

"The Transatlantic Trade and Investment Partnership: Effects on U.S., EU, and World Agriculture"

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Abstract

The United States and the European Union (EU) have committed to negotiating the Transatlantic Trade and Investment Partnership (TTIP) with the goal of liberalizing trade and investment. The United States and the EU are both large economies that together account for almost 47 percent of global GDP (EC, 2013). In 2012, the United States exported \$351 billion worth of goods and services to the EU, and imported \$449 billion from the EU (EC, 2014). Their agricultural bilateral trade was valued at \$25 billion in 2012. Reducing market access barriers between the two economies will undoubtedly alter trade flows, commodity prices, and consumption and production patterns within the United States and EU, and with third-party countries as well.

The goals of the TTIP include the elimination of tariffs and tariff-rate quotas (TRQs), increased investment, and reduction of the barriers imposed by non-tariff measures (NTMs). Agriculture poses special challenges in the negotiations. Tariffs remain high on many farm commodities and NTMs are widely used, particularly for meat and dairy products, and these may carry important interactive effects with tariff and TRQ barriers. There are the added challenges of issues related to food quality and safety, and consumer perceptions and preferences. Strong consumer preferences for food safety and quality characteristics will influence the competitiveness of suppliers, even if bilateral trade barriers are successfully removed.

Our analysis uses a variant of the Global Trade Analysis Project (GTAP) computable general equilibrium (CGE) model that combines GTAP-AGR, a CGE model that describes land use by agro-ecological zone, and GTAP-E, a CGE model that describes in detail the biofuels sector and its competition with traditional fuels. We disaggregate nine of the agricultural and resource sectors in the GTAP v9 (2011) database to create a 51-sector model that describes key agricultural commodities in U.S.-EU trade, including beef, poultry, milk products, fruits, vegetables, nuts, several types of processed foods, and several types of biofuels and their intermediate inputs. Regions in the model are the United States, the EU, and other countries of interest. The latter include NAFTA partners (Mexico and Canada) because increased trade with the EU might reduce trade in the NAFTA area. Brazil, India, and China are also included in the analysis to better understand the impacts of TTIP on these large and dynamic economies. We describe agricultural tariffs and NTMs in detail, using multiple quantitative and qualitative approaches to describe the NTMs that inhibit trade in these products.

We implement a stylized and hypothetical TTIP scenario in which all tariffs and NTMs are assumed to be eliminated, and TRQ amounts are increased. Eliminating tariffs in GTAP is relatively straightforward because all commodities have an associated import or export tax. These are simply reduced to zero for all agricultural commodities. Increasing TRQs requires implementing the TRQ structure in GTAP (following Elbehri and Pearson (2005) in modeling TRQs in a mixed complementary problem format), and then making assumptions based on how much the in-quota portion will be increased. Removing NTMs is much more difficult as such barriers are more difficult than tariffs to identify, measure, or implement in GTAP; for this step, once the modeling is implemented we will reduce or eliminate fixed and variable costs.

The TTIP agreement will likely bring about large changes to agricultural trade between the United States and the EU, which will spill over into trade with other countries (e.g., NAFTA) and bring about changes in prices, and altered levels of production and consumption. Although the impacts of removing tariffs might be substantial, removing NTM barriers or raising the in-quota portion of the TRQs may outweigh tariff removals. Furthermore NTMs and TRQs can carry important synergistic effects, that is both might be used for a given sector. Our work deconstructs the impacts of these three trade instruments to provide policy makers with an informed assessment for trade negotiations.

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