Brexit and Potential UK Trade Agreement

Andrew Muhammad

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Andrew Muhammad

University of Tennessee Institute of Agriculture (UTIA)

IATRC, Washington, D.C.

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Overview

Background: Brexit

A public vote (referendum) in June 2016: leave or remain in the EU. Leave won by 52 percent. Turnout was very high at 72 percent (30 million people voting).

Issues: i) Rights of EU citizens in the UK and British citizens in the EU; ii) How much the UK is to pay the EU; iii) Structure of UK-EU trade agreement. iv) Trade barriers and borders between Northern Ireland and the Republic of Ireland.

Hard Brexit deadline was set for March 2019. EU has agreed to extend the Brexit deadline until 31 January 2020.

Background: Hard Brexit and Trade

The decision to leave the EU is likely to have wide ranging impacts on the relationship between the UK and other EU member states.

Economic effects will mainly arise out of changes in free trade between the UK and EU, changes in investment patterns, barriers to labor movement, sector-specific legal and regulatory issues.

If the UK drops out with neither a trade deal nor a transition arrangement in place, then trade between the UK and EU would revert to World Trade Organisation (WTO) rules.

The Brexit Party was set up to campaign for a no-deal Brexit ahead of the 2019 European elections, in which it won 29 seats - more than any other UK party (December 7, 2019).

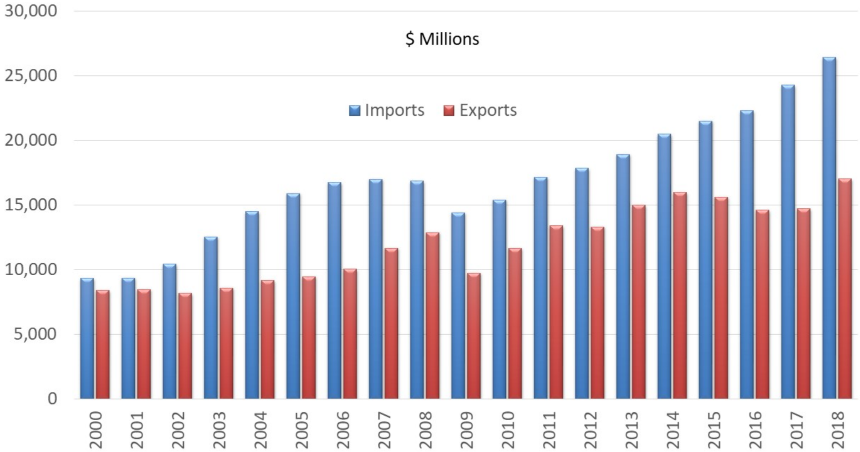
U.S., EU, and UK Agricultural Trade

Current state of U.S. exports to the UK. What are the EU (and UK) trade policies?

Potential for U.S. Agricultural Exports

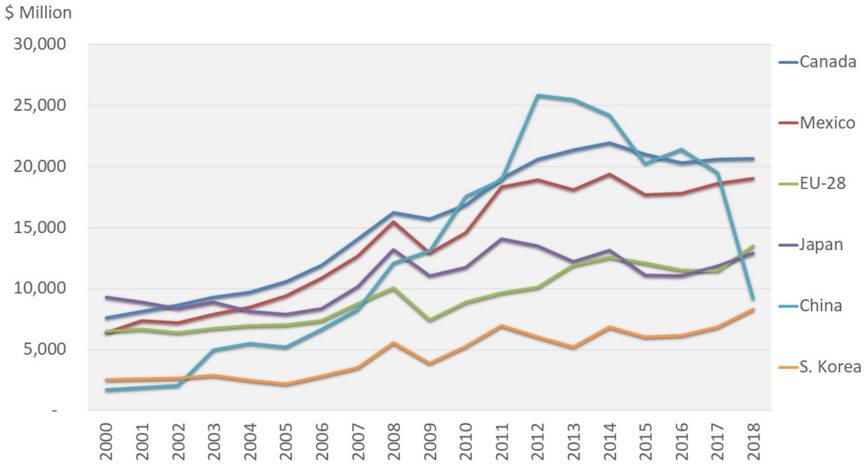
General discussion and sector-specific examples.

