Unit of the syllabus to which the article relates	Microeconomics
Title of the article	Farm income falls in England after extreme weather and subsidy cuts
Source of the article and **URL**	https://www.theguardian.com/environment/2024/nov/14/farm-income-england-2023-extreme-weather-subsidy-cuts
Date the article was published	1/4/11/2024
Date the commentary was written	4/2/2025
Word count of the commentary	800
Key concept being used	Intervention

This article is more than **4 months old**

Farm income falls in England after extreme weather and subsidy cuts

Defra data shows lower income for most farm types but small boost from payments for nature-friendly schemes

Cereal farms in England saw a 73% drop in income last year, according to data from Defra. Photograph: Martin Stokes/Alamy

Income fell on almost all farm types in England last year, as extreme weather hit yields and the government cut subsidies.

Farmers fear future hits to their industry after a hugely unpopular change to agricultural property relief which means some farms will be saddled with a large, unexpected tax bill, and a surprise, severe cut to the EU-derived basic payments scheme meaning a shortfall in cash that they had not predicted.

Last year, average farm business income was lower for all farm types except specialist pig farms and specialist poultry farms, figures the Department for Environment, Food and Rural Affairs (Defra) show. Extreme weather including floods hit farmers hard, causing entire crops to be submerged. Experts said these events were being made more likely by climate breakdown.

Cereal farms fared the worst, with a drop in income of 73%. For general cropping farms, the average income was 24% lower. Dairy farm income plummeted by 68%, and on lowland-grazing livestock farms, average income fell by nearly a quarter to £17,300, driven by lower output from crop and sheep enterprises.

However, payments under the post-Brexit nature-friendly farming schemes gave farmers a small boost: net income from agri-environmental activities increased by an average of 14% to £10,600.

Olly Harrison, who farms cereal near Liverpool, said next year's numbers were likely to be even worse as the bad weather continued in 2024 and the government was cutting grants to farmers for technology.

"That data is a year out of date. We've had the worst harvest ever just now for cereals: no sunlight in June, poor planting last autumn, the perfect storm, floods - [income] will go down next year," he said. "I bet food self-sufficiency has gone down after this last harvest - it's got to be. I've been growing overwintered bird food and deliver for nature, and have the kit and technology to do no-till [farming]. If the government invested we could boost food security and nature."

The UK is about 60% self-sufficient in food and reliant on imports. Harrison is one of the organisers of a mass protest expected to take place in Westminster next week over changes announced in the budget earlier this month.

The government has cut the basic payment to farmers. Photograph: Maureen McLean/Rex/Shutterstock

Speaking in parliament on Tuesday, the Liberal Democrat environment spokesperson, Tim Farron, said the government had "rashly cut the basic payment by 76%. That will hit livestock farmers, upland farmers, dairy farmers and destabilise the whole industry."

Responding, the farming minister, Daniel Zeichner, said the Labour government had given the "biggest boost to sustainable farming that the country has seen". He said it was "determined to tackle the extreme climate crisis we have globally" by changing the payment schemes.

New data from the Agricultural Industries Confederation (AIC) shows cuts to government payments have fallen far more sharply than expected. After Brexit, ministers pledged to slowly phase out the land area-based payments which the EU gave out under the common agricultural policy. This was to allow farmers to transition to a new system of being paid for action on nature - such as planting hedgerows and looking after the soil - without a huge financial shock and potentially going bust.

However, in her first budget, the chancellor, Rachel Reeves, announced a cut of 79% to these payments. Farmers were expecting a more tapered cut: the AIC data shows that, at the top end of the scale, a farmer receiving £62,000 last year was expecting £38,000 this year but will be getting £7,200. For farmers on tight margins, this change could wipe out profits.

Martin Lines, the chief executive of the Nature Friendly Farming Network, said the system had to change.

“Farmers need fairer prices for their produce and better treatment across supply chains, along with international trade deals that don’t undercut them by allowing imports from countries with lower welfare and environmental standards,” he said. “Farmers also deserve to be properly recompensed for all the public goods their land provides - like flood defences and habitat restoration.

