Copenhagen Economics

IMPACTS OF EU TRADE AGREEMENTS ON THE AGRICULTURAL SECTOR

Brussels 10 March 2017

Presentation for the Civil Dialogue Group

1
THE EU AGRI-FOOD SECTOR

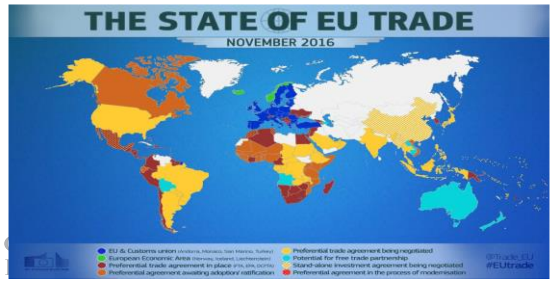
The EU agri-food sector has undergone significant changes

Agricultural policies
(increased market orientation)

Structural changes
(larger farms and scale effects)

Technological progress
(more machinery, fewer man-hours)

→ **Increased productivity and competitiveness**

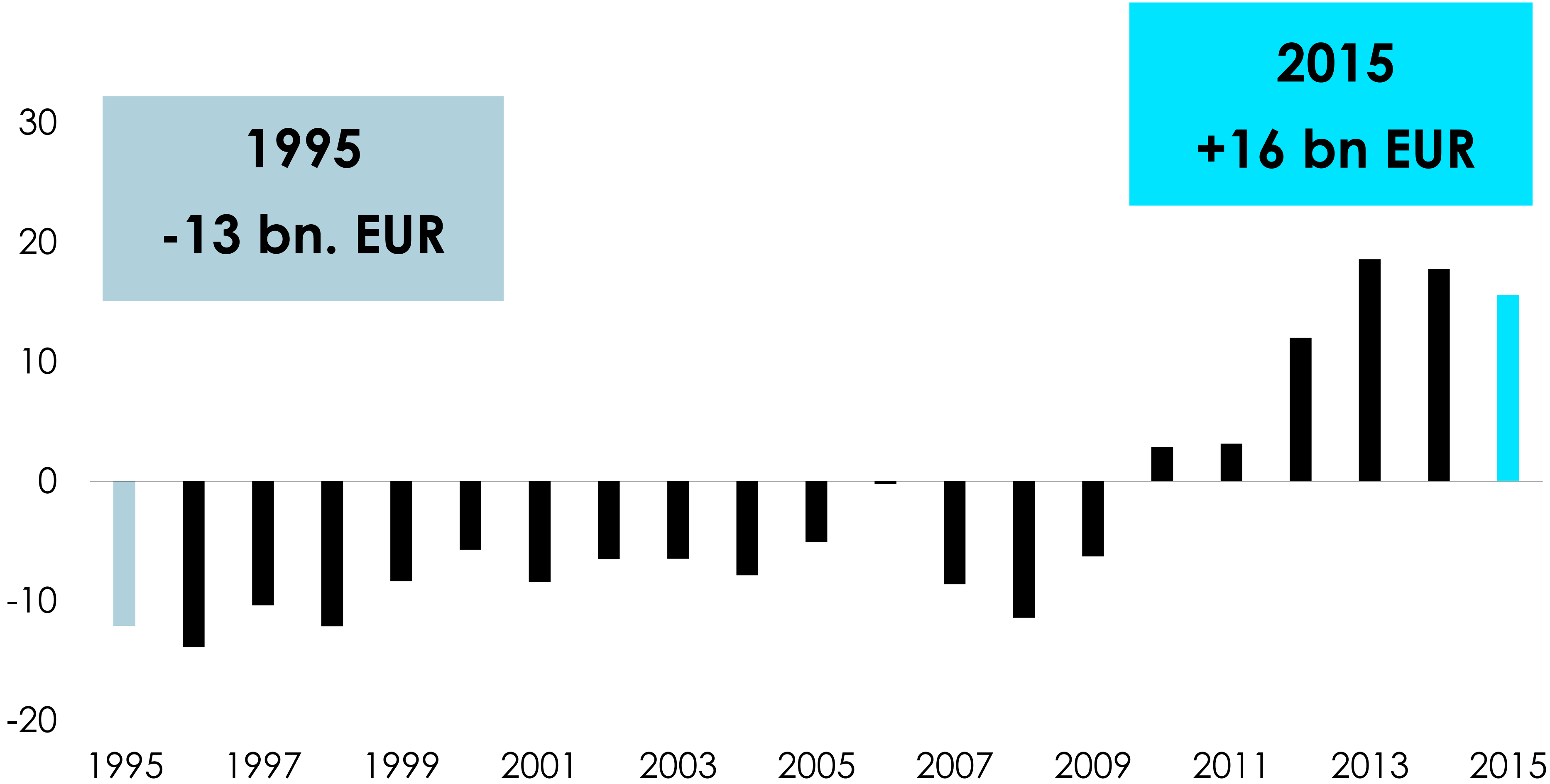


Trade agreements
(lower trade costs)

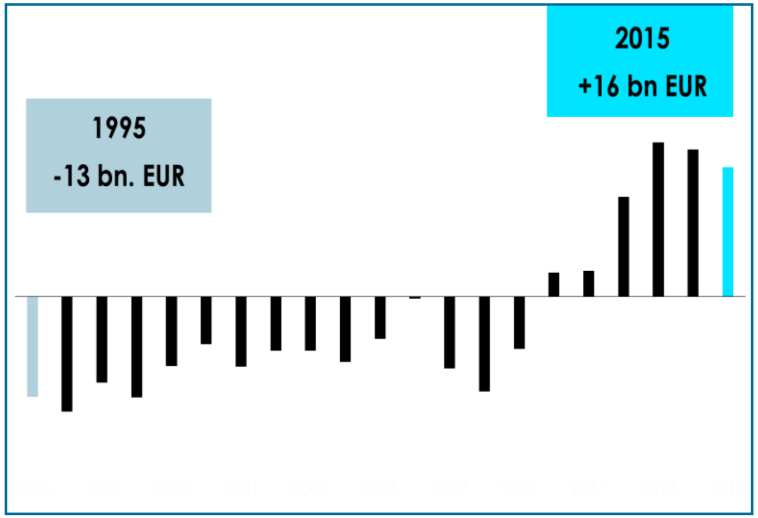
→ **Improved access for exports and imports**

EU is now a net exporter of agri-food products to the world

EU27 global agri-food trade balance in billion EUR, 1995-2015



What explains the positive development in the EU agri-food trade balance?



Supply side conditions

- Agricultural policies
- Technological progress
- Weather conditions and diseases

Demand side conditions

- Population and economic growth
- Urbanisation
- Consumer preferences

Bilateral factors

- Transportation costs
- Historical and cultural ties
- Exchange rates
- **Trade agreements**

A solid methodology has been used to develop policy implications

Triple-difference model	Multiplier analysis	Case studies