U.S. Agricultural (+ related) Trade with the EU: 2000-18



Source: USDA-FAS, GATS Database

U.S. Agricultural Exports (Top 6): 2000-2018



Source: USDA-FAS, GATS Database

U.S. Agricultural and Related Products Exports: 2017

Rank	Consumer Oriented	$ 64,508 ($ millions)	Rank	Intermediate	$ 25,620 ($ millions)
1	Canada	16,370	1	Mexico	4,062
2	Mexico	8,341	2	Canada	3,394
3	Japan	6,365	3	China	2,266
4	Hong Kong	4,027	4	Japan	1,315
5	S. Korea	3,826	5	S. Korea	1,298
10	United Kingdom	1,039	11	United Kingdom	555

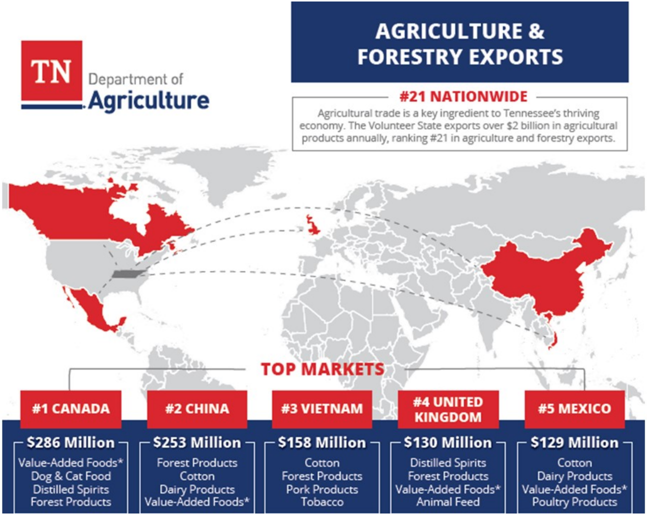
Rank	Bulk	$ 48,031	Rank	Agricultural Related	$ 19,370
1	China	14,784	1	China	4,521
2	Mexico	6,194	2	Canada	4,114
3	Japan	4,216	3	Japan	1,665
4	Indonesia	1,803	4	United Kingdom	1,014
5	S. South	1,745	5	Mexico	871
38	United Kingdom	107			

Source: Foreign Agricultural Service, Global Agricultural Trade System

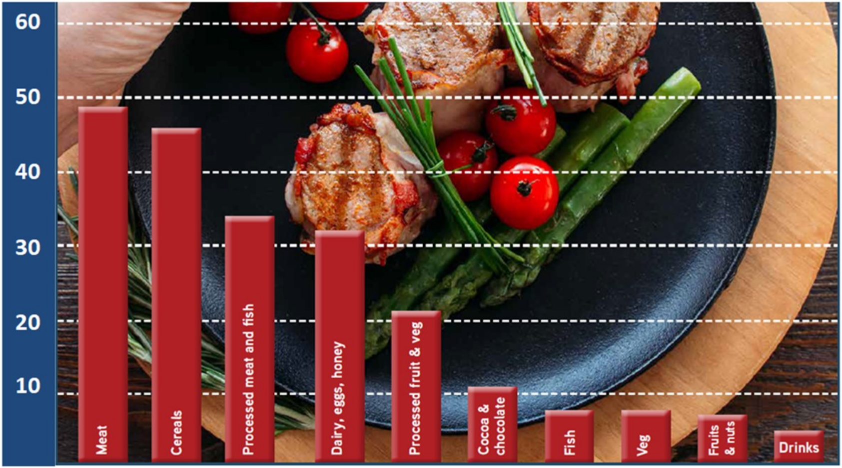
U.S. Agricultural and Related Products Exports to the UK

