

# Agricultural and Food Products in Preferential Trade Agreements

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## Synonyms

[Agricultural and food products in regional and bilateral trade agreements](#); [Preferential market access for agricultural and food products](#); [Reciprocal and unilateral preferential access for agricultural and food trade](#)

## Introduction

The primary agricultural sector has been generally characterized by considerable governmental interventions through domestic support and international trade policies (Schmitz et al. 2010). Such governmental interventions are often extended to cover selected processed food products, particularly those that are deemed to be sensitive. The sensitivity of the primary agricultural sector is mainly associated with food security issues. It also stems from the influence of farmers' organizations that persuade governments through lobbying activities to implement protectionist policies vis-à-vis foreign products and to adopt price and income support schemes. Although these policies are expected to affect consumers and taxpayers, they are normally justified by ethical arguments regarding the well-being and competitiveness of domestic agricultural producers. These arguments are often countered by questioning the ethical validity of various protectionist policies in the first place. In this context, there are two evident ethical questions that can be addressed when comparing the outcomes from trade liberalization schemes and those from protectionist policies. First, to what extent is the reallocation of benefits between few producers (gains from protectionism) and lots of consumers (gains from trade liberalization) ethical? Second, is it ethical to weigh the welfare of one group more than the welfare of another group when total welfare goes up with free trade policies or goes down with protectionist policies? These ethical questions are relevant through various trade liberalization policies, including preferential and multilateral trade agreements.

Preferential trade agreements (PTAs) are preferential market access agreements for international trade between two or more member countries relative to nonmember countries. Preferential market access policies are normally expressed through reductions or eliminations of tariff barriers and also through various types of nontariff trade preferences such as trade facilitation practices over customs administrations for imports originating from member countries. PTAs often comprise regulations that manage trade between member countries such as Sanitary and Phytosanitary (SPS) provisions, safeguard measures, Technical Barriers to Trade (TBT), and provisions on domestic support and export subsidies. In some cases, PTAs encompass common regional sector-specific policies, such as the Common Agricultural Policy (CAP) of the European Union (EU).

Policy barriers applied on agricultural and food trade remain generally higher than those applied on manufactured products' trade. Consequently, the implications of PTAs for agricultural and food trade are expected to be different compared to those prevailing for manufactured products' trade. For

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example, the implementation of a comprehensive regional free trade agreement is expected to have a higher impact on intra-regional agricultural and food trade compared to trade in manufactured products. Many PTAs have more limited degrees of market access preferences for sensitive agricultural and food trade compared to trade in manufactured products. The vertical linkages between the primary agricultural sector and the food processing sector generate diverse implications of PTAs for the patterns of trade and industrial growth. Also, PTAs' treatment of domestic agricultural support policies, the prevalence of various SPS and TBT measures, and the regularity of provisions on nontariff trade policies further distinguish the implications of PTAs for agricultural and food trade.

There are several types of PTAs that are determined according to the number of member countries, geographic location, and the implementation of reciprocal versus unilateral preferences. One prominent type of PTAs is plurilateral, involving several countries. Most of these plurilateral PTAs cover countries located in geographic proximities. Such agreements are commonly termed regional trade agreements (RTAs). Prominent examples of RTAs include North American Free Trade Agreement (NAFTA) in North America, *Comunidad Andina* (CAN) or the Andean Community and *Mercado Común del Sur* (MERCOSUR) or the Common Market of the South in South America, *Mercado Común Centroamericano* (MCCA) or the Central American Common Market in Central America, Association of Southeast Asian Nations (ASEAN) in Asia, EU and the European Free Trade Association (EFTA) in Europe, Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC) in sub-Saharan Africa, Greater Arab Free Trade Area (GAFTA) and Gulf Cooperation Council (GCC) in the Middle East and North Africa, and the Caribbean Community (CARICOM) in the Caribbean region.

Many PTAs are bilateral trade agreements (BTAs), which are trade agreements between two distant or two neighboring countries. Examples of BTAs include the United States-Chile Free Trade Agreement and Egypt-Turkey Free Trade Agreement. BTAs are often realized between one regional trading bloc and one country. Examples of such BTAs include the EU-Chile Free Trade Agreement and ASEAN-China Free Trade Agreement. RTAs and BTAs are normally characterized by reciprocal preferences in the sense that member countries offer each other preferential market access. There are some PTAs that are unilateral in nature and are mainly intended to enhance the market accessibility of various products, particularly primary agricultural commodities, from developing countries and Least Developed Countries (LDCs) to the markets of developed countries. The EU's Generalized System of Preferences (GSP) and the Development Cooperation between the EU and the African, Caribbean, and Pacific Group of States (ACP) are prominent examples of such PTAs.

