

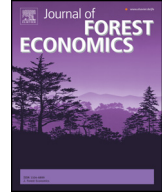


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Potential impact of a Transatlantic Trade and Investment Partnership on the global forest sector



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ABSTRACT

The effects of a transatlantic trade agreement on the global forest sector were assessed with the Global Forest Products Model, conditional on previous macroeconomic impacts predicted with a general equilibrium model. Comprehensive tariff elimination per se had little effect on the forest sector. However, with deeper reforms and integration consumption would increase twice as much in percent in the US as in the EU. Net trade decreased in the US more than in the EU while it increased in Asia. Consumers and producers' welfare increased by \$7000 million in the EU and \$14,000 million in the US, but decreased in some third countries, especially in Asia.

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Introduction

The United States (US) and European Union (EU) combined account for over 45% of the world GDP in nominal value and 38% in terms of purchasing power parity (World Bank, 2013). Foreign direct investment is intense between the two regions and more than a third of the trade consists of intra-company trade, between subsidiaries of companies established both in the EU and in the US (EC-Trade, 2013). Within the forest sector, the European Union and the United States account for around 40% of the world production of industrial roundwood, sawnwood and paper and paperboard, and for 30% of the world production of panels (FAO, 2012).

In 2010 the United States exported \$3.5 billion worth of forest products to the European Union, or 15% of its exports to all countries. Meanwhile, the European Union exported \$2.1 billion worth of forest products to the United States, or 6% of its total exports. However, Canada and China are the United States first trade partners for import and export of forest products in value (Table 1). China is the main destination of EU exports, and the United States is the EU main source of forest product imports (Table 1). Thus, while the relationship between the US and the EU is substantial, it cannot be considered independently of the rest of the world. In investigating the potential impact on the forest sector of a trade agreement between the United States and the European Union, which is the subject of this study, it is important to place it in a global context.

Agreements to remove trade barriers aim at reducing dead-weight costs and at increasing net social gains from international trade. The World Trade Organization (WTO) was established with the mandate to lower trade barriers among its 159 member countries through rounds of trade negotiations. The WTO's principle of "Most-favoured nation" (WTO, 2013) states that preferred treatment of one country "must be extended to all other members of the WTO". However exceptions to this principle are frequent due to the complexity of multilateral negotiation. There are hundreds of regional "free trade agreement", sometimes called "preferential trade agreements" (Bhagwati and Panagariya, 1996) as a reminder that third countries are excluded from the free trade gains.

The project of trade agreement between the US and the EU, also known as the Transatlantic Free Trade Area (TAFTA, Hamilton and Schwartz, 2012) or the Transatlantic Trade and Investment Partnership (TTIP, Felbermayr et al., 2013a) began with the 1995 Madrid Agreement on a Transatlantic Agenda, followed by various resolutions and negotiations by and between the US and the EU (Transatlantic Policy Network, 2007). In a recent report, the EU–US "high level working group on jobs and growth" (HLWG, 2013) analyses a range of options far beyond simple tariff removal, including: elimination of non-tariff barriers to trade in goods, services and investment, enhanced compatibility of regulations and standards and improved cooperation to achieve shared economic goals.

Studies of how such deep agreements between the EU and US would influence the economies of the two regions and of the rest of the world vary greatly in terms of geographic coverage and quantitative

Table 1

Value of forest products trade between the European Union and the United States, and other major countries in 2010.^a

	1000 million \$US	Share ^b		1000 million \$US	Share ^b
US exports to			US imports from		
China	4.8	20%	Canada	12.6	62%
Canada	4.2	17%	EU	2.2	11%
EU	3.5	15%	China	1.3	7%
Mexico	3.2	13%	Brazil	1.2	6%
Japan	1.6	7%	Japan	0.4	2%
EU exports to			EU imports from		
China	4.1	12%	United States	3.5	16%
United States	2.1	6%	Brazil	3.3	15%
Switzerland	2.1	6%	Russian Fed.	2.0	9%
Turkey	2.0	6%	Norway	1.7	8%
Russian Fed.	1.7	5%	Switzerland	1.7	8%

^a Source: FAOSTAT, forestry trade flows, aggregated trade values in 2010 of roundwood, sawnwood, chips and particles, wood based panels, wood pulp, recovered paper, paper and paperboard.

^b Share of total EU or US exports.

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