• Combines trade and preference schemes • Controls for other factors • Tests for trade diversion	• Transforms impacts on trade flows into jobs supported • Assesses broader impacts	• Identify barriers and constraints • Identify potentials

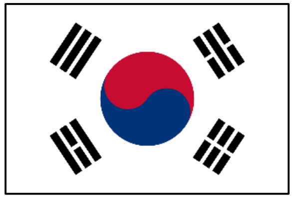
Policy implications

2
THE THREE TRADE AGREEMENTS

EU trade agreements with three partner countries have been selected

EU – Mexico
In force from 2000

Old, first-generation agreement



EU – South Korea
In force from 2011

Ambitious deep and comprehensive trade agreement

EU – Switzerland
In force from 2002 (Bilaterals I) and 2005 (Bilaterals II)

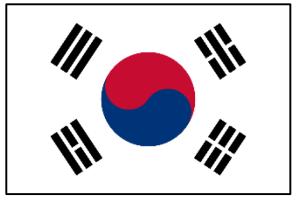
Sectoral agreements with an EU neighbouring country

What do we expect from the EU-Mexico FTA?

- On the **Mexican side**
  - Many EU-agri-food products do not enter duty-free
  - Tariffs on certain EU agri-food products remain high
  - Serious SPS issues remain
- On the **EU side**
  - Certain agri-food products are not covered by the FTA
  - High transportation costs remain a barrier

Expected impact on EU-Mexico agri-food trade

- **Positive but relatively small impact**
- **Impact on EU imports is likely to be larger than impact on exports**



What do we expect from the EU-South Korea FTA?

