

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Impact of Free Trade Agreements on Trade and Food Prices

Report Categories:

Agricultural Situation

Country/Regional FTA's

Approved By:

Michael Conlon, Agricultural Counselor

Prepared By:

Daniel Robinson, Virtual Student Foreign Service Intern

Report Highlights:

FAS/Colombia is writing a series of reports on the opportunities and challenges for agriculture under the Colombia Trade Promotion Agreement (CTPA), which went into force in May 2012. Using data from some Latin American countries, this report shows the benefits for the consumers of the FTAs reflected in trade growth and to some extent as an instrument to help the government to control consumer prices increases.

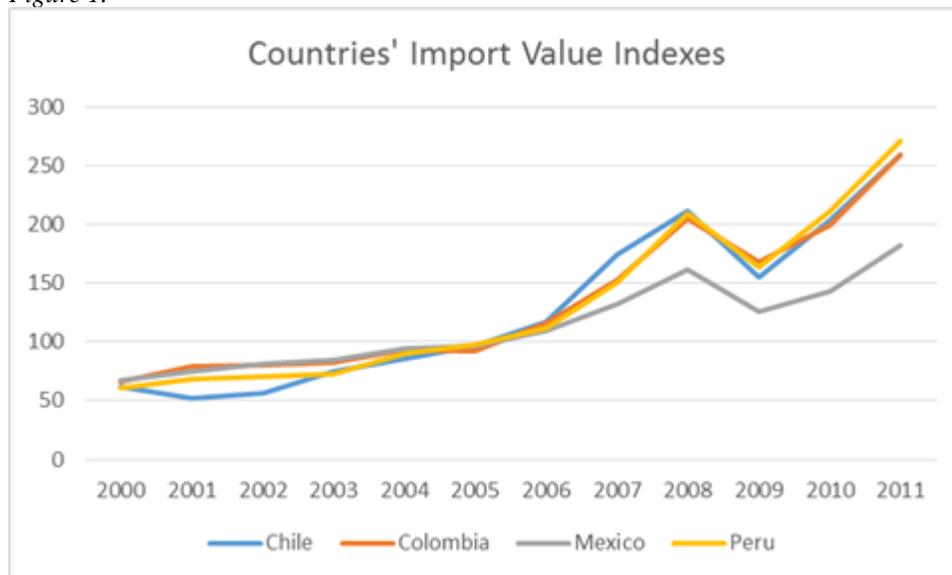
General Information

During the last two decades, Latin American countries including Colombia, Chile, Mexico and Peru have agreed to free trade agreements (FTAs) with the United States. On the whole, there is evidence that these programs have had net benefits for consumers. In particular, trade levels have increased in these countries, and food prices have remained steady or fallen. While the Colombian FTA was only enacted in 2012, the other three countries' earlier FTAs were between 1994 and 2009. As such, the trends from preceding FTAs have significant implications for the long term outcomes of Colombia's free trade agreement with the United States.

Trade Levels

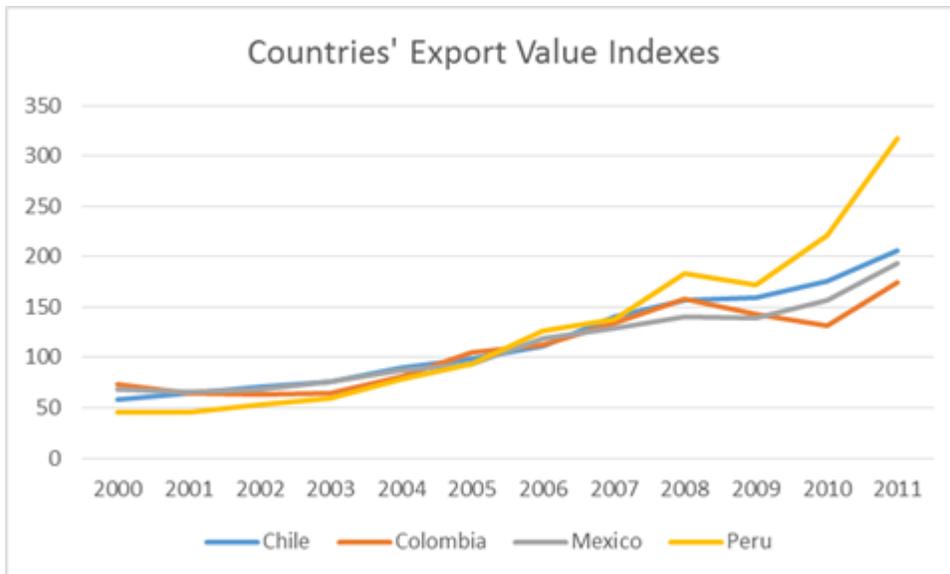
One of the most direct outcomes of establishing free trade agreements is likely to be an increase in import and export levels. Along these lines, the total import and export values in Chile and Peru increased significantly during the years following their trade agreements, which were first enacted in 2004 and 2009 respectively, as shown in Figures 1 and 2 below. In particular, Peru's greater access to American markets contributed to large increases (65 and 84 percent) in import and export values between 2009 and 2011, while Chile's import and export values have followed consistently trended upward during the last decade.

