

## FOCUS ON: Risks and Opportunities for the EU Agri-Food Sector in a Possible EU-US Trade Agreement



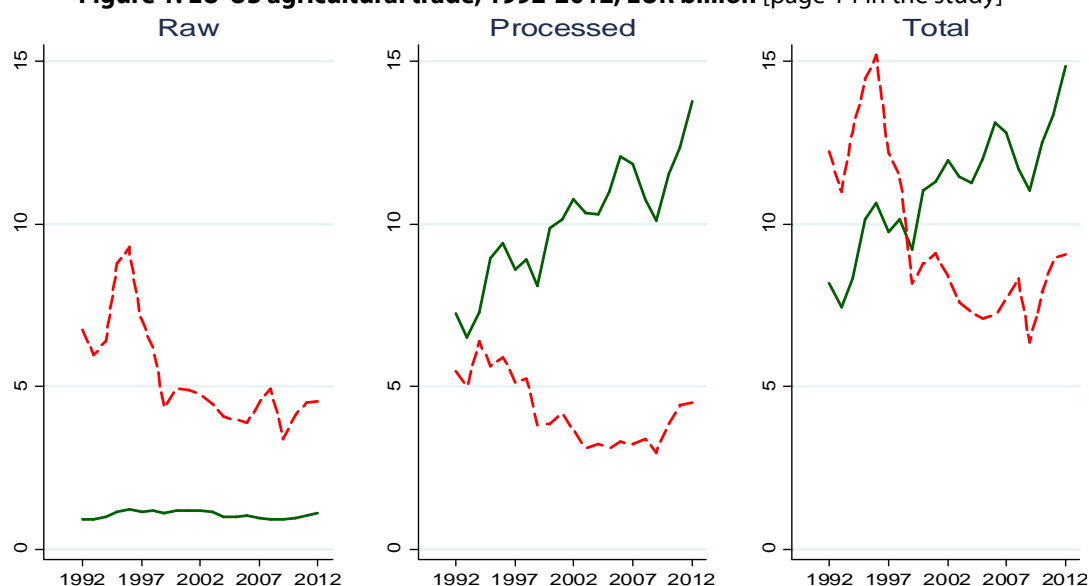
This Briefing summarises the conclusions of a study on **'Risks and Opportunities for the EU Agri-Food Sector in a Possible EU-US Trade Agreement'**<sup>1</sup> prepared by an international team of researchers for the Committee on Agriculture and Rural Development of the European Parliament. On 14 June 2013, the Council adopted a mandate for the European Commission to negotiate a trade and investment agreement with the United States (the Transatlantic Trade and Investment Partnership or TTIP). On 17 June 2013, at the G8 summit in Lough Erne (United Kingdom), Presidents Van Rompuy, Barroso and Obama officially launched the bilateral negotiations. The latest Round of negotiations (7<sup>th</sup>) took place between 29 September and 3 October 2014.

The study on 'Risks and Opportunities for the EU Agri-Food Sector in a Possible EU-US Trade Agreement' provides a detailed overview of EU-US agricultural trade. It analyses current barriers to trade, paying special attention to non-tariff measures. This information is then used in a computable general equilibrium model of international trade to assess the potential impact of the TTIP on agri-food exports, imports and value added. This study also includes a general discussion on the opportunities and risks of a TTIP for the EU agricultural sector.

### Background

The European Commission is currently negotiating the TTIP, an agreement that aims to remove barriers to trade and investment between the European Union (EU) and the United States of America (US). Both regions have productive and strong agri-food industries. However, important political sensitivities exist. In 2012, the EU28 had a trade surplus in agricultural goods of about EUR 6 billion with the US. Until 1999, it had a trade deficit. Since 1992, exports of processed agricultural goods have grown dynamically, while imports from the US have moved sluggishly (Figure 1).

**Figure 1: EU-US agricultural trade, 1992-2012, EUR billion** [page 14 in the study]



**Notes:** Green solid line: exports; red dashed line: imports. Raw goods: sectors 0 to 14; processed goods: sectors 19 to 26. EU defined as EU28 over entire interval. Source: BACI database of CEPII.

The US plays only a minor role as a source and a destination country for EU agricultural imports and exports respectively. About 8 % of EU agri-food imports come from the US; about 13 % of EU agri-food exports go to the US. Compared to trade in the industrial sector, agriculture is quantitatively of limited importance in present EU-US trade relations.

Member States are fairly heterogeneous as regards the relative importance of agri-food trade for their economies. Accordingly, in the TTIP negotiating process, sensitivities with respect to agricultural trade policy issues are distributed unevenly.

## Trade barriers

Transatlantic trade in the agri-food sector is still significantly affected by trade barriers. At product level, the likelihood for positive exports (as compared to zero exports) from the EU to the US is not affected by tariffs, while the likelihood of positive imports from the US is. Given active trade in a product line, the volume of EU imports from the US is more strongly impeded by tariffs than the volume of EU exports to the US.