- On the **South Korean side**
  - All products are covered and tariffs are still being phased out
  - Some NTBs have been reduced and others are likely to follow
- On the **EU side**
  - Little scope for expanding the scope or depth of the FTA on the EU side

Expected impact on EU-South Korea agri-food trade

- **Positive and relatively large impact on EU exports**
- **Positive but very small impact on imports**

What do we expect from the EU-Switzerland trade agreements?

- Increase in agri-food trade after Bilaterals II – not after Bilaterals I
- On the **Swiss side**
  - Non-zero specific rates on many agri-food products
- On the **EU side**
  - Many agri-food products are not covered by the trade agreements

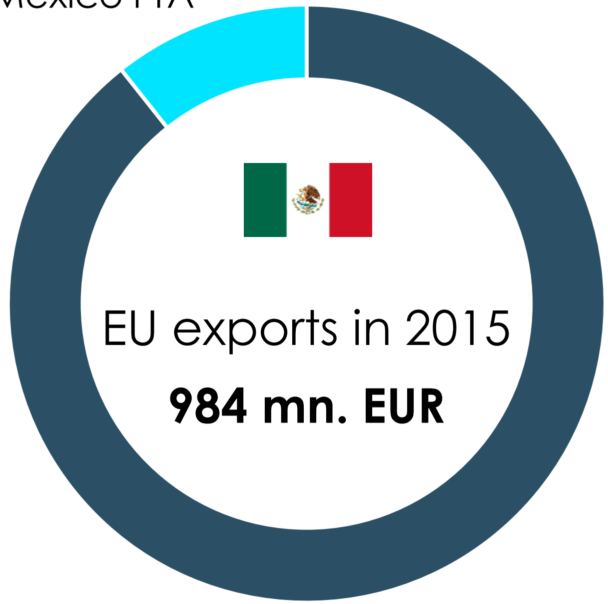
Expected impact on EU-Switzerland agri-food trade

- **Positive and relatively large impact on both exports and imports**
- **Impact is likely to be larger for processed foods covered by Bilaterals II**

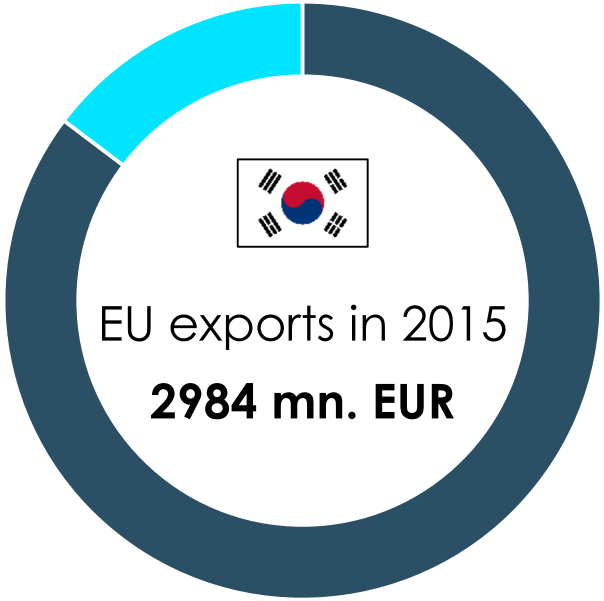
3
IMPACT ON EU AGRI-FOOD TRADE

EU exports have increased by 9-15% due to the trade agreements

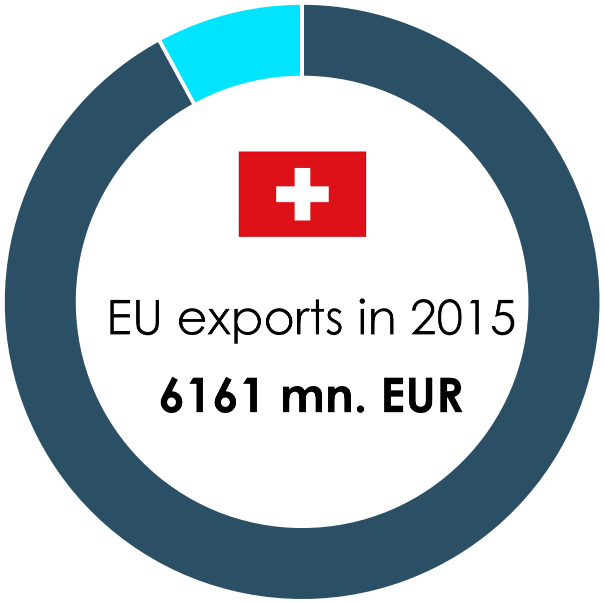
11% of EU exports is due to the EU-Mexico FTA