“Working with nature and investing in our landscapes is absolutely crucial. As we face extreme weather events and the havoc these are already wreaking on harvests, it should be clear by now that maintaining food security and protecting nature cannot be separated.”

Daniel Zeichner, minister for food and rural affairs, said: “This government recognises food security is national security and our commitment to farmers remains steadfast. That is why we have committed £5bn to the farming budget over two years - more money than ever for sustainable food production, and to boost rural economic growth. We recognise that confidence amongst farmers is low following years of neglect and policy failure. We have set out significant support for the sector, including confirming that farmers affected by extreme wet weather will receive up to £60m in farming recovery payments from next week.”

Commentary

The article discusses a recent subsidy cut on farmers by the British government. Combined with bad weather causing a 24% average decrease in income of cropping farms, as well as the application of an inheritance tax has led to some farmers struggling and expectations of poor food security in England. The aim of this **government intervention** is to replace the EU-derived basic payment scheme with a new payment that is based on eco-friendly action, such as "planting hedgerows and looking after the soil". In her first budget chancellor Rachel Reeves, announced a cut of 79% to the land-area based payments farmers were receiving. A farmer receiving £62,000 last year was expecting £38,000 this year but will be getting £7,200. Many have criticised this change as the sudden cut of payment may lead to increased prices and even farmers leaving the market due to the numerous pressures on them. Food is a necessity good, so it is the government's priority to keep its prices low.

The effect of a subsidy cut on farmers is modeled using a perfect-competition diagram. Farmers are numerous, and produce mostly undifferentiated products in a market. This is similar to perfect competition which is characterized by many small suppliers, homogenous products, and perfect information.