There are also several types of RTAs that are classified according to the extent of market integration. Free trade areas depict the basic stage of market integration. Member countries offer each other preferential market access, but maintain their own external tariff schedules vis-à-vis imports from nonmember countries (e.g., NAFTA). Customs unions represent the next stage of market integration where member countries adopt common external tariff schedules vis-à-vis imports from nonmember countries (e.g., MERCOSUR). The extent of market integration is further promoted through Common Markets where factors of production have free intra-regional mobility (e.g., the former European Economic Community). Market integration culminates at Economic Unions where member countries harmonize their macroeconomic policies. The EU is often considered as one prominent example.

## Preferential and Multilateral Trade Agreements

The sensitivity of the primary agricultural sector has resulted in slow progress in multilateral agricultural trade negotiations through the World Trade Organization (WTO), which was formed in 1995 as the successor to the General Agreement on Tariffs and Trade (GATT). Multilateral negotiations over global liberalization schemes for agricultural trade were initiated through the GATT's Uruguay Round of multilateral negotiations (1986–1994) and resulted in the Uruguay Round's Agreement on Agriculture (URAA). The subsequent negotiation rounds over the draft modalities of the Doha Development Agenda (DDA) for agriculture have been difficult. The resulting sluggish progress in multilateral trade negotiations over agricultural and food trade have further emphasized the role of PTAs as alternative international market access policies for agricultural and food trade. PTAs often include countries that share many common economic interests, and hence, they are easier to realize compared to multilateral trade agreements.

The proliferation of PTAs could be associated with some ethical concerns when some countries are being “left out” from major influential PTAs. These countries could be then forced to ride the waves and make significant concessions when engaging in preferential agreements. PTAs are sometimes considered stumbling blocks since they can diffuse the pressure on the global trading system to reach multilateral trade agreements which could be beneficial to many groups in many countries. Consequently, PTAs could contribute in delaying the realization of multilateral agreements for agricultural and food trade through the current WTO's DDA and could adversely or favorably affect the agricultural and food sector and national welfare in many countries. Alternatively, PTAs could be perceived as building blocks toward a globally liberalized trading system which parallel the WTO's attempts through multilateral negotiations. Thus, progress in PTAs could ultimately lead to freer global trading systems and would arguably enhance global welfare in the long run. This outcome is consistent with many ethical considerations when it ultimately improves the well-being of many groups in many countries. However, some ethical concerns could be also addressed since a freer global trading system could unfavorably impact a wide range of agricultural and food producers who could incur significant losses from increases in foreign competition and could face adversity through the process of adaptation to a globally liberalized market.

There could be some supplementary ethical considerations associated with membership in PTAs when carrying out multilateral trade negotiations. RTAs are expected to strengthen the negotiation positions of member countries through the WTO's DDA multilateral negotiations. A member country that does not individually have a strong position through these negotiations can better voice its interests through a regional trading bloc. However, the dominant negotiating positions of major regional trading blocs could occur at the expense of the interests of other (mainly developing) countries that are left out. This outcome could negatively affect many groups in these countries.

## Characteristics of PTAs

The depth and breadth of trade preferences exhibit a wide variation across different PTAs. Some PTAs cover trade in virtually all products and grant free market access. Other PTAs cover some products and/or offer reduced preferential trade barriers to member countries relative to nonmember countries. Members of the WTO are required to maintain nondiscriminatory trade policies vis-à-vis all other members. These nondiscriminatory policies are expressed through the principle of Most-Favored Nation (MFN) treatment, where a preference given to one country should be extended to all other countries, and through the principle of national treatment of imported products. However,

there is an exception through Article XXIV of the GATT where countries are allowed to form PTAs, provided that they do not increase barriers on imports from other WTO member countries. This Article also requires the elimination of trade barriers on “substantially all trade” between PTA member countries. The ambiguity of “substantially all trade” has often led to various interpretations. In some cases, limited depth of trade preferences and incomplete product coverage of PTAs could be viewed as being inconsistent with the requirements outlined in this Article.