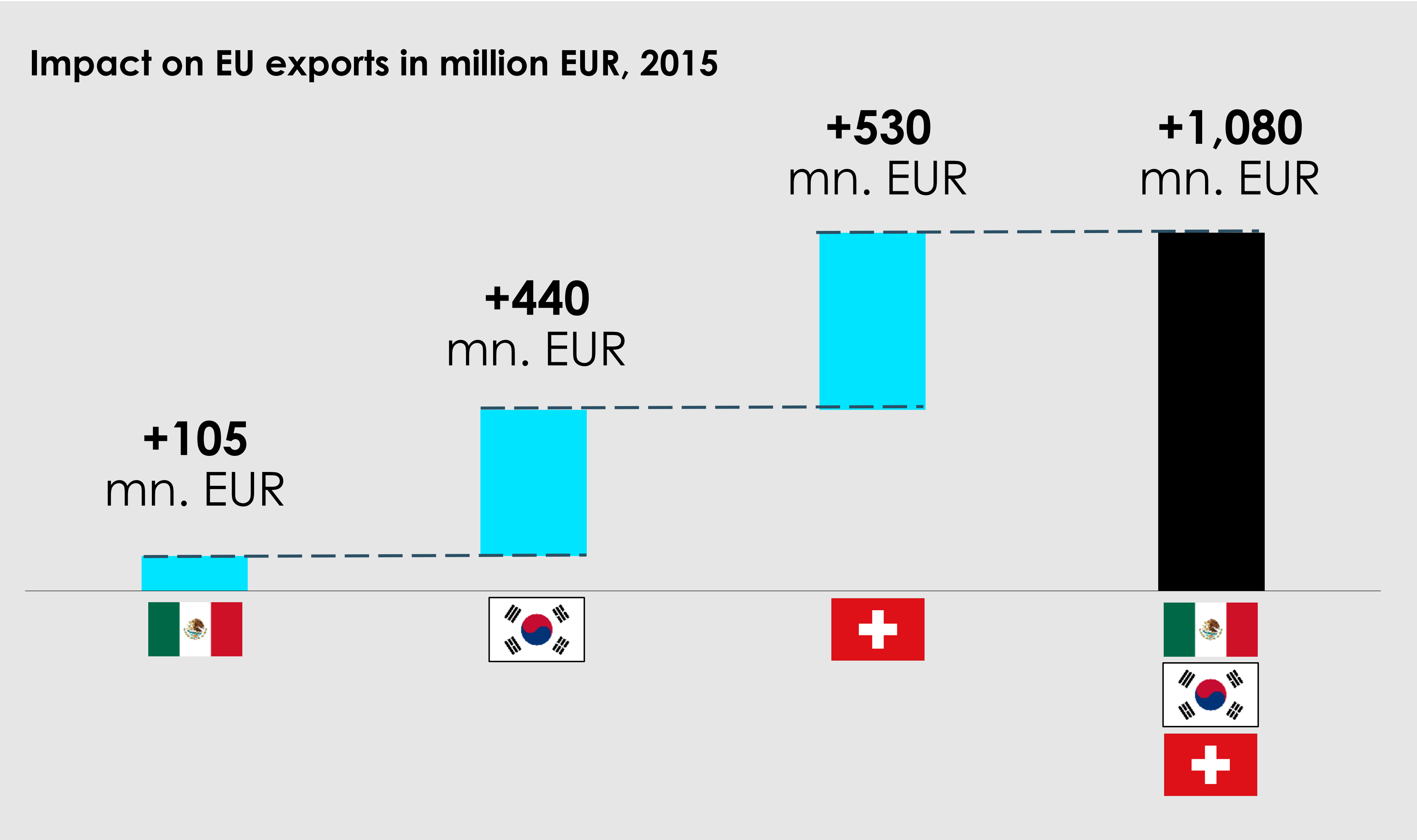
15% of EU exports is due to the EU-South Korea FTA



