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Agriculture in the Transatlantic Trade and Investment Partnership: Tariffs, Tariff-Rate Quotas, and Non-Tariff Measures

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What Is the Issue?

The Transatlantic Trade and Investment Partnership (T-TIP) is being negotiated between the United States and the European Union (EU). The two regions accounted for almost half of global gross domestic product (GDP) in 2013 and \$35 billion in bilateral agricultural trade. While overall tariffs in the United States and EU are generally low, they are still relatively high for food and agricultural goods, most often in the form of tariff-rate quotas (TRQs). Additionally, U.S.-EU trade is restricted by other significant barriers, such as non-tariff measures (NTMs) that are especially prevalent for many agricultural commodities. NTMs are usually not considered in trade policy analysis because they are not easily quantified, leading to several data, methodological, and conceptual challenges. These issues have been prominent in the T-TIP negotiations, and an analytical approach to help understand their impacts on food and agricultural trade may benefit all stakeholders.

What Did the Study Find?

A T-TIP agreement could address several barriers facing agricultural trade, including tariffs, TRQs, and NTMs. This report considers potential impacts of an agreement under three broad scenarios:

Scenario one (removal of tariffs and TRQs). In the first scenario, U.S. agricultural exports to the EU increase by \$5.5 billion from base year (2011) levels, while EU agricultural exports to the United States increase by \$0.8 billion. Overall, U.S. agricultural exports increase by 2 percent and agricultural imports by 1 percent. EU agricultural exports decrease by 0.25 percent, and agricultural imports rise by 0.5 percent. Among major U.S. agricultural export commodities, beef and dairy exports to the EU increase the most in percentage terms. The EU exports more vegetable oil and cheese to the United States and also produces more of these commodities, although the percentage increases in production are modest. The EU imposes higher tariffs on imports than does the United States, which accounts for the larger U.S. export gains in the scenario.

Scenario two (removal of select NTMs, in addition to tariffs and TRQs). NTMs commonly imposed in agricultural trade comprise sanitary and phytosanitary measures that help to ensure food safety but also create technical barriers to trade that require imports to have specific product characteristics. In the second scenario, the additional removal of select NTMs (e.g., meats, field crops, and fruits and vegetables) results in an increase in U.S. exports to the EU by an additional \$4.1 billion over gains in the first scenario. For the EU,

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the removal of NTMs generates an additional gain of \$1.2 billion in exports to the United States. U.S. pork exports to the EU increase by \$2.4 billion, and EU exports of fruits and vegetables to the United States increase by \$495 million and \$613 million, respectively. U.S. exports of poultry to the EU increase by a high percentage but the level change is only \$18 million due to small base trade. Increases in bilateral U.S.-EU exports of individual commodities do not all lead to production increases, as commodities with modest increases in exports may lose resources to commodities with large increases. Overall, agricultural imports and exports each increase for the United States by about double the percentage in scenario one, while EU agricultural imports increase by 1 percent and agricultural exports decline.

Scenario three (effects of removal of NTMs on consumer demand). The removal of select NTMs could lead to consumers preferring domestically produced products versus the importer equivalent. Thus, in the third scenario, export gains are smaller for both the United States and the EU. Potentially, these demand-side effects could erase any gains from the removal of specific NTMs.

Overall, gains in bilateral and net exports due to T-TIP lead to production increases in many U.S. agricultural commodities. Some U.S. agricultural commodities have a decrease in production due to increased competition for resources. The increase in agricultural exports also leads to increases in almost all U.S. agricultural prices. For the EU, the increase in imports results in a decline in agricultural prices. The GDP of both the United States and the EU increases as a result of T-TIP, though the rate of increase is higher for the EU, due largely to export gains in nonagricultural products and lower prices on imports. GDP changes are uniformly modest, one-third of a percent or less.

How Was the Study Conducted?

The study uses the Global Trade Analysis Project's (GTAP) static computable general equilibrium (CGE) model with the GTAP v.9 2011 database (the latest GTAP data available). To allow for more precise analysis of the agricultural sector, this study disaggregates agriculture into 38 commodities, including 24 unique agricultural and biofuel commodities beyond the standard GTAP database. In addition, the model uses the detailed land-use module (GTAP-AEZ) that captures heterogeneous land quality and allows for a more realistic representation of agriculture production. Estimates of the NTM tariff-equivalent measures used for the analysis were taken from a complementary 2015 ERS report *Estimating the Effects of Selected Sanitary and Phytosanitary Measures and Technical Barriers to Trade on U.S.-E.U. Agricultural Trade*. To account for demand-side effects on the analysis, country-specific (Armington) parameters were modified to reflect potential changes in consumer preferences due to removal of NTMs.