Marine Policy 33 (2009) 606–612

Contents lists available at ScienceDirect

Marine Policy

journal homepage: www.elsevier.com/locate/marpol

Improving market access for salmon through free trade agreements: The role of interests and institutional frameworks

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ARTICLE INFO

Article history:
Received 21 October 2008
Received in revised form
17 December 2008
Accepted 17 December 2008

Keywords:
Fish trade
Salmon
Market access
Free trade agreements
WTO
EFTA
Norway
Chile

ABSTRACT

This article compares the strategies of Chile and Norway toward free trade agreements (FTAs) and the market access results achieved for salmon, showing that Chile has been more successful than Norway. Hence, the article addresses whether Norway will be able to compete with Chile with regard to better market access for salmon through FTAs. The second part of the article analyses the trade interests and the institutional frameworks chosen to pursue FTAs, emphasizing how these two countries operate under different conditions for market access improvement, which in turn can make it difficult for Norway to take the market access lead from Chile.

1. Improving market access for fish and fish products

Chile and Norway are the two biggest producers and main competitors on the world market for salmon. In 2007, Norway was the world's leading producer of farmed Atlantic salmon, responsible for 52% of the total production. In comparison, Chile's share of world production of Atlantic salmon was 25% [1]. However, the production volumes of Chile and Norway are almost the same when all types of farmed salmon fish (Atlantic salmon, coho and trout) are taken into account [2, p. 40]. Export of natural resources is the backbone of the economies of Chile and Norway,[1] and the export of fish and fish products are equally important, responsible for about 5% of their total exports [3,4]. The fishing industries of Chile and Norway are highly export-oriented, each exporting to more than 100 in different countries. It is therefore of vital importance for these industries to have the best possible market access conditions in foreign markets. So far, Norway has been able to compete with Chile when it comes to salmon production. However, another question is whether Norway is able to compete with Chile with regard to market access for salmon in important export markets.

The market access situation depends on tariff barriers and different forms of non-tariff barriers affecting the entry of goods into markets.[2] Thus, the governments of Norway and Chile are both engaged in international negotiations to reduce trade barriers and improve market access conditions for vital export sectors such as the salmon industry. First of all, Chile and Norway are two of the 153 members of the global trade regime provided by the World Trade Organization (WTO). Issues like the reduction or elimination of tariffs on fish and fish products, reduction of fish subsidies and the improvement of WTO's anti-dumping rules are some of the issues being dealt with in WTO negotiations of particular interests to the fisheries sector. In the WTO, improved market access granted to one member must be granted to all the members according to the most favoured nation (MFN) principle. Thus, the MFN principle provides for equal and non-discriminating trading conditions. The WTO nevertheless allows member

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[1] The export of oil and gas constitutes 67% of Norway's export revenues, while mining is the largest export sector of Chile with copper representing 46% of the total export value.

[2] The wording used is based on the definition of market access for goods on the WTO homepage: http://www.wto.org/english/tratop_e/markacc_e/markacc_e.htm. According to the WTO, tariffs means customs duties on merchandise imports, either on an ad valorem basis (percentage of value) or on a specific basis (e.g. $7 per 100 kg). The term "non-tariff barriers" means measures besides tariffs affecting trade e.g. quotas, import licensing systems, sanitary or technical regulations: see definitions in the WTO glossary: http://www.wto.org/english/thewto_e/glossary_e/glossary_e.htm.

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doi:10.1016/j.marpol.2008.12.004

countries to go further in liberalizing trade through regional or bilateral free trade agreements (FTAs).[3] FTAs are thus discriminatory in nature, providing more favourable conditions to the parties involved than the WTO–MFN conditions. In general, the reduction of trade barriers means that exporters save time and money. However, lower tariffs or other improvements in market access achieved through free trade agreements would also represent a *competitive advantage*. Hence, it is important not to lag behind in the "race" for free trade agreements on the international arena. Against this background, it is relevant to study the way in which governments approach market access issues in general and free trade agreements in particular.

Initially, this article asks how Norway and Chile pursue market access improvements at the regional level, and what results they have achieved so far with regard to market access for salmon through free trade agreements. Furthermore, the article discusses whether Norway can compete with Chile, focusing on how the trade interests of Chile and Norway and the institutional frameworks they have chosen to pursue FTAs provide different conditions for market access improvement.

The data consist of public documents, e.g., official trade policy statements and strategies, the texts and appendices of free trade agreements, WTO trade policy reviews and interviews with government personnel dealing with market access issues and the FTAs of Chile and Norway. Some of the data were collected in connection with the project[4] "The Competitive Strength of the Norwegian Salmon Industry: a Comparative Analysis of Political Framework Conditions in Chile and Norway" (Report in Norwegian, English summary available). However, the empirical basis has been complemented and updated in 2008 [5].