Figure 1.



Source: United Nations Food and Agriculture Organization Statistics Division (FAOSTAT)

Figure 2.

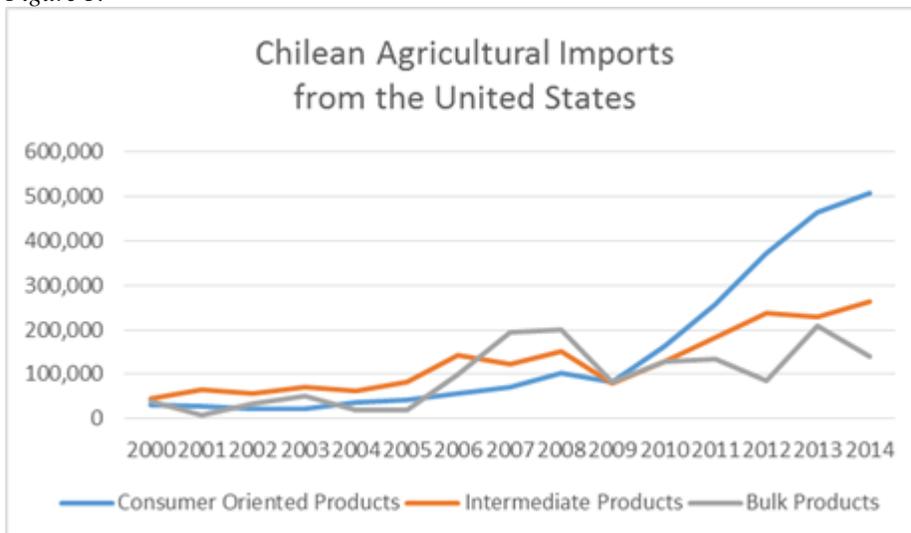


Source: FAOSTAT

In addition to the spikes in general import and export levels following the implementation of trade agreements, there is evidence of particularly large increases in agricultural imports and agricultural imports oriented toward consumer use.