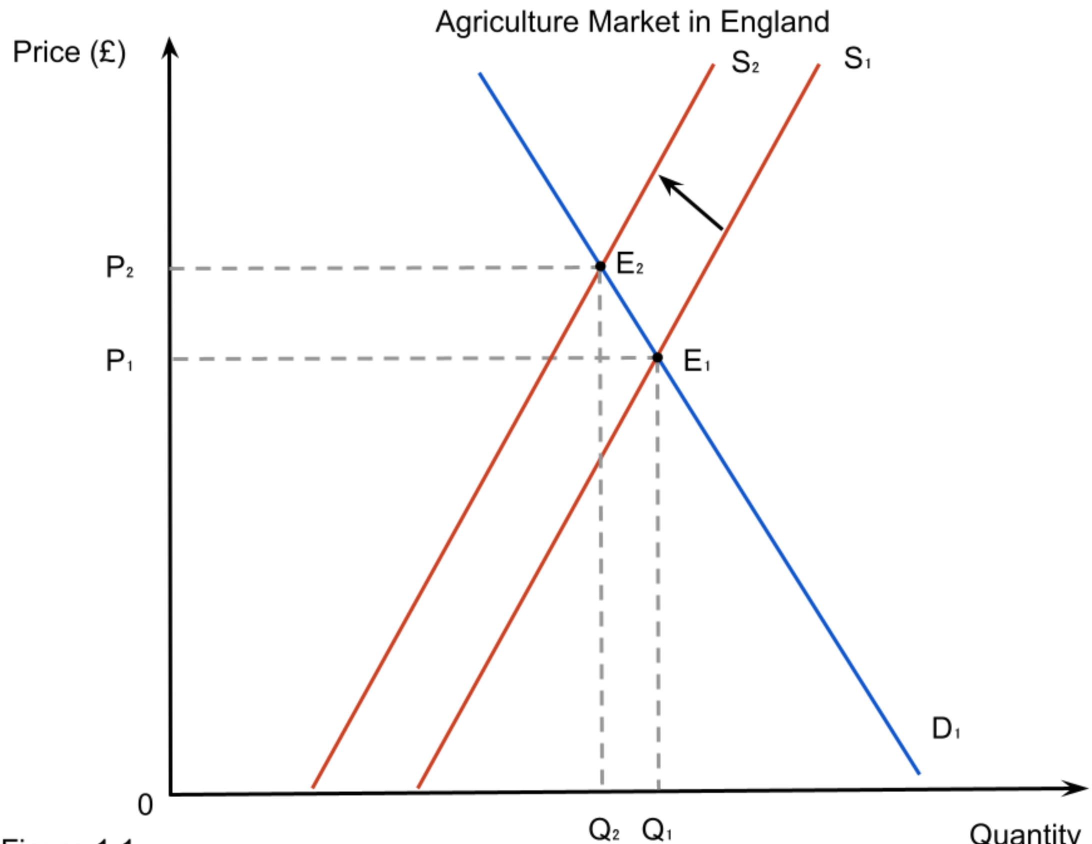

Figure 1.1

Figure 1.1 shows the effect of the subsidy cut on the agricultural market for England. The subsidy cut leads to supply curve S_1 shifting into supply curve S_2. The equilibrium point E_1 at Q_1 and price P_1 moves to the point E_2 at quantity Q_2 and price P_2. This change results in a higher price and less quantity supplied in the market. The reasoning for this change is best seen in accompanying diagrams.