9% of EU exports is due to the EU-Switzerland trade agreements

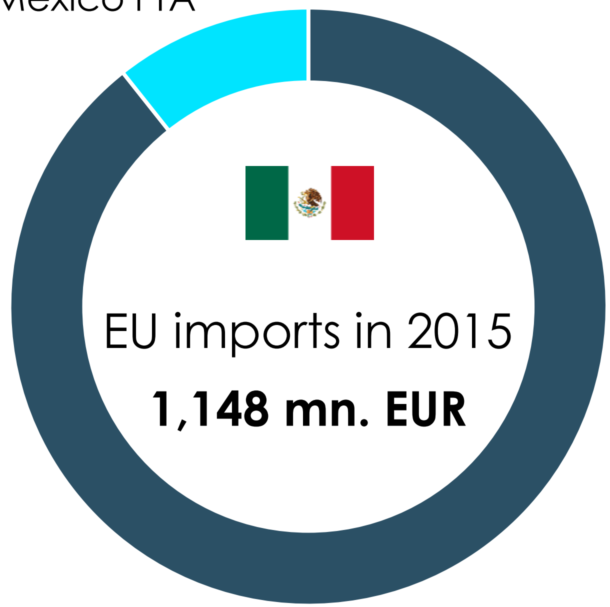


The trade agreements have increased EU agri-food exports by more than 1 bn. EUR

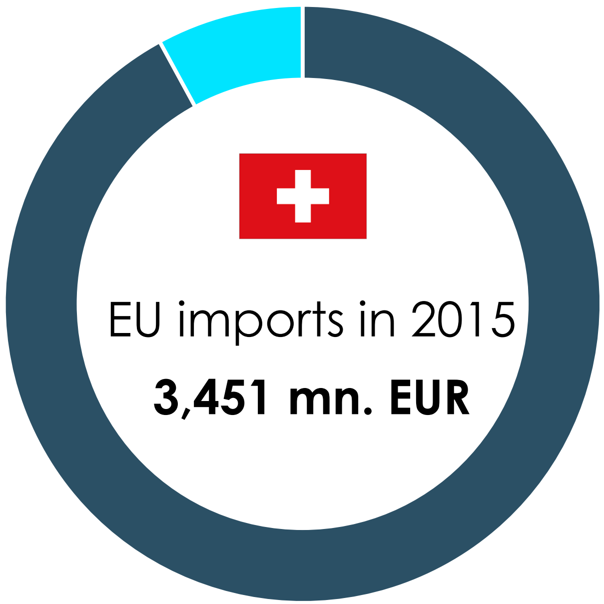


EU imports have increased by 17-34% due to the trade agreements

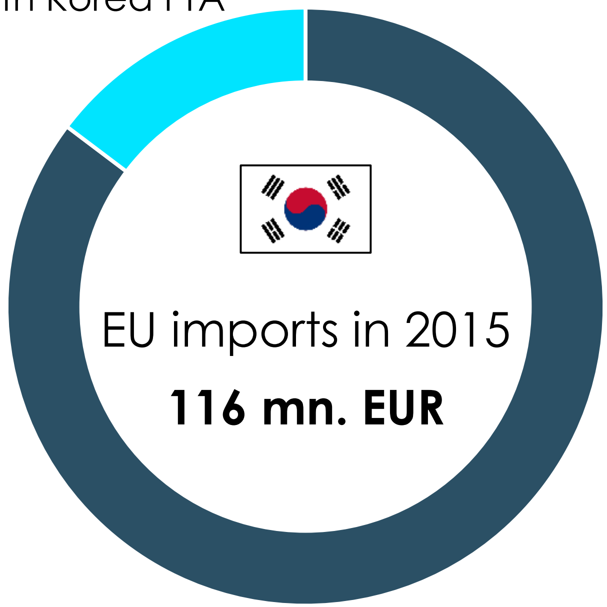
27% of EU imports is due to the EU-Mexico FTA