There are many agricultural products that are deemed to be sensitive because of lobbying activities (supply-managed products in Canada and the United States), cultural reasons (e.g., rice in Indonesia and Japan), or food security reasons (e.g., wheat in Middle Eastern countries). Some PTAs set limitations on preferential access for several sensitive agricultural and food products. For example, supply-managed products in Canada, such as dairy products, eggs, and poultry products, remain protected vis-à-vis imports from other NAFTA member countries. Meanwhile, several sensitive agricultural products in the United States (e.g., cotton, dairy products, and peanuts) are shielded against competition from other NAFTA member countries. Member countries of SADC implement trade barriers on intra-regional trade flows in many sensitive agricultural products, namely, cereals, cotton, and dairy products. Member countries of MERCOSUR have individual lists of sensitive agricultural products that are exempt from duty-free market access and from the implementation of common external tariffs. Also, ASEAN member countries exclude rice and other sensitive agricultural products from preferential access through the exceptions granted under the Common Effective Preferential Tariff (CEPT) scheme. Some PTAs comprise Tariff Rate Quotas (TRQs) applied on trade among member countries for sensitive agricultural products. TRQs have a two-tier tariff structure where a maximum level of imports is taxed at a low in-quota tariff rate and additional imports are subject to an over-quota tariff rate. For example, the United States-Chile Free Trade Agreement contains TRQs applied on imports of several agricultural commodities (e.g., beef, cotton, and dairy products). These limitations could favor domestic producers’ well-being. However, they could come at the expense of efficient allocation of resources and foreign producers’ and consumers’ benefits.

The extent of trade preferences of PTAs for member countries can be examined by contrasting trade barriers applied on trade flows between member countries (e.g., preferential tariffs) to trade barriers applied on imports from nonmember countries (e.g., MFN tariffs). For example, the applied MFN tariff barrier of the EU bloc on beef imports from nonmember countries is estimated to be equivalent to an ad valorem rate of 77 % in 2005, while imports from member countries have a duty-free market access (Ghazalian et al. 2011). Mexico applied an MFN tariff rate of around 20 % on beef imports compared to a duty-free market access for beef imported from NAFTA member countries (Ghazalian et al. 2011). Also, the common external applied MFN tariff rates of MERCOSUR on imports of maize (excluding seed imports) and on imports of common and durum wheat were 8 % and 10 %, respectively, compared to a duty-free intra-regional market access (United Nations Conference on Trade and Development 2012). Naturally, some ethical issues could be addressed when larger tariff gaps between MFN and preferential access rates prevent efficient producers in nonmember countries from reaching markets of regional blocs and give advantage to less efficient producers in member countries.

PTAs often apply Rules of Origin (ROO) when conferring preferences for agricultural and food trade between member countries. As discussed in Fulponi et al. (2011), there are variations in ROO criteria for products to be considered having originated from member countries. ROO requirements could include a stringent criterion that agricultural and food products should be wholly produced in member countries to benefit from preferential access. They could also include de minimis criteria which allow certain percentages of agricultural and food products to be produced in nonmember

countries. The ROO policies are commonly associated with free trade areas where nonmember countries have incentives to access the regional bloc through the member country that has the lowest tariff rate. Such practices are often termed “trade deflection.” Consequently, ROO policies could be justified since they are applied by member countries as preventive measures to trade deflection practices. However, stringent applications of ROO measures could raise concerns for some. This is because they could be implicitly used as TBT against efficient producers in nonmember countries along the supply chain, favoring domestic producers in member countries. There are some supplementary deadweight losses that are associated with complex systems of ROO. In this context, the “spaghetti bowl” phenomenon could prevail for agricultural and food trade where ROO policies of overlapping PTAs distort trade patterns and generate important transaction costs (Bhagwati 1995).

The implementation of the mandatory Country of Origin Labeling (COOL) program in the United States, which took effect on March 16 of 2009, has disturbed Canada’s and Mexico’s exports of many agricultural products to the United States (Carlberg et al. 2009). It has arguably lessened the magnitude of preferential market access provisions of NAFTA for these products. COOL regulations require retailers to provide mandatory labels on certain agricultural products (e.g., beef, chicken, lamb, pork, and fresh and frozen fruits and vegetables) indicating the source country. For meat commodities, these labels should indicate the countries where the animals are born, raised, and slaughtered. The labels indicate product of the United States when all three stages take place in the United States. For the proponents of this program, these labels are ethically defensible since they are intended to have better informed consumers regarding the attributes of the purchased products and to enhance food safety along the supply chain. However, COOL programs are perceived by some as an implicit TBT which confers an advantage to domestic producers. This mandatory labeling requirement has particularly impacted the Canadian meat industry. In many cases, producers and processors in the United States along the supply chain would incur significant costs in establishing separate lines of production to segregate primary products according to their countries of origin. Consequently, an integrated supply chain where all stages of production occurring in the United States would circumvent these segregation costs (Carlberg et al. 2009).