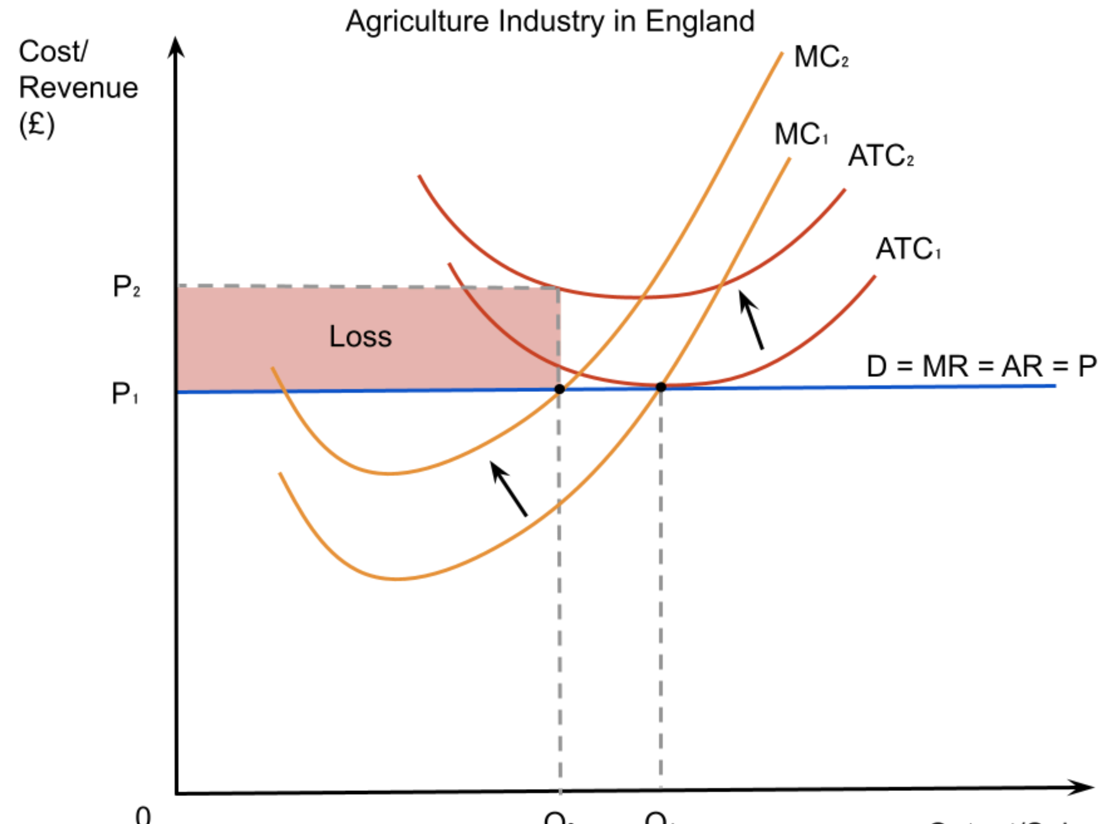

Figure 2.1

Figure 2.1 shows the agricultural produce industry in England after the subsidy cut. Demand, D, is equivalent to the price, P, as firms are price-takers in this perfect-competition diagram. Demand is therefore also equivalent to marginal and average revenue, which are denoted as MR and AR respectively. The marginal costs are shown as the curve MC_1, which intersects the average costs curve, ATC_1, at its lowest point. Production occurs at the profit maximizing point MC_1 = MR at price P_1 and quantity Q_1. The total revenue P_1*Q_1 is equivalent to the total economic cost, thus normal profit is being made and the market is in equilibrium. Due to the subsidy cut, alongside environmental pressures, costs increase, causing the MC_1 and ATC_1 curves to shift upwards towards MC_2 and ATC_2 respectively. When producing at the new profit maximizing point MR = MC_2, firms now make a loss of P_2*Q_3 - P_1*Q_3.