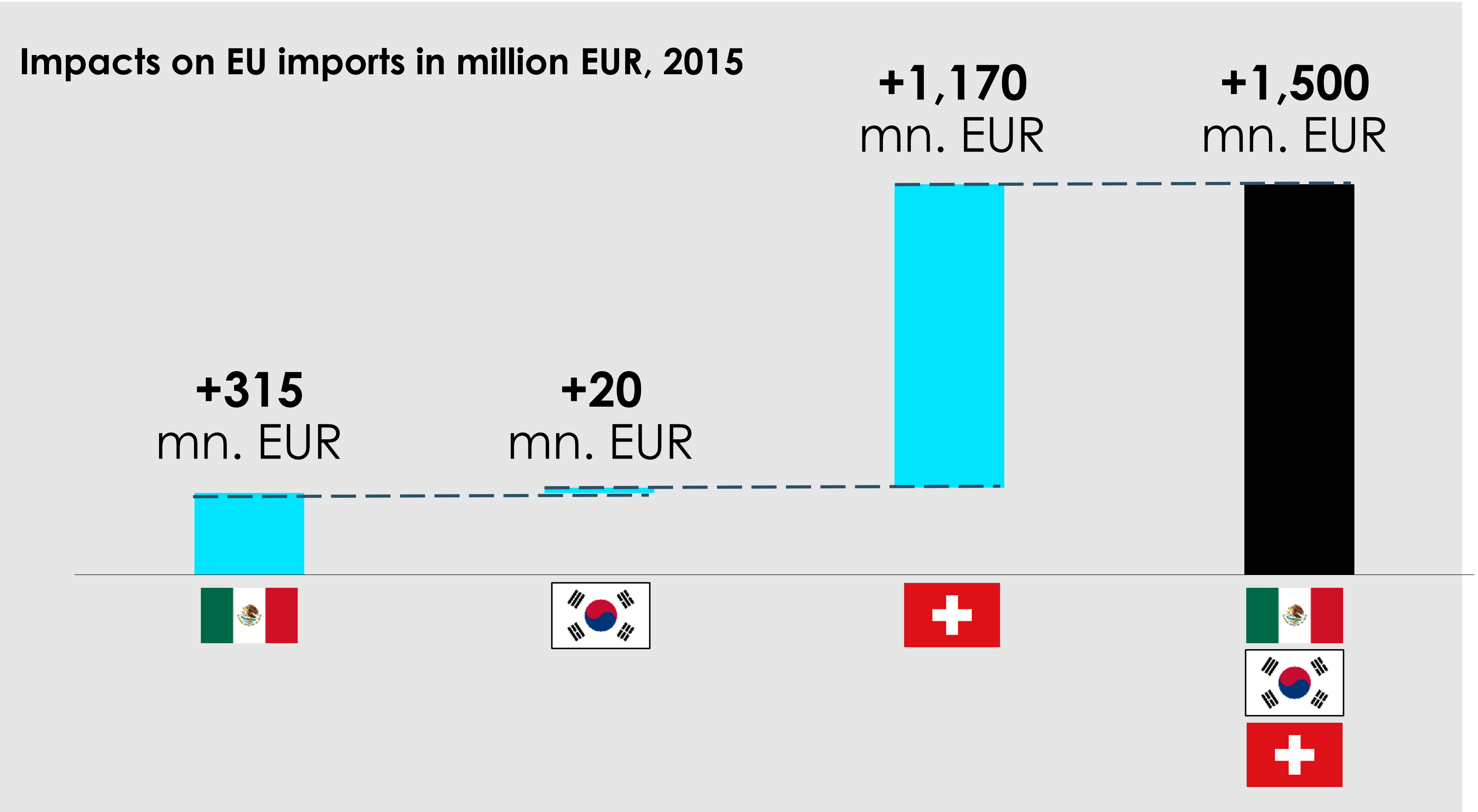
34% of EU imports is due to the EU-Switzerland trade agreements



