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Original Article: TRANSATLANTIC TRADE AND INVESTMENT PARTNERSHIP: ASSESSING EUROPEAN UNION PROSPECTS AND LOSSES (ON EXAMPLE OF AGRICULTURAL SECTOR)

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Summary

Present economic conditions force countries to search new form of cooperation and collaboration. Transatlantic Trade and Investment Partnership between the United States and the European Union is aimed to expand the trade possibilities between both sides eliminating the tariff and non-tariff barriers. The project is devoted to specify the possible positive and negative changes after the TTIP agreement signing for the European Union in the agricultural sector.

The negotiations about this issue are in the process, and there are a lot of opinions and discussions for and against TTIP agreement. Whereby, this topic is a relevant and quite urgent problem in the present European economy.

Thus, the main aim of the work is to estimate prospects and losses in the agricultural sector which is dealt with TTIP agreement.

Key words

Transatlantic Trade and Investment Partnership between the EU and the US, prospects, losses, agricultural sector, Import Dependency Ratio (IDR), Grubel – Lloyd index, export, import, trade flows.

Nowadays countries tend to unite for certain economic purposes. Transatlantic Trade and Investment Partnership seems to be one of the international trade cooperation between the European Union and the United States. This agreement has begun in July 2013 but there is still no update regarding this matter.

The main aim of these relations is an achievement of mutually beneficial conditions in trade for both sides. However, there are a lot disputes about necessity of the partnership, that is why the invested problem in the research work is a relevant and sufficiently urgent issue.

This investigation is focused on the questions of the agricultural sector. This part of economy is always difficult sphere in the trade negotiations. In our opinion, Transatlantic Trade and Investment Partnership will influence the agricultural sector as well. Speaking about the United States and the European Union, we can notice that both sides already more than 50 years try to protect its own farmers and extend the market possibilities for them.

Thus, “Transatlantic Trade and Investment Partnership negotiations, launched in 2013, are designed to increase trade and investment between the EU and the United States by reducing, and where possible, eliminating remaining barriers to transatlantic trade and investment."(The Transatlantic Trade and Investment Partnership: Benefits and Challenges of an Agreement Fit for the 21st century// http: www. EUintheUS.org).

The negotiation process is continuing during last two years and there are a lot of articles devoted to the problem of the TTIP agreement. We have chosen works of different authors with different points of view and opinions about this issue: Jeronim Capaldo "The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability" and Joseph Francois, Miriam Manchin "Reducing Trans-Atlantic Barriers to Trade and Investment".

Analysis

Agricultural sector plays an important role in economies of all countries. Especially it is the most essential part of the European Union foreign trade.

According to the World Trade Organization data agricultural products in the European Union economy's total export are about 7.9% (Picture 1). In our point of view this sector is the most sensitive to different economic changes, that's why we chose it to evaluate the benefits and losses from the TTIP signing for the European Union.

The main destination for European Union commodities' export is the United States of America, because the share to this country is more than 16% (Picture 2).

At the same time import from the United States is about 11.6% and the country takes the third position among EU import partners (Picture 3).

Thus, we can assert that the United States of America is an important trade partner of the European Union and signing of the Transatlantic Trade and Investment Partnership should bring additional benefits for both sides. However, there are a lot of discussions about it, and the main threat for the European Union can be the increasing of import dependency on the United States.

According to our calculations Import Dependency Ratio (IDR) of the agricultural products in the European Union in 2013 is the following:

$$IDR = \frac{\boldsymbol{Imports}}{\boldsymbol{Domestic\ supply}} * 100\ \% =$$

$$= \frac{101\ 829\ million\ EUR}{379\ 539.5\ million\ EUR} * 100\ \% = 26.8\%$$

Source: Calculated with data usage from the Member States Factsheets of the European Union

Thus, amount of agricultural products' import to the European Union is 26.8%. From our point of view this indicator can be increased insignificantly after the TTIP agreement. The first reason it is the position of the European Union as the world's largest agri-food exporter. Secondly, the European Union is mostly unnecessary market for the United States market. Moreover, partnership in the agricultural sector between the US and the EU is significantly declined, because of Asian growing market.

Speaking about certain types of agricultural products' trade flows for both sides, we can conclude that European Union exports to the United States primarily beverages and spirits (the 22nd place in the Harmonized System - HS). At the same time the most significant imports from the United States can be determined with fruit and nuts (HS 08), such as almonds, walnuts, oilseeds, soybeans.

Expectable that such two-side trade partnership can bring essential trade flows in both directions. For estimation of intra-industry trade we used the Grubel- Lloyd index, which lies between 1(indicate that all trade in the sub-sector related is of an intra-industry nature) and 0 (no 2 way trade flow within the sub-sector related).