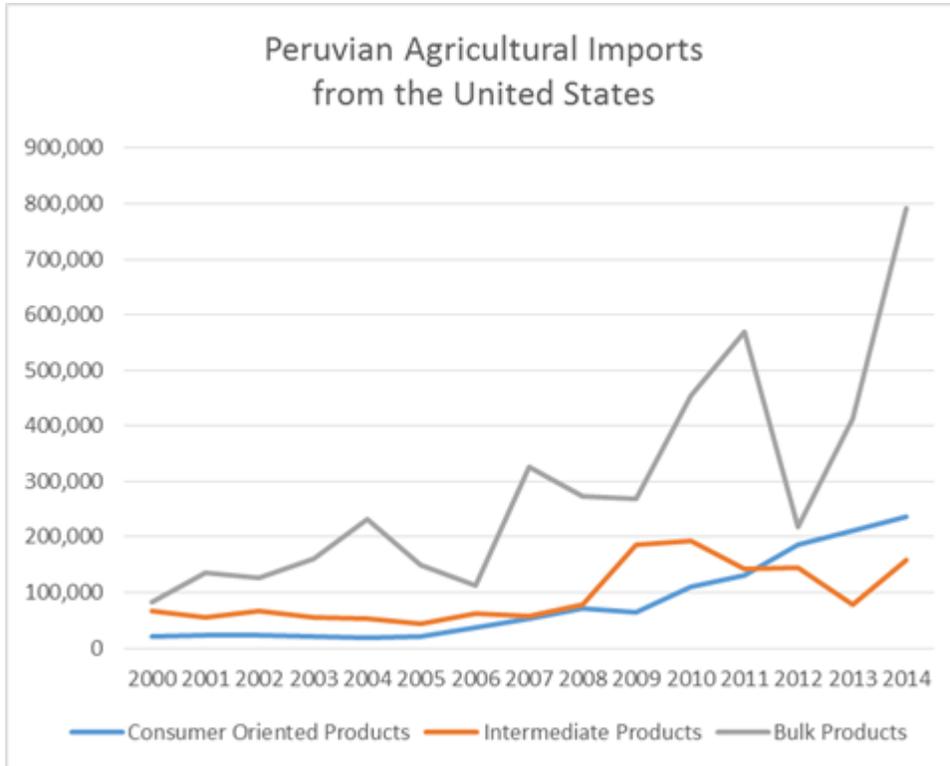
As shown in Figures 3 and 4, below, both Chile and Peru have increased their agricultural import levels from the United States for various forms of agricultural products including consumer products, intermediate products and bulk products during the last decade with particular spikes after the beginning of the countries' trade agreements with the United States. In particular, Chile's agricultural imports from the United States increased significantly following its 2004 agreement, while Peru's agricultural imports from the United States more than doubled during the years following 2009.

Figure 3.



Source: USDA Global Agricultural Trade System (GATS) Data

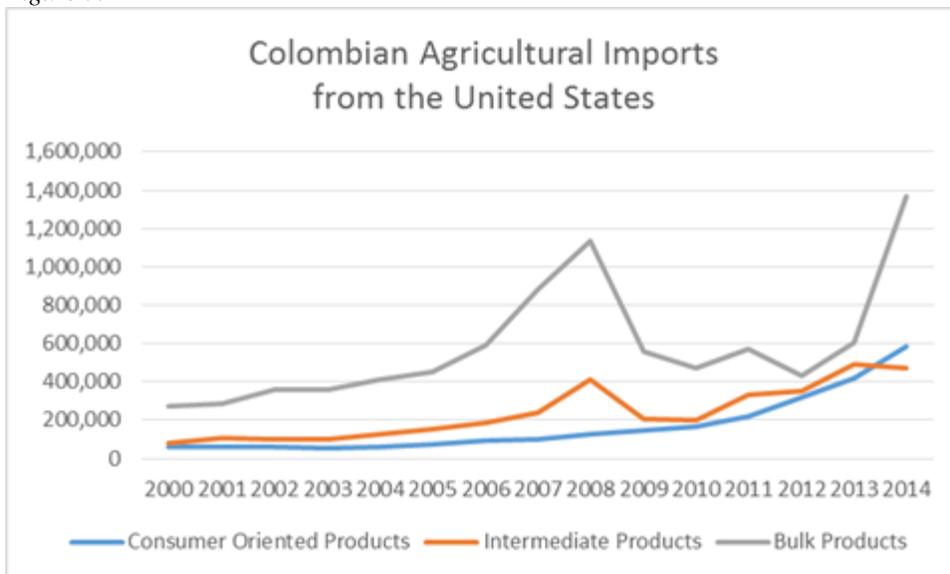
Figure 4.



Source: USDA GATS Data

Up to this point, there is limited data on the effects of Colombia’s 2012 FTA; however data from 2012 – 2014 indicate that Colombia’s agricultural imports from the United States have also increased significantly, as shown in Figure 5.

Figure 5.



Source: USDA GATS Data

Price Fluctuations

Commodity Prices

Data on consumer price indices and the prices of primary food commodities for Colombia, Chile, Peru and Mexico indicate a generally positive impact of free trade agreements (FTAs) on food prices. In particular, consumer price indices have stabilized somewhat after sharp increases in 2007 and 2008, while the prices of key commodities have trended downward during the last several years despite the global prices spikes for rice in 2012.