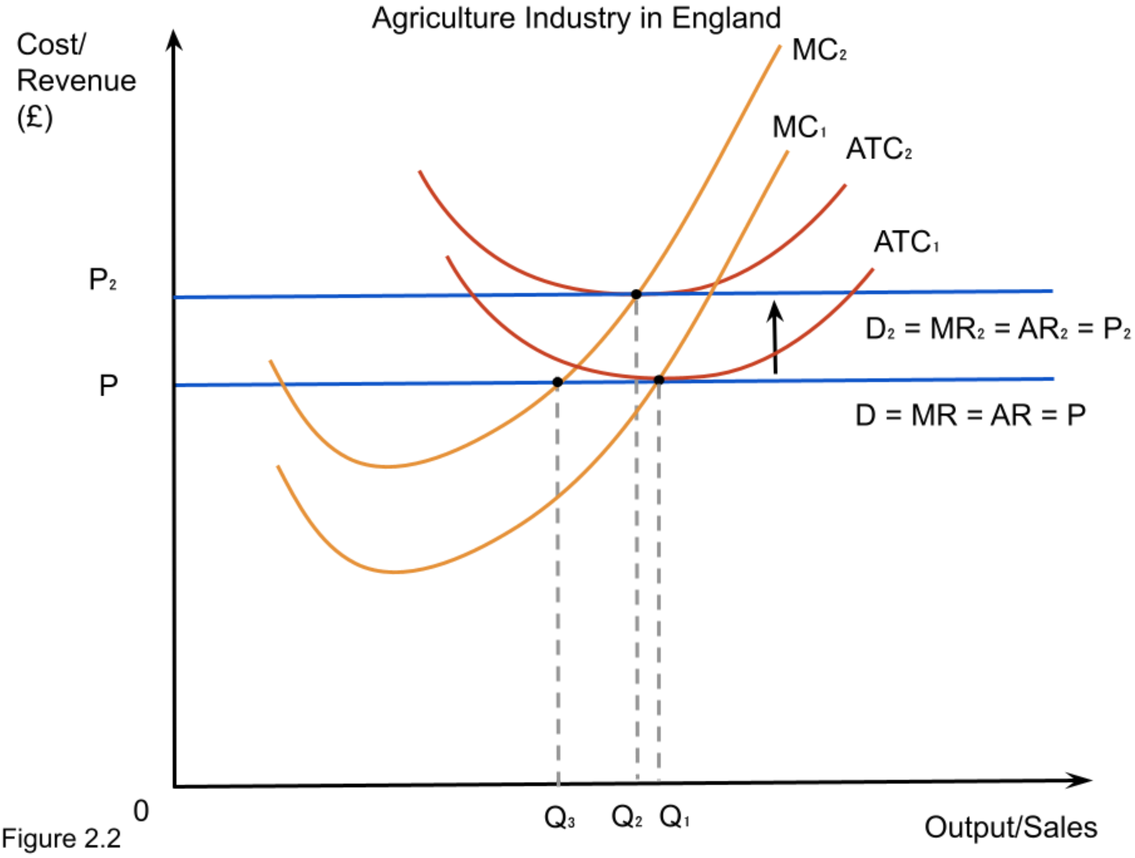

Figure 2.2

Figure 2.2 shows how farmers react to the increased costs seen in Figure 2.1. Reduced supply seen in Figure 1.1 causes an increase in price. The price curve P shifts to P_2, where total revenue and total cost are equivalent, meaning there is normal profit again. Quantity increases from Q_3 to Q_2. Quantities Q_1 and Q_2 are equivalent to Q_1 and Q_2 in Figure 1.1. This diagram shows that all farmers in the market are producing less, to maintain normal profit with increased costs.

Increased prices could cause lower-income households to struggle as agricultural produce now takes up a larger portion of their income. Farms also provide positive externalities, “like flood defences and habitat restoration”, which would be reduced with supply. Aas farmers make the switch to sustainable practices, supply should increase again, due to the new payment scheme. However, the additional costs of looking after the environment would lead to less supply than before, with similar payment rates.

Alongside other pressures such as “extreme weather” and the “unexpected tax bill” on some farms, the reduction in supply might be even greater without the help of a subsidy. Reduced revenue of farms could lead to unemployment..

The subsidy cut could have the positive effect of making farmers internalize their negative externalities. The new payment scheme would ensure that farmers have the maximum possible positive externalities in the long-run, as they would engage in sustainable actions to gain more payment. Reducing negative externalities and additional positive externalities could save the government money in the long-run. The cut could provide the positive effect of forcing farms to become more efficient, as being complacent wouldn't be viable without the support of a subsidy.

A gradual subsidy cut that increases over several months or even years could be an alternative that puts less pressure on farmers, especially during recent times. This would also align with expectations as current cuts "have fallen far more sharply than expected".

This case of government intervention is one with an evident positive outcome yet its application is very fickle. In such cases consideration and research are vital in order to achieve goals while preventing shock and backlash such as protests.

Unit of the syllabus to which the article relates	Macroeconomics
Title of the article	UK finance minister set on ‘renewing Britain’ as she unveils spending plans
Source of the article and **URL**	CNBC https://www.cnbc.com/2025/06/11/uk-spending-review-heres-where-billions-of-public-cash-will-go.html
Date the article was published	Wed, Jun 11 2025, 7:10 AM
Date the commentary was written	9/10/2025
Word count of the commentary	799
Key concept being used	Choice

Note: Highlighted paragraphs and lines are marked with an X

EUROPE ECONOMY

UK finance minister set on ‘renewing Britain’ as she unveils spending plans

PUBLISHED WED, JUN 11 2025•7:10 AM EDT | UPDATED WED, JUN 11 2025•8:43 AM EDT


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KEY POINTS

- U.K. Chancellor Rachel Reeves is delivering her Spending Review this Wednesday.
- The review sets out how public money will be divided between government departments and put towards infrastructure projects over the next three to four years.
- We already know that billions of pounds of funding have already been allocated to so-called “protected departments” such as health and defense.
- Other departments are likely to see funding freezes or cuts.

U.K. Chancellor of the Exchequer Rachel Reeves leaves 10 Downing Street ahead of PMQs in the House of Commons in London, United Kingdom on June 11, 2025.

Anadolu | Anadolu | Getty Images

U.K. Chancellor Rachel Reeves is delivering the government’s Spending Review on Wednesday, with all eyes on how billions of pounds’ worth of public money are split between departments and infrastructure projects.

X We already know that “protected departments” such as health and defense will see big funding boosts — but losers could surface among “unprotected” units.

