour standards in Chile - mainly on labour code for seasonal workers in agriculture such as right to strike during harvest, ability to replace striking workers, work during week ends after rainy days
- Little about informal sector, its outside the purview of labour inspectorate
- Currently, modifications of labour code for seasonal workers in the policy agenda

# On environmental effects and quality standards

- Environmental effects: Based on several studies, Borregard reports the complexities of testing the direct relationship between FTAs and environmentally / sustainability effects considering the openness of the Chilean economy
- But FTA EU-Chile stimulates a constructive dialogue between Chilean exporters and EU buyers, particularly with supermarket chains in the EU regarding product quality, and social and environmental standards
- Beyond govt set standards, Chilean agro-food exporters face considerable complexity dealing with the diversity in standards among the EU private distribution chains

## 5. Conclusions

- The EU-Chile FTA was considered an innovation when signed in 2002. But today it requires “modernization”. The EU is now Chile’s 3<sup>rd</sup> trading partner
- There is general agreement between the EU and Chile on the broad topics that require adjustments, but no clear yet as to how many rounds of negotiations will be required
- For agro-exports from Chile to the EU - priorities include elimination of import quotas and some specific tariffs (such as on olive oil). Also, opening markets for “novel foods” - new products in the EU (maqui, cochayuyo), but with small volumes potential
- For the EU, it is primarily a question of modernizing Chile’s SPS related procedures, such as risk evaluation
- In Chile, principal agro-export supply constraints include: evolution of the exchange rate, expansion of irrigation, shortage of seasonal workers, technology/new varieties,
- Chilean exports to the EU face increasing competition on the supply side with exports to the USA, and to Asia, primarily China, but also S Korea, Japan and perhaps India



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# Thank you!

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More on:

<http://ec.europa.eu/trade/policy/countries-and-regions/countries/chile/>