



North East England  
Chamber of Commerce

# Free Trade Agreements

## Introduction to Free Trade Agreements

There are many different terms in use for trade treaties and schemes offering preferential tariffs. Each of them highlights a different aspect of such arrangements and they are not necessarily mutually exclusive.

In principle, we can distinguish between unilateral (offered by one side to another) and reciprocal (negotiated and agreed by both sides) trade treaties and schemes.

The World Trade Organization refers to unilateral ones as preferential trade arrangements and reciprocal ones as regional trade agreements.

### **1. Unilateral arrangements**

As mentioned above, these include arrangements whereby one country offers preferential tariffs to another country or to a group of countries on a unilateral basis. The country offering the preference removes or lowers import tariffs on imports from these countries without obtaining the same preferences in return. Such arrangements focus usually only on trade in goods.

A key example here are the Generalised Scheme/ System of Preferences (GSP): a unilateral preference programmes offered by many developed countries (e.g. US, Switzerland, Japan and the EU) to a number of developing and least developed countries. Preferential rules of origin are applied in order to prevent third party countries from taking advantage of the preferential tariffs offered to the selected GSP countries.

### **2. Reciprocal agreements**

Most reciprocal agreements are free trade agreements. Free trade agreements (FTAs) remove barriers to trade between members and offer preferential access to markets on a reciprocal basis. In addition to trade in goods, FTAs usually cover trade in services and investment provisions as well as remove both tariff and non-tariff barriers to trade. They can also include a range of provisions on customs cooperation and trade facilitation as well as harmonise standards and encourage regulatory cooperation in various areas.

Each FTA is negotiated and agreed separately by participating countries. A country can be a member of several FTAs. Preferential rules of origin are applied in order to prevent third party countries from taking advantage of preferential tariffs under an FTA without offering reciprocal benefits.

The way FTAs are named can differ as well. Most FTAs are named by listing the participating countries and adding the term "FTA". For example, Canada-Korea Free Trade Agreement. However, some FTAs are called by different names. For example, the Canada-EU FTA is called the Comprehensive Economic and Trade Agreement. Other countries name their trade agreements Economic Partnership Agreements (EPAs) or Comprehensive Economic Partnerships (CEPs). Other variations are also used.

All the above agreements are in fact FTAs but for various reasons members prefer to call them by a different name. In many cases, such names reflect the wider scope of the agreements: many newer FTAs exceed the scope of traditional trade treaties and cover areas such as government procurement, competition, intellectual property, sustainable development, labour and the environment etc.

**Regional trade agreements (RTAs)** – the WTO uses the term "regional trade agreements" as a generic name for all reciprocal agreements such as customs unions, FTAs and partial scope agreements. This can be explained by the fact that, initially, such treaties were within the jurisdiction of the WTO's Committee on Regional Trade Agreements. Such trade agreements do not have to include members from the same region (e.g. the EU-Canada or Peru-South Korea FTAs).

**Preferential trade agreements: (FTAs)** remove barriers to trade between members and offer preferential access to markets on a reciprocal basis. In addition to trade in goods, FTAs usually cover trade in services and investment provisions as well as remove both tariff and non-tariff barriers to trade. They can also include a range of provisions on customs cooperation and trade facilitation as well as harmonise standards and encourage regulatory cooperation in various areas.

**Preferential trade agreements:** this term can be used in two ways.

First, it is one of the names sometimes used for FTAs to highlight their preferential character as opposed to trade liberalisation under the WTO or unilateral reduction in tariffs.

Secondly, the term “preferential trade agreements” can be used to refer to partial scope agreements. These agreements offer preferential market access by reducing import tariffs on a limited amount of goods.

Links:

[The UK's trade agreements - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/collections/the-uk-trade-agreements)