

The increase in customs duties on certain French exports to the United States should have a limited impact in the short term

Fewer than 1% of total French goods exports are expected to be affected by the new customs duties announced recently

In early October 2019, the World Trade Organisation (WTO) authorised the United States to increase their customs duties on European goods by 7.5 billion Dollars per annum, just under 7 billion Euros. As a result, the United States have decided to apply additional customs duties of 10% to imports of certain wide-body aircraft from France, the United Kingdom, Spain and Germany, and 25% to other European products including wine, olive oil and various types of cheese.

According to French customs data for individual products and countries, the portion of French exports affected by these new customs duties should correspond to a maximum¹ of 3.3 billion Euros for the period September 2018 – September 2019. This would be equivalent to 8% of goods exports to the United States, and 0.7% of all goods exports from France.

These measures should have a limited impact on the year-on-year growth of French exports and GDP

On the assumption that export volumes (at prices which include taxes) display unitary elasticity², over the next 12 months these additional customs duties should have the effect of reducing the rate of growth of total French exports by around 0.1 points, in volume terms.

Furthermore, the effect on the growth rate of French GDP could ultimately be attenuated by the decrease in French imports used as intermediate consumption in the production of goods delivered internationally. According to the AVIONIC model³, it appears that the average import content of the goods in question – wide-body aircraft (around 60% of affected exports), wine (35%) and cheese (5%) – was approximately 38% in 2015. For products in the aeronautics and space industry alone, the import content of exports is 64%. Working on the hypothesis that the decrease in intermediate consumption of these goods will be equivalent to the decrease in exports, the effect of the additional customs duties should be such that the year-on-year growth rate of total French imports, in volume terms, should slow by just under 0.05 points.

All in all, considering the direct effects on exports and the indirect effects on imports, the introduction of these additional customs duties on French products should have a marginal effect on the annual GDP growth rate (around -0.01 percentage points).

The effects are even more marginal in the short term at the macroeconomic level

The effects should be even weaker because, in the short term, exports of the goods in question are relatively inelastic to price variations (in particular, some of Airbus' orders are already confirmed for the coming months). Finally, the price sensitivity of exports of French speciality products is relatively weak, particularly for products in the food and agriculture sector (some of which are affected by these tax measures). As for aircraft, while the price sensitivity is relatively high for exports to other developed nations (due to competition with Boeing), it is weaker for sales to the United States (Beatriz & Fontvieille, 2019). All in all, the effects estimated above could serve to amplify the impact of these additional customs duties in the short term.

The effects estimated here do not take into account recent threats of further tax increases, mooted by the Americans in early December. ■

Bibliography

Beatriz M., Fontvieille M., (2019), "For a better understanding of the sensitivity of French exports to exchange rate fluctuations using detailed customs data", *Conjoncture in France*, March 2019.

Bourgeois A., Briand A. (2019), "AVIONIC (Variantial Input/Output Analysis, National Imported and Content): The Input/Output Model of National Accounts", *Document de travail de l'Insee*, n° G2019/02. ■

1. The maximum range was applied for those products for which more detailed information is not available under the customs classification model.

2. There are numerous methods for estimating the elasticity of export prices. Nevertheless, these estimates are affected by numerous sources of bias, including aggregation and heterogeneity bias. They may also be sensitive to the context of the estimation.

3. Model developed by INSEE (Bourgeois & Briand, 2019) based on symmetrical French input-output tables. It allows us to estimate the amount of imports or value added generated by components of final demand (modelling the content of final demand) and can be applied at a detailed level of the general classification (level G, 138 products).