	FY2018	FY2019	%Δ
	($ millions)		
Agricultural Related Products	**$ 1,081.1**	**$ 1,171.0**	**8.0%**
Forest Products	*793.1*	*935.8*	*18.0*
Distilled Spirits	*215.9*	*125.3*	*-42.0*
Consumer Oriented Total	**1,044.6**	**975.1**	**-7.0**
Wine and Beer	263.5	245.6	-7.0
Tree Nuts	196.4	215.3	10.0
Prepared Food	164.8	155.3	-6.0
Fresh Vegetables	88.4	78.9	-11.0
Pork and Products	3.8	3.5	-7.0
Poultry Meat	1.7	0.9	-51.0
Beef and Products	2.8	0.6	-77.0
Intermediate Total	**537.7**	**597.8**	**11.0**
Other Intermediate Products	275.5	288.6	5.0
Bulk Total	**165.7**	**195.0**	**18.0**
Soybeans	64.1	103.8	62.0
Other Bulk Commodities	28.4	28.2	-1.0
Pulses	24.2	22.5	-7.0
Wheat	29.3	20.5	-30.0

Source: Foreign Agricultural Service, Global Agricultural Trade System


TN Department of Agriculture
AGRICULTURE & FORESTRY EXPORTS
#21 NATIONWIDE
Agricultural trade is a key ingredient to Tennessee's thriving economy. The Volunteer State exports over $2 billion in agricultural products annually, ranking #21 in agriculture and forestry exports.
TOP MARKETS
#1 CANADA
$286 Million
Value-Added Foods*
Dog & Cat Food
Distilled Spirits
Forest Products
#2 CHINA
$253 Million
Forest Products
Cotton
Dairy Products
Value-Added Foods*
#3 VIETNAM
$158 Million
Cotton
Forest Products
Pork Products
Tobacco
#4 UNITED KINGDOM
$130 Million
Distilled Spirits
Forest Products
Value-Added Foods*
Animal Feed
#5 MEXICO
$129 Million
Cotton
Dairy Products
Value-Added Foods*
Poultry Products

Average EU Tariffs on Food and Agriculture



Source: Lawless and Morgenroth (2016) *The Product and Sector Level Impact of a Hard Brexit across the EU*

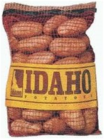
Geographical Indication and IPR

EPIROS®
Original Feta

Is bologna bologna if it is not from Bologna?

By Michael Standaert

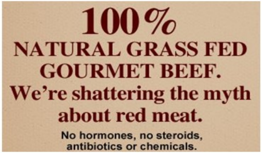
Pass the Greek-like cheese product originating from Wisconsin yet made with cow's milk and not goat's milk that is like Feta but cannot be called Feta. If that sounds a bit odd, welcome to the world of geographical indicators and international property rights. While agreements on wine and spirits are being worked through between the US and EU, further down the food chain discussions have been choked.

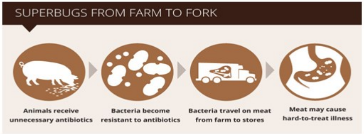


PROTECTED GEOGRAPHICAL INDICATION

Parmigiano-Reggiano vs. Parmesan

SPS rules, Regulations, and Standards





Will these apply after Brexit?

Specific Examples

Potential Increase in Meat Exports.

Hard Brexit outcome. Brief discussion.

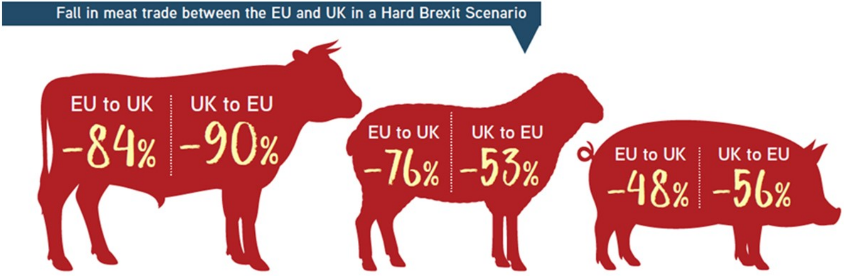
Potential Increase in Wine Exports.