2. The market access policies and policy results of Chile and Norway

2.1. Strategies towards free trade agreements

Norwegians voted against EEC/EU membership in referendums in 1972 and 1994. However, very close ties to the EU have been established through the 1994 European Economic Area agreement (the EEA agreement). The EEA agreement includes Norway in the internal market of the EU, but policies regarding fisheries and agriculture are not a part of the agreement. However, certain trade issues regarding these sectors are dealt with in special annexes, e.g. protocol 9 which regulates trade in fish and other marine products.[5] Staying outside the EU, Norway is free to initiate FTAs on its own. However, the Norwegian strategy is to use the European Free Trade Association (EFTA) as the vehicle to negotiate FTAs. EFTA was originally established in 1960 by countries not willing to accede to "the Treaty of Rome".[6] The present member states are Norway, Switzerland, Iceland and Liechtenstein. Strategic decisions with regard to FTAs, such as which trading partners to negotiate with and when, are subject to collective decision-making in EFTA. Until recently, EFTA followed a principle of EU parallelism with regard to priority of FTA partners. The idea has been to negotiate FTAs with the same countries as the EU, to ensure that market access conditions of EFTA exporters did not fall behind compared to the market access conditions enjoyed by the EU business community. In recent years, EFTA has nevertheless been working more independently of the EU [6]. Norway has pushed for this strategic shift as a means to achieve at least the same market access conditions as their competitors in important markets [7]. At the same time, the Norwegian government has clearly stated that the EFTA FTAs are considered supplementary to multilateral trade liberalization [8], and that the WTO negotiations are the main priority for Norway [9]. Furthermore, the EFTA countries have decided to await formal FTA negotiations with countries like Russia and Ukraine until WTO membership negotiations are finalized [10].

Chile has chosen to stay outside the major trading blocks of its region. Chile was an original signatory to the Latin American Free Trade Association (LAFTA) (1960), aiming to create a common market in Latin America. However, by 1980 LAFTA was replaced by the more flexible but less ambitious Latin American Integration Association (LAIA). In practice, LAIA is a framework structured around a series of so-called economic complementary agreements which grant certain trade preferences. However, these agreements are not full fledged FTAs. Chile was also an original signatory to the Cartagena Agreement establishing the Andean Community (Bolivia, Colombia, Ecuador and Peru) in 1969, but Chile left the organization in 1976 when starting to carry out economic reforms under Pinochet. Nevertheless, Chile has re-entered the Andean Community as an associated member in 2006 after a 30 yr break. The Andean countries have traditionally been reluctant to opening its markets, but in recent years they have become more eager to liberalize trade. Chile also wanted to go further in trade liberalization than the Mercosur countries (Brazil, Argentina, Uruguay and Paraguay), and decided not to become a full member of the main trade organization in its region. Nevertheless, Chile has been taking part in the political consultation mechanism of Mercosur as an associated member since 1996.

In 1994, Chile was the first Latin-American country to join the Asia-Pacific Economic Cooperation (APEC).[7] In APEC, decisions are reached by consensus and commitments are undertaken on a voluntary basis. Unlike EFTA, APEC countries do not negotiate any common FTAs. Hence, Chile negotiates all FTAs on its own, but the APEC membership has been highly valuable as a strategic platform to create stronger bonds to potential FTA partners and promote new bilateral free trade agreements e.g., with Asian countries [11]. The overall goal of Chile's trade policy is to provide market access for Chilean goods and services in its main markets [12], and since the 1990s Chile has put special emphasis on expanding its FTA portfolio. In fact, Chile aims to have FTAs with 90% of its potential world trade partners before 2010 [13]. FTAs are negotiated in accordance with the principle of open regionalisms. The core of this concept is to achieve free and open trade and investment through free trade agreements in a way that is consistent with WTO rules. Furthermore, Chile does not "rank" the different instruments or levels, but sees each level as important in terms of allowing for achievement that cannot be readily attainted at another level [14, p. 192]. Hence, Chile's

[3] See Article XXIV of the GATT agreement.

[4] The author is very grateful for the cooperation with the Norwegian Agricultural Economics Research Institute, which is leading the project within which this article has been written. A previous version of the article was presented as a paper at the 2008 National Political Science Conference in Tromsø, Norway. The author would like to thank everyone who has contributed to this article with their comments, in particular Frode Veggeland and Alf Håkon Hoel.

[5] Relevant for the market access situation, it could also be mentioned that veterinary regulations were included in the EEA agreement in 1999. Boarder control of live animals, fish and agricultural products were then abolished within the EEA. Without the amendment of veterinary regulations to the EEA agreement, the inspection rate of Norwegian fish entering the EU market would have increased considerably, adding cost and reducing quality as exports would have been more time consuming.

[6] The seven original members of EFTA were Norway, Sweden, Denmark, Switzerland, Austria, the United Kingdom and Portugal.

[7] The APEC member states are the United States of America, Canada, Australia, New Zealand, Russia, Peru, Mexico, Chile, Japan, People's Republic of China, Hong Kong China, Chinese Taipei, Republic of Korea, Indonesia, Malaysia, Singapore, Thailand, Vietnam, the Republic of the Philippines, Brunei Darussalam and Papua New Guinea.