Departments like the Home Office and those overseeing local government and the environment could see their budgets squeezed as the government targets cost cutting.

Reeves started announcing her Spending Review to the British parliament at 12:30 p.m. London time and we'll update this story with the headline announcements as they're made.

"We are renewing Britain," Reeves told lawmakers as she begins her address.

"This Government's task, my task as Chancellor and the purpose of this spending review, is to change that," she added.

What's being announced

The review covers two separate avenues of spending: resource expenses — the government's day-to-day running and administration costs — for the next three years, as well as capital expenditure for the next four years; this goes toward improving infrastructure and public services such as new roads, hospitals and military equipment.

The Treasury has already said that day-to-day spending will rise by an average of 1.2% for each of the three years while investment (capital) spending will increase by an average of 1.3% a year for four years.

That "relatively modest" hike in day-to-day and investment spending means "sharp trade-offs are unavoidable," the Institute for Fiscal Studies (IFS) think tank warned ahead of the review.

We've already had a raft of announcements from the government in the run-up to Wednesday's spending announcement, detailing some of the money government departments will receive, ranging from science and housing investment to defense and education.

Here's what Reeves has been announcing to lawmakers on Wednesday, and what we already knew:

Defense

The government has already announced that defense spending is set to rise from 2.3% of gross domestic product (GDP) to 2.5% by 2027, with the boost funded partly by cuts to the overseas aid budget.

Under pressure from the U.S. and NATO to increase defense spending to a potential 5% of GDP, Reeves on Wednesday announced that defense spending will now rise to 2.6% of GDP by April 2027.

The U.K.'s defense plans include building 12 new nuclear-powered attack submarines, a boost to the manufacturing of drone, missiles and munitions, as well as bolstering of cyber warfare capabilities.

Health

After defense, the health service was also set to get a big funding boost as one of the government's main spending priorities, although we were waiting to see the extent of the funding boost the National Health Service (NHS) received.

On Wednesday, Reeves announced what she described as "a record cash investment in our NHS" increasing real-terms, day-to-day spending by 3% per year for every year of the spending review. That's an extra £29 billion per year for the day to day running of the NHS, she said.

A queue of ambulances outside the Royal London Hospital emergency department on Nov. 24, 2022, in London. In the U.K., the number of "economically inactive" people — those neither working nor looking for a job — between the ages of 16 and 64 rose by more than 630,000 since 2019.

Leon Neal/Getty Images

Science and tech

The Treasury has already previewed several largescale infrastructure investments in the run-up to the Wednesday announcement, saying it will allocate £86 billion to fund research and development in the science and tech industries over the next four years, with the aim of boosting growth and innovation.

That money will fund research ranging from "new drug treatments and longer lasting batteries to new AI breakthroughs," the government said.

Housing

The Treasury on Tuesday night announced that Rachel Reeves will unveil a £39 billion boost to social and affordable housing investment in the spending review. Access to state-subsidized social housing, or low-cost new homes, is a particular bugbear for many voters struggling to find affordable places to live.

Schools

Free school meals in schools will be expanded to more than 500,000 children whose parents receive a welfare payment known as Universal Credit, which is available to those who are on a low income, unemployed or unable to work. Previously, children outside of London were only been eligible for free school meals if their household income was less than £7,400 per year.

Justice and Policing

Reeves announced a £7 billion investment to fund 14,000 new prison places and said the government would put up to £700 million per year into the reform of the probation system.

Police patrol across Westminster Bridge toward the Houses of Parliament in central London on March 23, 2017 after the bridge reopened to traffic following its closure during the March 22 terror attack.

Adrian Dennis | AFP | Getty Images

She announced she would increase police spending power by an average 2.3% per year in real terms over the spending review period, equating to more than £2 billion over the next few years. An additional 13,000 police officers, police community support officers and special constables will be put into policing roles across England and Wales, she added.

Transport

Transport networks outside of the capital London will get a funding boost of £15.6 billion, focusing on the North and Midlands areas of the country.