The extent of nontariff preferences is generally more difficult to evaluate without empirical analysis. One of NAFTA’s nontariff preferences for Canadian beef and pork exports was the recognition of Canada’s inspection certificates by the United States (Veeman 1994). Nontariff preferences can be also implicitly generated when restrictive nontariff trade policies are applied on imports from nonmember countries. For example, the EU import restrictions on hormone-treated beef and genetically modified organisms (GMOs), which are common features in agricultural production of many major exporting countries (e.g., Australia, Canada, and the United States), have indirectly magnified the value of regional preferences for EU producers. Promoting food safety and conveying information on the process of production and on products’ attributes to consumers conform arguably well to various ethical standards expressing consumers’ rights to food information and safety. However, these policies are controversial since they are often believed to act as disguised supplementary TBT vis-à-vis foreign producers.

Many PTAs have SPS and TBT provisions that oversee trade between member countries. They often include harmonization or recognition of standards for agricultural and food products. These provisions could potentially act as implicit nontariff preferences for member countries vis-à-vis nonmember countries which have their conventional standards unrecognized or different than those accepted within the preferential trading bloc. Failing to recognize foreign standards could be incompatible with ethical norms when purposely used as implicit TBT against nonmember countries. In some other cases, SPS and TBT provisions of PTAs are associated with restrictive measures that could lessen or even eliminate the significance of trade preferences between member countries.

For example, the United States implemented restrictive SPS measures on cattle and bovine meat imports from Canada following the discovery of Bovine Spongiform Encephalopathy (BSE) in Canadian cattle farms in 2003. Such intra-regional SPS and TBT measures often operate as food safety policies. However, in some other cases, they could be considered as implicit barriers favoring domestic producers by lessening import competition from other member countries.

## Implications of PTAs

Free trade policies are often associated with increases in trade flows and positive overall welfare implications. They could, however, adversely impact some groups through the process of adjustment and could bring about some ethical issues. In this context, Palmetter (2005) discussed the general aspect of free trade through various ethical theories, underscoring the costs of protectionist policies vis-à-vis losses incurred in some segments from free trade.

The evaluation of the implications of PTAs for agricultural and food trade is commonly carried out within the conventional analytical framework that describes the effects of PTAs through the trade creation and trade diversion effects (Viner 1950). The trade creation effect implies that trade preferences induce an increase in trade levels between member countries. This effect has positive welfare implications because inefficient (higher cost) production in one member country is replaced by imports produced by more efficient (lower cost) producers in another member country. Nevertheless, many higher-cost domestic producers facing a more intense import competition from lower-cost producers in other member countries would incur losses and would ultimately exit the market. The theoretical analysis suggests that these domestic resources would be eventually reallocated into other comparatively advantaged sectors. The process of labor reallocation could be cumbersome and many producers would be harmed by PTAs, at least in the short run. The trade diversion effect of PTAs indicates that trade is diverted from more efficient producers in nonmember countries to less efficient producers in member countries. In this context, trade diversion is associated with negative welfare implications. Furthermore, many producers in nonmember countries would be disadvantaged and could face adversity through the process of adjustment and transition from their current sector to another more competitive sector.

The net welfare implications of PTAs can be arguably assessed based on the relative magnitude of trade creation and trade diversion effects. However, such additive assessment could miss some detailed ethical issues regarding the well-being of adversely affected groups. It is commonly argued that PTAs between “natural” trading partners, which are normally located in close geographic proximity, are welfare-enhancing agreements given that trade diversion effects become less significant (Wonnacott and Lutz 1989). Various policies that facilitate (or compensate for) the reallocation of producers who are adversely affected by PTAs could enhance the case for PTAs. This is particularly relevant when trade agreements are realized between natural trading partners with limited trade diversion effects.

Preferential access schemes intended to facilitate agricultural and food exports from developing countries and LDCs to the markets of developed countries (e.g., EU’s GSP, EU-ACP Development Cooperation, and many BTAs) are often favorably regarded through the development lens. They are expected to impact the well-being of domestic producers in the beneficiary developing countries and LDCs and to enhance the growth of the agricultural and food sector in these countries. However, there are concerns that such unilateral preferential agreements are not stemming from a pure goodwill adherence to ethical perspectives. Many unilateral preferential agreements arguably consist of binding procedures mainly intended to secure specific primary agricultural commodities

that are scarce in developed countries (e.g., cocoa), and they do not always cover a wide range of agricultural products. Such agreements could force these countries into an undiversified production pattern.