17% of EU imports is due to the EU-South Korea FTA

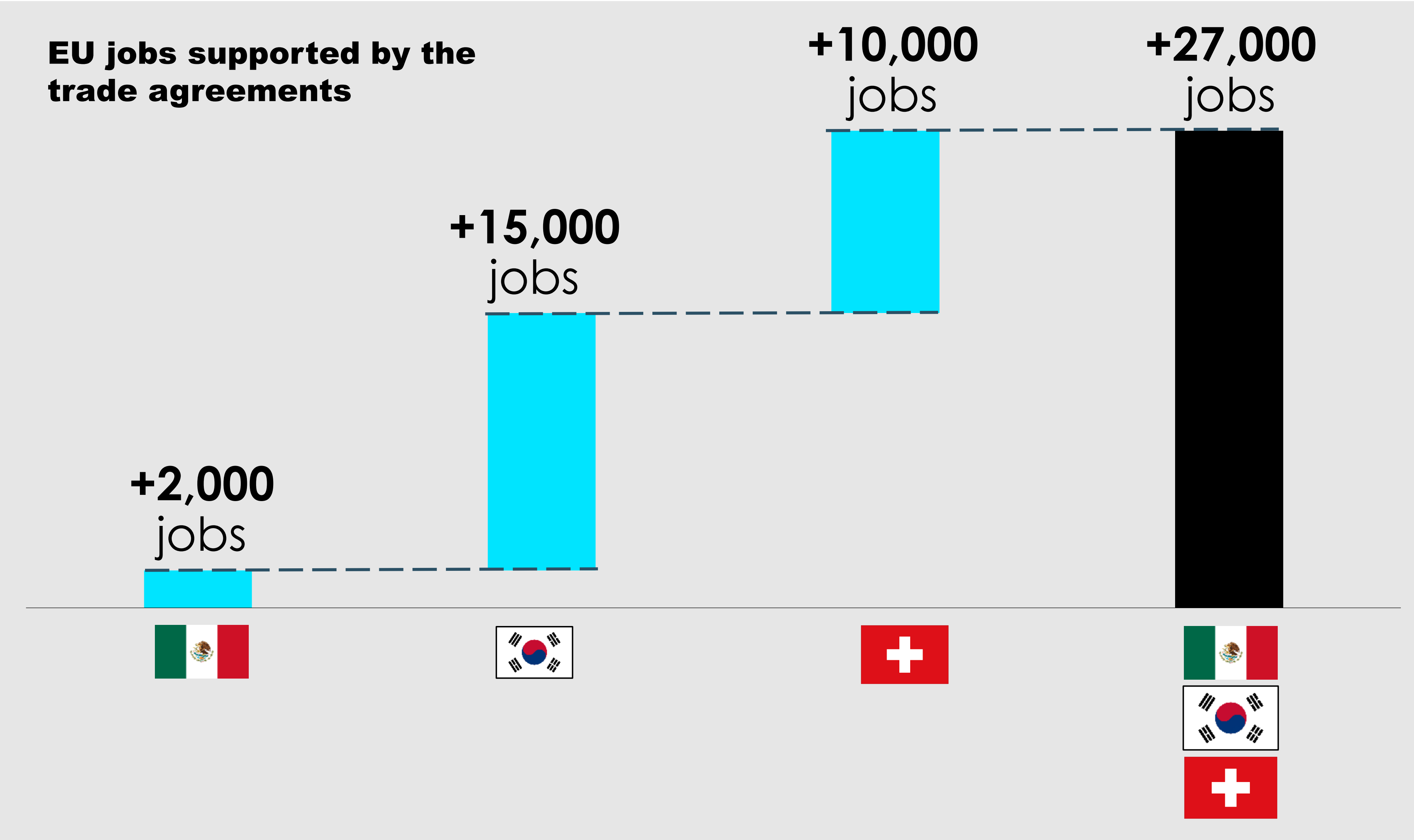


The trade agreements have improved access to agri-food products for EU consumers and processors