We calculated this index for EU-US trade flows for certain types of products, results are presented in the Table 1.

Thus, according to our findings we can conclude that almost all of the most important agri-food sectors in the trade between the European Union and the United States have little intra-industry trade. As exception we can emphasize "Animal or vegetable fats" (with index 0.62) and "Preparations of fruits, vegetables, etc." (with index 0.58), where such intra-industry trade can exist, especially in the frames of the TTIP agreement.

Discussion

Due to the fact that the TTIP agreement is being negotiated for a long time, there are a lot of investigations and researches with opposite (for and against) points of view. Both sides are maintained by convincing arguments, calculations and estimations and use different tools to predict the TTIP's effects.

For assessing the European Union prospects and losses we have chosen two articles "The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability" by Jeronim Capaldo and "Reducing Trans-Atlantic Barriers to Trade and Investment" by Joseph Francois and Miriam Manchin.

Jeronim Capaldo in his paper "The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability" declares against the TTIP agreement and focuses mainly on losses and economic disintegration of the European Union after signing a trade agreement. The author overviews considerable econometric researches such as Ecorys, CEPR, CEPII. He claims that all arguments in favor the TTIP agreement come from these studies that from the first sight are very reliable (the European Commission's analysis of TTIP's effects is based on CEPR paper), but use the same Computable General Equilibrium (CGE) models and database from Global Trade Analysis Project (GTAP). Jeronim Capaldo criticizes CGE models and underlines their limitations as tools for assessments of trade conditions. Firstly, it depends on the database that may be incomplete in certain categories. Secondly, erroneous assumptions can lead to false predictions.

All models predict large increases in exports of both sides. They project US exports increase by 36.6% and EU exports by 28%, US net increase in total exports by 8% and EU net increase in total exports 5.9%. Nevertheless, as Jeronim Capaldo describes these increases can be reached at the expense of trade among the EU countries, because the US will replace a large share of current EU intra-trade. It also will influence non-TTIP countries exports and imports negatively.

Furthermore, most researches do not give fully information about the unemployment problem. All assumptions depend on the estimation period. Analysis of data up to 2010 shows positive employment effects but only in the EU countries with stronger labor protection, while analysis of more recent data in all countries project higher unemployment level.

Jeronim Capaldo uses the United Nations Global Policy Model (GPM) and simulates the impact of TTIP on the EU countries and the US economies in a context of protracted austerity and low growth.

The GPM model projects a precise analysis of the macroeconomic indicators of every world region and information on the economic cooperation among all countries. Another advantage of used model is its assessment of employment.

According to the article, TTIP would have negative effects for the EU countries. The results show that the TTIP will cause losses in net export in all EU economies. Northern European Economies would have the largest decreases (2.07% of GDP by 2025) followed by France (1.9%), Germany (1.14%) and the UK (0.95%), while the US net export would increase by slightly more than 1%.

Being an important part of GDP a net exports loss will lower the EU countries income. Again Northern European

Economies would have the largest GDP reduction (0.50%) followed by France (0.48%) and Germany (0.29%), while the US GDP would be positive (0.36%).

The second article "Reducing Trans-Atlantic Barriers to Trade and Investment" by Joseph Francois and Miriam Manchin focuses on deepening transatlantic trade and investment linkages. The study is based on the econometric research Ecorys (Ecorys, 2009, Non-Tariff Measures in EU-US Trade and Investment – An Economic Analysis, ECORYS Nederland BV), but uses new data, updated information and improved set of estimates. This paper provides more accurate CGE-based estimations. The authors consider not only an impact of removing non-tariff barriers but also tariffs affecting transatlantic trade flows and analyze the impact of removing barriers to foreign direct investment (FDI).

NTBs and costs can not be removed completely, that is why the researches provide some scenarios: in the most ambitious barriers can be reduced by 25-50%, in the modest scenario reduction in the barriers is even less.

According to results of the ambitious scenario of the TTIP agreement can cause economic growth of both the EU (119 billion Euros a year) and the US (95 billion Euros a year). Less ambitious scenario as well projects economic growth of the EU (68 billion Euros a year) and the US (50 billion Euros a year). The agreement would also have a positive impact on non-TTIP economies (global income increase by approximately 100 billion Euros). The EU exports to the US can be raised by 28%, while the EU and the US total exports would increase by 6% and 8% respectively. Economic growth and productivity will benefit the EU and US labor markets in terms of wages and new job opportunities. The results of the study show positive and considerable gains for both economies in trade and investment spheres.

Thus, comparing those two articles we can conclude that our own analysis is closer to the second one. In spite of different methods of calculations, our findings prove the positive effects from the TTIP agreement in the agricultural sector. The main reason for that is barriers' eliminations between both sides, and as Grubel-Lloyd index showed the EU and the US need to develop trade relations in the agri-food sector and have possibilities for that.