Recent decline in the UK market and Brexit and trade implications. Brief discussion.

Return and Increase in Whiskey Exports.

Retaliatory tariffs are the issue; another major market impacted by the Trade War. Demand analysis.

While the UK is the third largest EU beef producer, the second largest poultry producer and the largest sheep meat producer, it is a net importer of meat from the EU (except sheep meat).



Source: European Livestock and Meat Trades Union (UECBV) (2019) *CRISIS: The EU Meat Industry in a Hard Brexit Scenario*

Willingness-to-Pay for Hormone-Free Beef: EU versus U.S.

Country	WTP Estimate
France	$ 9.94
UK	$ 7.39
US	$ 8.12

Table: Willingness-to-Pay for Hormone-Free Beef

Results from Lusk et al. (2003). Demand for beef from cattle administered growth hormones...*AJAE*

UK was our second largest wine market.

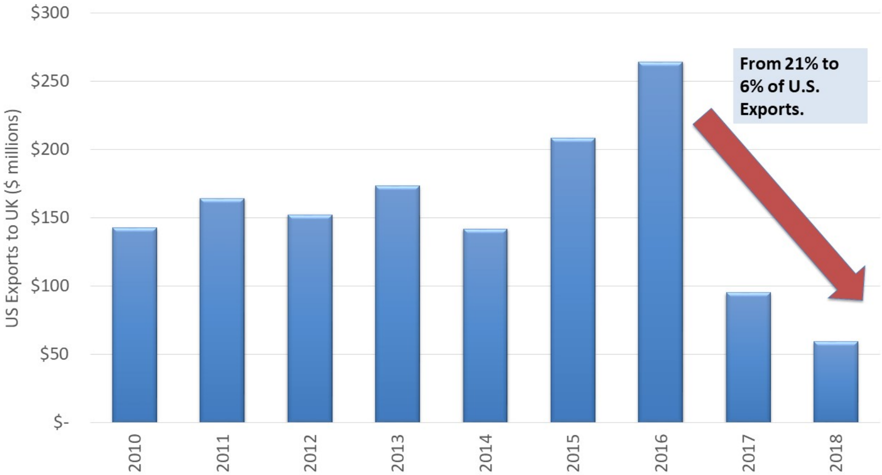
U.S. wine exports to the major markets, other than Canada, face tariffs that are double or triple the WTO simple average (7 percent).

EU import tariff per 750 ml bottle can range from $0.11 to $0.29.By comparison, the U.S. import tariff on a 750 ml bottle is $0.05 for still wine.

The Wine Institute has argued that EU subsidies intended to encourage, support and finance European winemakers have resulted in an unreasonable competitive advantage in the global marketplace.

The UK is (was) a leading market for U.S. wines ($150 to $250 million, roughly 15 to 20 percent of total U.S. exports). (1) Ensuring that U.S. wine exports continue after Brexit; (2) Creating a U.S./UK wine trade relationship based on mutual recognition; (3) Potential for lower tariffs.

U.S. Wine Exports to the UK: 2010-18



Source: Foreign Agricultural Service, Global Agricultural Trade System

U.S. Whiskey Exports to the UK

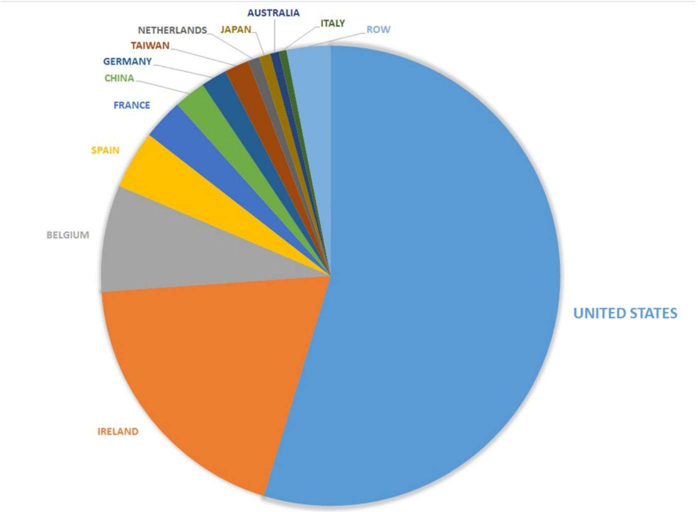
In response to the 232 tariffs the EU retaliated against U.S. whiskey with a 25 percent tariff. The tariff has had a significant impact on whiskey exports to the EU (UK in particular). More to come (more retaliation)?