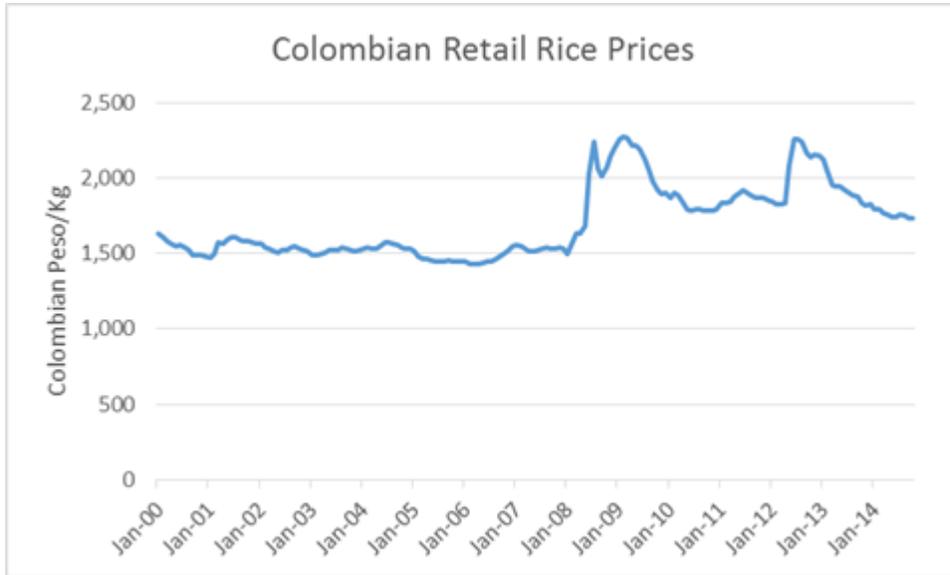
There is inconsistent data availability from country to country, but Colombia's price trends for food and rice have remained steady or negative, while both Chile and Peru have clear downward trends in the prices of their most consumed food commodities (maize and rice, respectively) during the years since their respective FTAs went into effect. Data on this topic is shown graphically in Figures 3-6 below, all of which were created based on data from the UN FAO Global Information and Early Warning System (GIEWS) data set.

Figure 6.



Source: FAO GIEWS dataset

Figure 7.



Source: FAO GIEWS dataset

Figure 8.



Source: FAO GIEWS dataset

Figure 9.

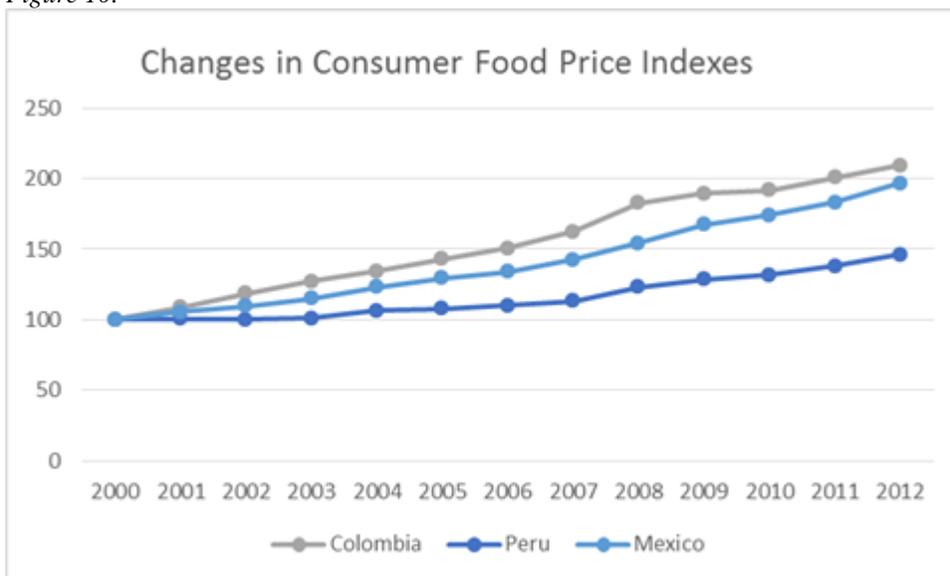


Source: FAO GIEWS dataset

Consumer Price Indices

Additionally, there is evidence from national Consumer Price Indices (from both FAO and domestic bureaus - Colombia, Chile, Mexico and Peru) that national price trends have slowed down following the FTAs. While all CPIs naturally have upward trends due to inflation rates, this indicates that consumer prices are positively affected by the FTAs which allow for more domestic availability of products.