There is a significant empirical literature that examines the implications of PTAs for agricultural and food trade. This empirical literature has estimated the trade creation and trade diversion effects on trade flows. However, it has not conducted comprehensive welfare assessments in general. Many empirical studies examined the implications of various RTAs for aggregate agricultural and food trade (e.g., Grant and Lambert 2008; Korinek and Melatos 2009; Lambert and McKoy 2009; Sun and Reed 2010). Several other empirical studies carried out the analyses of the effects of RTAs on agricultural and food trade at disaggregated levels (Sarker and Jayasinghe 2007; Jayasinghe and Sarker 2008; Ghazalian et al. 2011). The empirical literature has reported significant trade creation effects for several RTAs at aggregate and disaggregated levels, but it has also detected considerable trade diversion effects for some RTAs.

Several PTAs, particularly those signed between developing and developed countries, include provisions to upgrade labor and environmental standards or enforce existing ones. Adherence to these provisions could conform to labor and environmental ethical standards. For example, developing countries should satisfy many basic labor and environmental conventions to benefit from an upgraded GSP system and gain improved access to the EU market. Some preferential systems could arguably generate a “race to the bottom” when they do not include labor and environmental provisions. There are ethical concerns when the formation of RTAs leads to the deterioration of domestic labor regulations due to increases in market competition levels (Häberli et al. 2012). Also, competition from lower-wage member countries could create various ethical considerations for the labor market within the regional trading bloc.

Lastly, RTAs could enhance regional food security by reducing fluctuations in output available in the market and by stabilizing prices (Josling 2011). This positive outcome is ethically relevant especially in the case of RTAs composed of developing countries (e.g., COMESA) where food security remains a major issue for a large proportion of the population. Also, PTAs could result in dynamic gains through the occurrence of flows of knowledge and information between member countries (Josling 2011), particularly from highly competitive agricultural and food sectors in some member countries to agricultural and food sectors in other member countries.

## Summary

Membership in a PTA can affect national economic interests in different ways. It can strengthen countries' positions in international negotiations. Alternatively, it can overshadow their individual economic interests, particularly when their influence is limited within the PTA compared to other member countries. Furthermore, countries which are left outside major influential PTAs could be unfavorably impacted and could be forced to make significant concessions. Several segments in such countries could be negatively affected, raising ethical concerns.

The characteristics and implications of PTAs for agricultural and food trade encompass several economic and ethical considerations. The use of SPS and ROO measures and the implementation of various agricultural and food standard policies through PTAs could be favorably regarded when associated with the declared food safety concerns along the supply chain and with the rights of consumers to product and process information. Hence, they can be perceived as being ethically consistent with the rights of consumers to food safety and food information. However, these

measures could be arguably used as implicit TBT to favor domestic producers and could eventually affect the well-being of producers in other member and nonmember countries.

Trade creation effects of PTAs are expected to promote efficiency since lower-cost production replaces higher-cost production within the preferential trading bloc. However, trade creation effects also mean that higher-cost producers would incur losses and would eventually exit the market and that the adjustment procedure could be accompanied with adversity for these producers. Equivalent description applies to producers in nonmember countries who incur losses and exit the market due to trade diversion effects. These adjustment procedures could generate some significant ethical concerns.

In theory, some of the gains realized through PTAs could be redistributed to the adversely affected producers through relevant policies. This would alleviate the ethical concerns about the economic distress faced by these producers. In practice, such policies may be difficult to implement and could generate considerable deadweight losses to the economy. Hence, some attempts to correct one ethical issue could generate another one.

Finally, PTAs could lead to improvements in labor and environmental standards. They could also promote spillover effects expressed through the flow of knowledge and technology from a competitive sector in one member country to another member country. These events could arguably contribute in supporting the case for PTAs.

## Cross-References

- ▶ [Agricultural Ethics](#)
- ▶ [Agricultural Ethics and Policies](#)
- ▶ [Economic Protectionism in the Food and Agriculture Industries](#)
- ▶ [Economy of Agriculture and Food](#)
- ▶ [Food and Agricultural Trade and National Sovereignty](#)
- ▶ [Food Labeling](#)
- ▶ [Food Security and International Trade](#)
- ▶ [International Food Quality Standards](#)
- ▶ [Multilateral Trade Organizations, Food, and Agriculture](#)
- ▶ [NAFTA and the Food and Agricultural Industries](#)
- ▶ [Trade and Development in the Food and Agricultural Sectors](#)

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