London hasn't been forgotten, with Reeves announcing a four-year settlement for the Transport for London network "to provide certainty and stability for our largest local transport network to plan for the future." She further set out "a fourfold increase in local transport grants [capital grants] by the end of this parliament," in 2029.

Nuclear energy

The government has said it will invest just over £14 billion in building new nuclear power station, Sizewell C, as well as £2.5 billion on smaller modular reactors. It noted the move would create 10,000 jobs and "deliver clean power to millions of homes, cut energy bills and boost energy security."

No fiscal announcements

The Spending Review is not a fiscal event, meaning there will be no announcements on taxation or borrowing on Wednesday.

Last fall, the government set out its budget and debt and deficit targets for the year ahead, with Reeves unveiling larger public spending, tax rises and changes to fiscal rules to allow her to borrow for longer-term investment.

We know that Reeves is looking to keep to "fiscal rules" set out last fall in her Autumn Budget, however. She also wants day-to-day spending to be funded by tax receipts rather than by borrowing — leaving herself around £9.9 billion worth of "fiscal headroom" to hit that target — and for debt to fall as a share of U.K. gross domestic product, by 2029/30.

Those tight fiscal rules have given Reeves little in the way of a financial buffer if U.K. borrowing costs rise to the levels we saw at the start of the year, or if economic growth falters. Economists expect further tax rises to be announced in the next Autumn Budget amid the pressure of higher public spending.

The opposition Conservative Party lambasted Reeves' spending review after it was delivered, with the party's rival finance chief Mel Stride saying it was "not worth the paper that it is written on."

Stride said further tax rises would be announced by the Treasury in the fall, describing her review as a "spend now, tax later" plan.

Commentary

The article describes an announced plan for increased government spending in several sectors in the UK. The spending covers defense, health, science and tech, housing, schools, justice and policing, transport and nuclear energy. The announcement covers day-to-day spending for the next 3 years and capital expenditure for the next 4 years. This is likely a long-run policy as it is too long to respond to business cycle fluctuations and aims to “renew Britain”. This **choice** comes with advantages and trade-offs. The government stated it wants to avoid borrowing, so funding will likely be paid for through tax hikes and funding cuts to some sectors to fund the increased spending and avoid a budget deficit.

As the expenditure is invested in human capital, research, education and development and infrastructure, it is likely intended as an interventionist supply-side policy. Increased spending could increase aggregate supply, AS, by improving the quality and quantity of factors of production, such as capital and labor through investment in infrastructure, and education leading to more skilled-workers. Government spending also has demand-side effects, as aggregate demand, AD, is defined as the sum of consumption, investment, government spending and net imports, or C + I + G + (X-M) respectively.

Figure 1 shows the short-run effect of government spending on the economy of the UK. After the spending, AD shifts from AD1 to AD2 as the demand-side effects of government spending have a shorter time-lag. The **choice** of government spending which has expansionary demand-side effects, instead of other supply-side policies, might indicate that there is a deflationary gap, seen as Yf-Y1, where Yf is the real output at full employment. It can be assumed the new economy will be operating at or close to full employment. Thus the equilibrium shifts from point E1 at average price level P1 and real output Y1 to point E2 at P2 and Yf. This shows there is economic growth and some inflationary pressure.