Examined UK whiskey import data (Eurostat): Jan, 2000 - Aug. 2019 differentiated by source: U.S., Ireland, Rest of EU, and Rest of World.

Estimated import demand using a dynamic import demand framework (Generalized Dynamic Rotterdam Model).

Derived short- and long-run price elasticities and do back-of-envelope policy analysis.

UK Whiskey Imports: 2018 ($203 million: 2018)



Source: FAS, GATS

Own-Price Elasticities UK Demand for Imported Whiskey

Country	Estimate (SE)	P-value
	Short-run	
U.S.	**-0.137** (0.042)	**[.001]**
Ireland	-0.521 (0.062)	[.000]
Rest of EU	-0.539 (0.111)	[.000]
ROW	-0.081 (0.161)	[.611]
	Long-run	
U.S.	**-0.179 (0.055)**	**[.001]**
Ireland	-0.666 (0.081)	[.000]
Rest of EU	-0.807 (0.194)	[.000]
ROW	-0.110 (0.219)	[.613]

Table: Own-price elasticities by source

Source: Author's estimates

U.S. Whiskey Exports to the UK

The inelastic estimate (-0.18) suggests that UK importers are bearing the larger burden.

What do we see when we examine the data?

U.S. Whiskey Exports to the UK: Pre- and Post-Trade War

Indicator	FY2018	FY2019	% Change
World			
Export value ($ million)	$1,263.6	$1,007.8	-19.5%
Export quantity (million liters)	158.7	168.5	6.2%
Unit value (price per liter)	$7.97	$6.04	-24.1%
United Kingdom			
Export value ($ million)	$175.5	$107.3	-38.5%
Export quantity (million liters)	15.0	13.5	-9.9%
Unit value (price per liter)	$11.61	$7.92	-31.8%

Table: U.S. Whiskey exports: FY2018 and FY2019

Source: FAS, GATS

Cross-Price Elasticities

Country	Estimate (SE)	P-value
	Short-run	
Ireland	0.336 (0.066)	[.000]
Rest of EU	0.240 (0.121)	[.047]
ROW	-0.154 (0.183)	[.401]
	Long-run	
Ireland	0.430 (0.084)	[.000]
Rest of EU	0.359 (0.182)	[.049]
ROW	0.208 (0.247)	[.400]

Table: Cross-price elasticities w.r.t. U.S. whiskey prices

Source: Author's estimates

First Stage Estimates: Dependent Variable = Divisia Index (Real Aggregate Expenditure on Imported Whiskey)

Variable	**Estimate (SE)**	**P-value**
Constant	0.036 (0.031)	[0.244]
Price Domestic	0.501 (0.784)	[0.522]
Price U.S.	**-0.032 (0.075)**	**[0.668]**
Price Ireland	-0.172 (0.048)	[0.000]
Price Rest of EU	-0.124 (0.036)	[0.001]
Price ROW	-0.101 (0.029)	[0.000]
Rho (AR1)	0.276 (0.067)	[0.000]

Table: Unconditional demand estimation

Source: Author's estimates

Closing

The very idea of "Brexit" fits perfectly with the anti-globalist sentiments of the Administration.

Brexit in line with the Administration's preference for bilateral negotiations.

EU Trade War issues could be resolved.

EU agricultural and food policies (regulations and standards) make agricultural trade negotiations particularly contentious. The EU has actually argued for agriculture to be excluded. With Brexit, these policies could no longer apply.

Given a "No-Deal" Brexit, a trade agreement could make U.S. agricultural and food exports more competitive than imports from the EU.

amuhammad@utk.edu

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