Both the likelihood of trade at product level and its volume are negatively affected by non-tariff measures (NTMs). The quantitative effect of these measures is similar for EU exports to the US and EU imports from the US.

**Table 1: Average tariff protection on transatlantic trade, in 2004 and 2010 (%)** [page 22]

	Agriculture		Industry		Overall	
	2004	2010	2004	2010	2004	2010
US tariffs applied to EU imports	9.9	6.6	2.3	1.7	3.0	2.2
EU tariffs applied to US imports	19.1	12.8	2.2	2.3	3.5	3.3

**Table 2: Share of products affected by at least one Non-Tariff Measure, in 2012 (%)** [page 24]

	NTM		of which SPS		of which TBT	
	Agri-cultural products	Non-agri-cultural products	Agri-cultural products	Non-agri-cultural products	Agri-cultural products	Non-agri-cultural products
In the US	99.2	78.5	98.0	19.4	87.6	76.1
In the EU25	100.0	95.8	97.6	19.2	100.0	95.6
In all OECD countries	100.0	98.9	99.5	59.3	100.0	98.8

**Note:** Agricultural products include products covered by the WTO Agreement on Agriculture (see Annex 1 to the Agreement) plus HS Chapter 3 (fish and fish products). SPS: Sanitary and Phytosanitary measures. TBT: Technical Barrier to Trade.

For both the likelihood and the volume of trade, the negative impacts of tariffs and NTMs are more pronounced in EU-US bilateral trade as compared to other OECD (Organisation for Economic Cooperation and Development) trade flows.

## Quantitative economic analysis

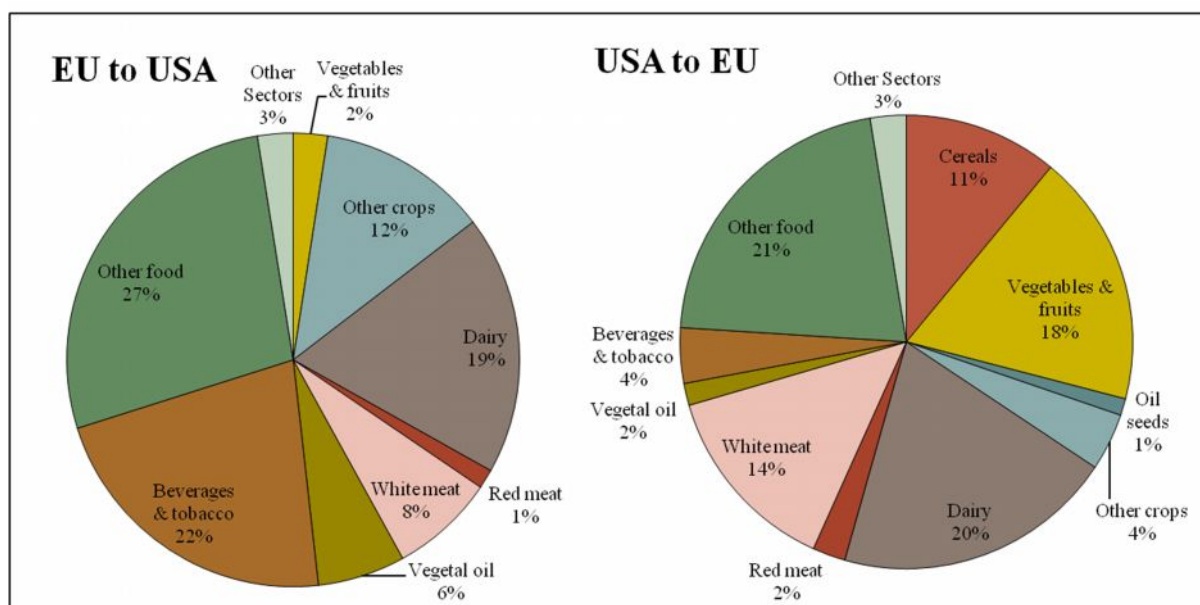
A 25 % reduction of NTMs (with exceptions) across the board and a full phasing out of tariff protection would increase additional transatlantic trade by about 40 %. Effects in the agri-food sector would be stronger, with EU exports to the US increasing by about 60 % and EU imports from the US by about 120 % up to 2025.

The simulation of the aforementioned scenario suggests that the largest potential EU export gains are found in the following industries: red meat (+404 %), sugar (+297 %), white meat (289 %) and dairy (+240 %). The largest predicted increases in EU imports from the US involve the same industries, but the magnitude of the effects is substantially greater. However, since at present EU-US trade is very low in many products, percentage changes are to be interpreted with caution. Trade gains from the elimination of tariffs are very minor.

The simulation of the aforementioned scenario finds that agricultural value added is affected very little, despite large increases in bilateral trade. It is predicted to fall by 0.5 % in the EU and to rise by 0.4 % in the US. The larger EU Member States see losses close to the EU average, while the Baltic countries are forecast to register the largest losses.