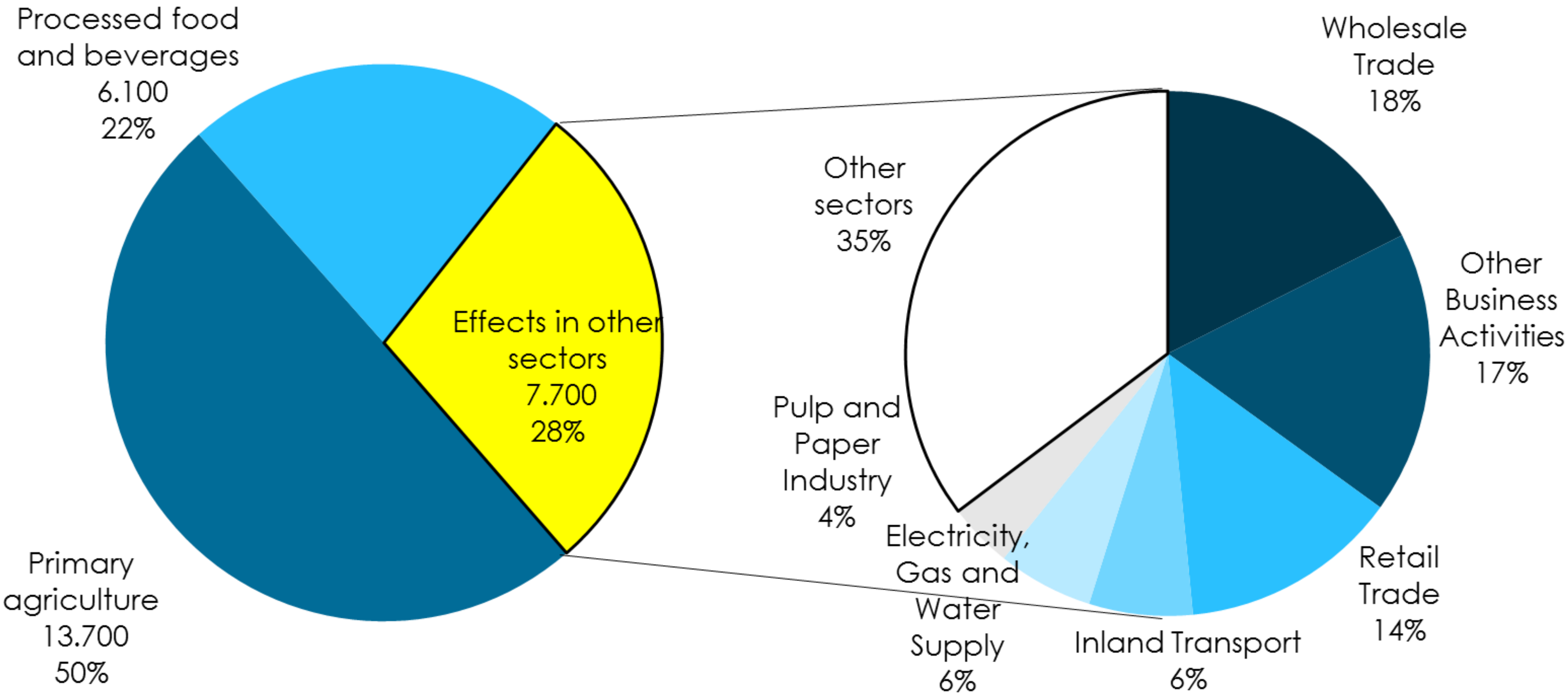


4
IMPACT ON EU EMPLOYMENT

Increased exports support around 27,000 jobs in the EU



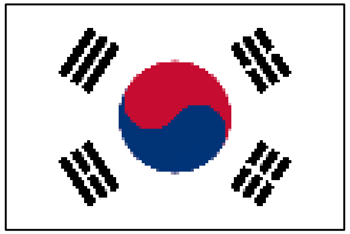
The jobs supported by the trade agreements are spread across sectors



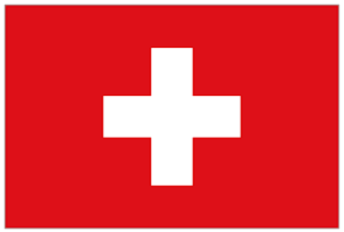
5
POLICY IMPLICATIONS

More can be done to increase benefits from the concluded trade agreements

- **Eliminate specific rates and quotas and increase the number of products covered on the EU side**
- **Reduce tariff peaks and solve SPS issues on the Mexican side**



- **Ensure flexibility to meet local preferences in the South Korean (and Asian) market**
- **Monitor the implementation of the agreements, particularly concerning NTBs**



- **Eliminate specific tariffs on the Swiss side**
- **Increase the number of products covered on the EU side**

Other initiatives that can also stimulate EU agri-food trade

Targeted export strategy and common EU promotion campaigns

Common information about new trade agreements

Better information and communication about the pros and cons of trade liberalisation

Benchmarking of third countries' trade negotiations and an efficient trade negotiation process

Initiatives to reduce negative impacts on individual member states, sectors and actors in the EU agri-food supply chain

6
QUESTIONS AND DISCUSSION

Hard facts about Copenhagen Economics

- Established year 2000
- Offices in Copenhagen, Stockholm and Brussels
- Single expertise: Economics
- 75 employees, Ph.D. or M.Sc. in Economics
- Multiple nationalities: Danish, Swedish, Finnish, German, Italian, Latvian, Lithuanian
- Partner-owned, six partners

CONTACT

EVA RYTTER SUNESEN
Managing Economist
evr@copenhageneconomics.com