EU-India Free Trade Agreement: Do Non-Tariff Barriers in the Food and Agricultural Sector Make a Difference?

Tanja Engelbert and Martina Brockmeier
University of Hohenheim
Germany

tanja.engelbert@uni-hohenheim.de
martina.brockmeier@uni-hohenheim.de

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Introduction

Assessing the impacts of an EU-India FTA using a computable general equilibrium (CGE) model.

Analyzing the reduction of tariffs and non-tariff barriers (NTBs) simultaneously.

1. Estimating the effects of NTBs using the gravity border effect approach and conversion into ad-valorem tariff equivalents (AVEs) using the elasticity of substitution (σ).

2. Incorporating AVEs of NTBs into the Global Trade Analysis Project (GTAP) model to derive economy-wide results.

Border Effect Methodology

\[ x_{ij} = \frac{y_i y_j}{y_w} \left( \frac{t_{ij}}{p_i p_j} \right)^{1-\sigma} \]

\[ t_{ij} = d_{ij}^{\rho} + \sum_{l=1}^{M} b_{ij}^{\delta} \]

\[ AVE_{\gamma} = \exp \left( \frac{\delta_{ij}}{1-\sigma} \right) - 1 \]

(Anderen and van Wincoop, 2003)

Benchmarking

AVEs of NTBs between EU and EFTA = Minimum level; while everything above is assumed to be equal to NTBs between EU and India

Implementation of AVEs of NTBs is carried out using the "ams" parameter of the GTAP model. Removal of NTBs is modeled as a technological progress decreasing the observed import price.

\[ pms_{irs} = \frac{pms_{irs} - ams_{irs}}{effective import price} \]

Screening Results for EU and India (Billion US$)

- EXP 1: overall cut of EU's and India's tariffs by 97%
- EXP 2: cut of EU's tariffs by 97%, cut of India's tariffs by 30%

Conclusion

- Gravity border effect approach shows high border trade costs in agriculture between the EU and India.
- GTAP simulations show that the overall level of welfare gain is higher for India than for the EU.
- India gains more from asymmetric tariff cuts, while EU’s welfare is higher with symmetric tariff cuts.
- Gains stemming from NTBs elimination are much higher compared to the ones coming from tariff reduction.
- In India the reduction of NTBs in the agro-food sector accounts for the highest proportion of the welfare gains coming from own NTBs elimination.
- The study reveals high relevance of NTBs in India’s agro-food trade in the future.