Figure 10.

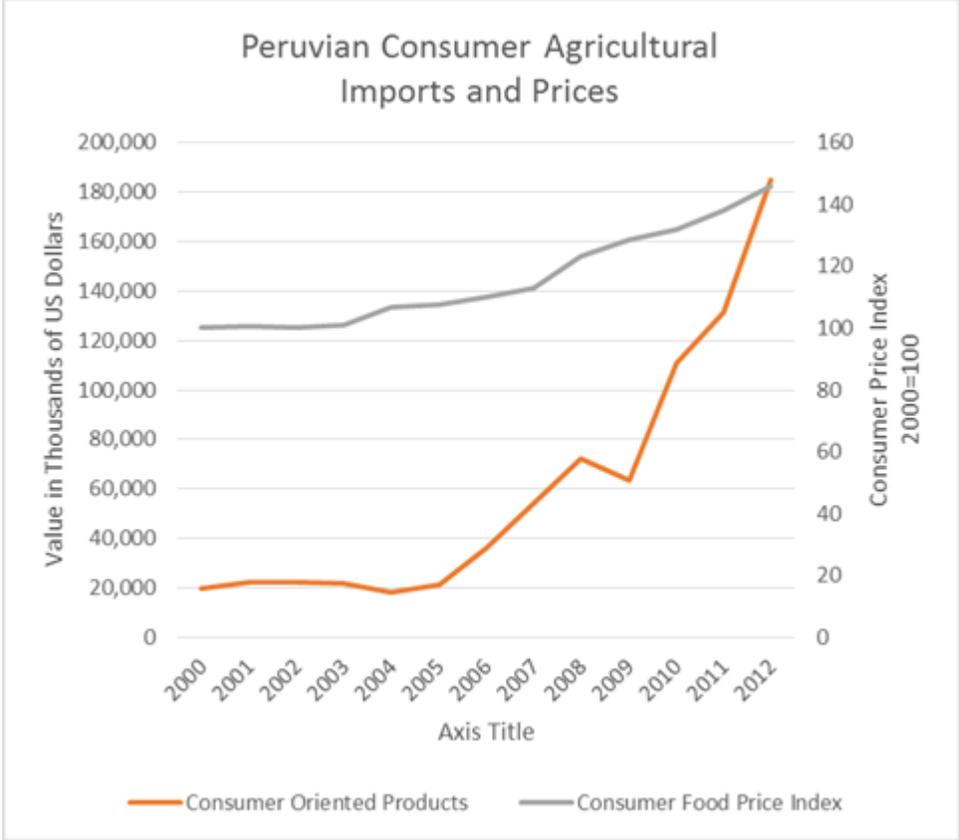


Source: FAOSTAT

In addition, there is evidence that the availability of agricultural products has increased following the

free trade agreements in Peru without substantially increasing price levels. Specifically, Peru had more than 100% increases in imports of consumer oriented agricultural products during the first three years of its FTA. As shown in Figure 10, Peru’s imports of consumer oriented agricultural imports increased gradually during the years before the FTA then tripled rapidly after the 2009 FTA agreement.

Figure 11.



Source: Figure constructed by author with data from 1) FAOSTAT and 2) USDA GATS data

Conclusion

While the data is somewhat unreliable on these topics, the evidence implies that free trade agreements in Chile, Mexico and Peru have had net positive effects on consumer prices. It is difficult to determine whether price effects are more closely related to domestic policies or international price trends, but there seems to be a downward trajectory in prices following FTA implementation.

In the context of the statistical evidence from past Free Trade Agreements and early data on agricultural import levels, it is likely that Colombia’s 2012 FTA with the United States will have a positive impact on the welfare of Colombian consumers in the food market.