Conclusion

Arriving at a conclusion we need to admit following investigation's results. First of all Transatlantic Trade and Investment Partnership is dedicated to create more favorable conditions for the foreign trade relations between the United States and the European Union. Secondly, changes in the agricultural sector's international trade for both sides are expected to be positive. We analyzed primarily possible losses and possibilities for the European Union in the TTIP agreement. It is clear that nowadays the European Union is the world's biggest agri-food exporter and the United States for the EU is the first export partner. Whereby, the TTIP agreement provides new possibilities for export and will stimulate production in the EU's countries.

References:

1. Capaldo J. 2014. The Trans-Atlantic Trade and Investment Partnership: European Disintegration, Unemployment and Instability.
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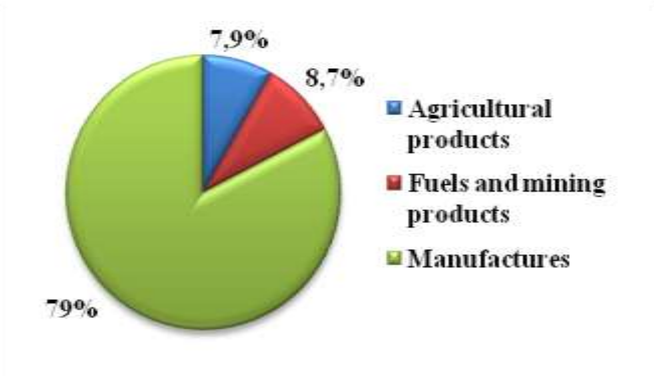
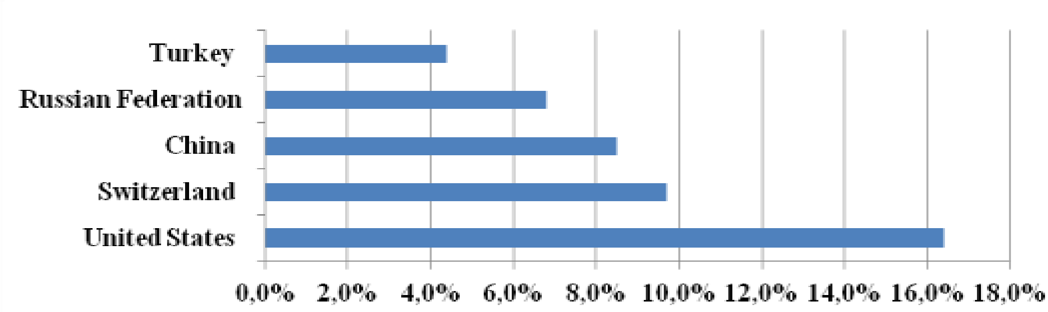
3. 2014. Member States Factsheets of the European Union.
4. World Trade Organization's Trade Profiles 2015.
5. United Nations database.

Figura 1. Share of the European Union total export, %.



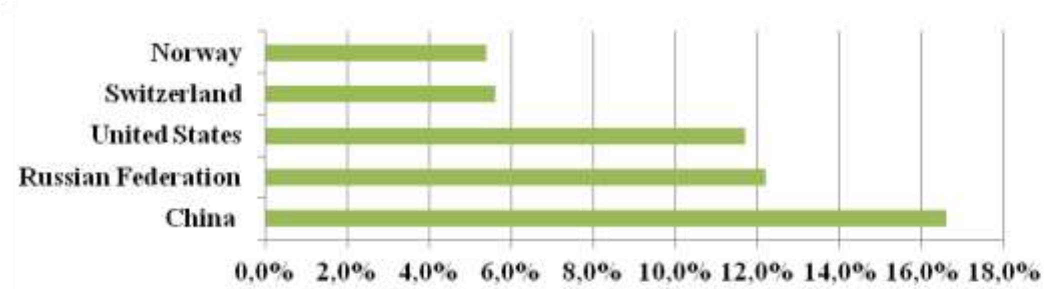
Source: World Trade Organization's Trade Profiles 2015

Figura 2. Main export destinations of the European Union, %



Source: World Trade Organization's Trade Profiles 2015

Figura 3. Main import partners of the European Union, %



Source: World Trade Organization's Trade Profiles 2015

Table 1

EU-US intra-industry trade, Grubel-Lloyd index

HS	Products' type	Grubel- Lloyd index
15	*Animal or vegetable fats*	0.62
22	*Beverage and spirits*	0.27
19	*Cereals*	0.23
18	*Cocoa and Cocoa preparations*	0.1
04	*Dairy produce, birds' eggs, etc.*	0.16
20	*Preparations of fruits, vegetables, etc.*	0.58
12	*Oilseeds*	0.22