**Figure 2: Share of agricultural sectors in increases in transatlantic trade, p.p., 2025, volume, 'Reference' scenario**

[page 38]



*Note: Sectors representing less than 1 % of the total variation in exports have been gathered under the 'Other sectors' category.*

### Opportunities and risks

The EU agricultural sector can expect only very limited gains from tariff cuts unless regulatory and administrative barriers are also addressed. The quantitative exercise and the issues-driven analysis agree in their conclusion that one sector where the EU could expect an increase in exports under the TTIP is the dairy products sector. There may also be benefits in the areas of processed products, including wine and spirits, and, under certain market conditions, sugar and biodiesel.

Some EU sectors could face serious competition if trade with the US is liberalised. This is particularly the case for the beef sector. The TTIP could have serious adverse consequences for the suckler cows sector. Ethanol, poultry and cereals (corn and low-quality wheat) could also be affected by imports.

If trade is liberalised without regulatory convergence, EU producers may face adverse competitive effects in some sectors. Compared to their US counterparts, EU producers may be disadvantaged by the extra costs involved in complying with EU regulations. This is most relevant regarding EU constraints on the use of genetically modified organisms (GMOs), on pesticide use, and on food safety measures in the meat sector.

If regulatory convergence were to level the playing field, there would be a risk of downward harmonisation. While consequences in terms of food safety and consumer protection should not be overestimated, this could lead to major changes in EU legislation, which may undermine the traditional EU precaution and risk management policy on which the current regulatory framework is based.

### An overview of conclusions

In the past, some apparently intractable agricultural disputes between the EU and the US were bundled up in a global settlement in the so-called Blair House agreement (1992). While both parties are still unhappy with some of the arrangements, this procedure healed some of the major disagreements and built the foundation for a multilateral deal under the Uruguay Round. Because it is supported at the highest level, the TTIP might be an opportunity to resolve several on-going disagreements and to foster regulatory cooperation.

However, the idea that the TTIP could be a global forum that makes it possible to resolve or put aside a large set of on-going disagreements is somewhat optimistic. Indeed, the current disputes are not of a nature to be resolved through trade-offs, unlike those that were bundled in the Blair House agreement. In many cases, the roots of the disputes are much deeper, and refer to fundamental divergences in the role of the state, the conception of risk, and the overall legal and institutional framework of each party. For example, there is a fundamental divergence in the understanding of scientific evidence, scientifically proven risk and the precautionary principle between the US and the EU. In multilateral

instances (e.g. WTO, Codex Alimentarius) and in bilateral discussions, the US has emphasised specific issues (e.g. science-based risk assessments, brand-based intellectual property recognition), while the EU has emphasised others (e.g. respect for traditional denominations, animal welfare, etc.). Similarly, the EU and the US stress different issues in their bilateral cooperation and association agreements signed with third parties.

However, over recent years, the transatlantic dialogue has led to some progress: agreements which led to mutual recognition of wine-making practices and recognition of geographic indications for wine and spirits (2006), agreement on sanitary measures to protect public and animal health in trade in live animals and animal products, mutual recognition agreement on organic products (2012), EU-US banana agreement (entered into force in January 2013), husked rice agreement and reciprocal signs of a willingness to progress within the TTIP discussion. All these efforts are steps on which the TTIP can build.

It is also worth recalling that both parties have agreed by signing the WTO SPS Agreement that all measures aimed at protecting human, animal and plant health must be based on scientific principles. Importantly, in all EU and US free trade agreements concluded with third parties, both entities have made explicit references to WTO rules in the sections dealing with SPS and TBT standards, suggesting that they intend to comply with a common set of standards. Compliance with this global framework is important to ensure that bilateral agreements remain consistent. It should also ease the bilateral negotiations on these issues.

On the optimistic side, one may also argue that regulatory divergence is sometimes overestimated. For example, in terms of food safety, one often stresses the differences between the EU and US philosophies regarding risk management. The EU philosophy is said to rely on the idea that the whole process is monitored and traceable at each stage. In contrast, the US system is seen mostly as verifying safety of the end product. While there is some truth in this comparison (see the various issues above), it ignores the fact that both the EU and the US have adopted a compulsory Hazard Analysis at Critical Control Point (HACCP) approach in several food sectors.

**The full study can be downloaded at:**

[http://www.europarl.europa.eu/RegData/etudes/STUD/2014/514007/AGRI\\_IPOL\\_STU\(2014\)514007\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2014/514007/AGRI_IPOL_STU(2014)514007_EN.pdf)

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<sup>1</sup> This study was prepared by an international team of researchers including: University of Munich & Ifo Institute—Leibniz Institute for Economic Research at the University of Munich: Gabriel FELBERMAYR; AgroParisTech & Centre d'Études Prospectives et d'Informations Internationales (CEPII): Jean-Christophe BUREAU ; Paris School of Economics (PSE) & Institut National de la Recherche Agronomique (INRA): Anne-Célia DISDIER ; CEPII: Charlotte EMLINGER; Jean FOURÉ ; Paris School of Economics & CEPII: Lionel FONTAGNÉ; CEPII & INRA: Sébastien JEAN.