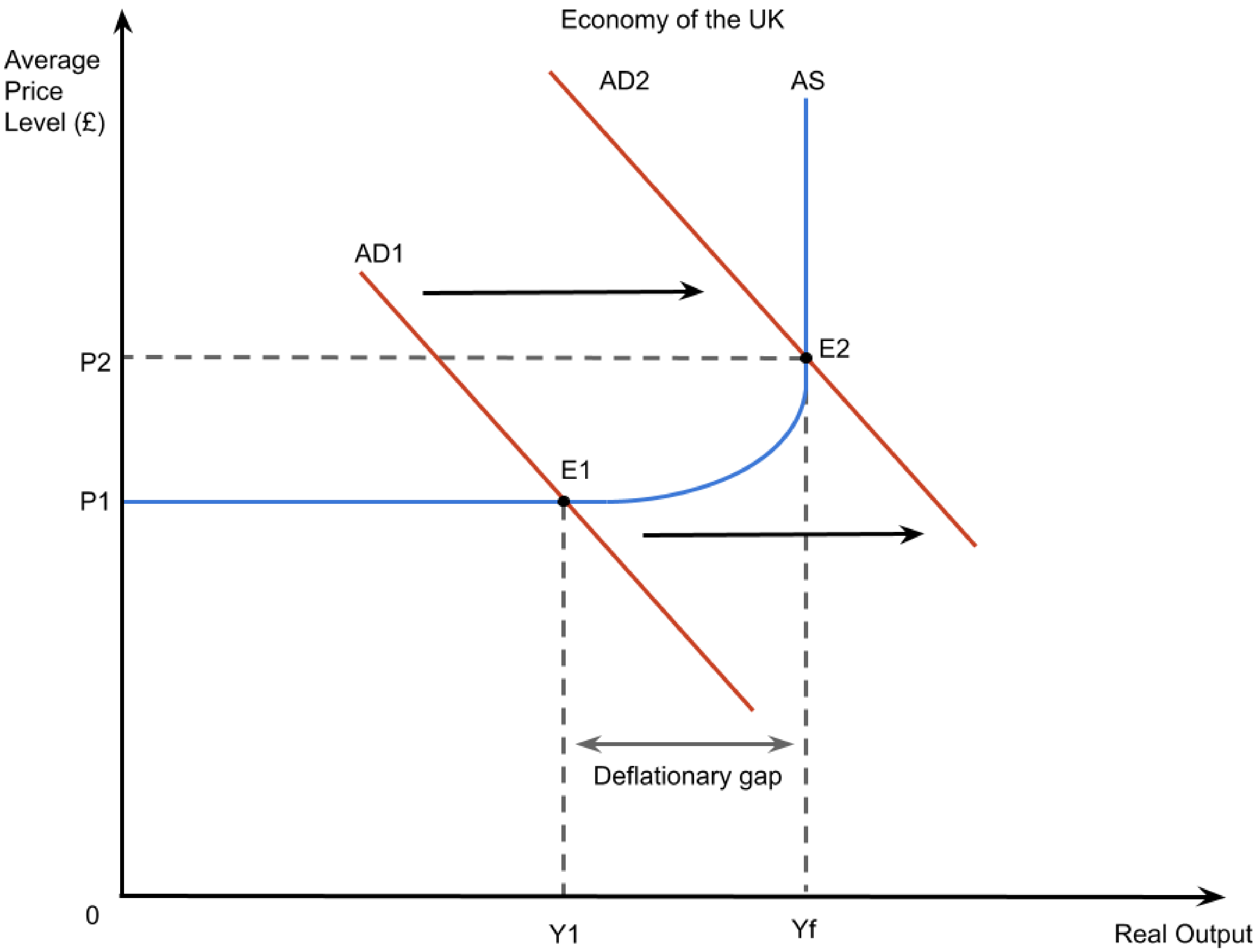
Economy of the UK
Average
Price
Level (£)
AD2
AS
AD1
P2
E2
E1
P1
Deflationary gap
0
Y1
Yf
Real Output

Figure 1

Supply-side policies have greater time-lags, so AS will shift later on. This is because changes such as training new police officers, building a new power station, and researching and developing new innovations takes many years.

The long-run effects of the policy are seen in Figure 2. Aggregate supply shifts from AS1 to AS2, and the equilibrium shifts from the E2, at average price level P2 and the old real output at full employment, Yf1, to the point E3, at P3 and Y2. As AS has increased, there is now more capacity than before, resulting in spare capacity. Compared to Figure 1, there is deflationary growth, and in the long-run, real output has increased from Y1 to Y2, with a small increase in average price level from P1 to P3.

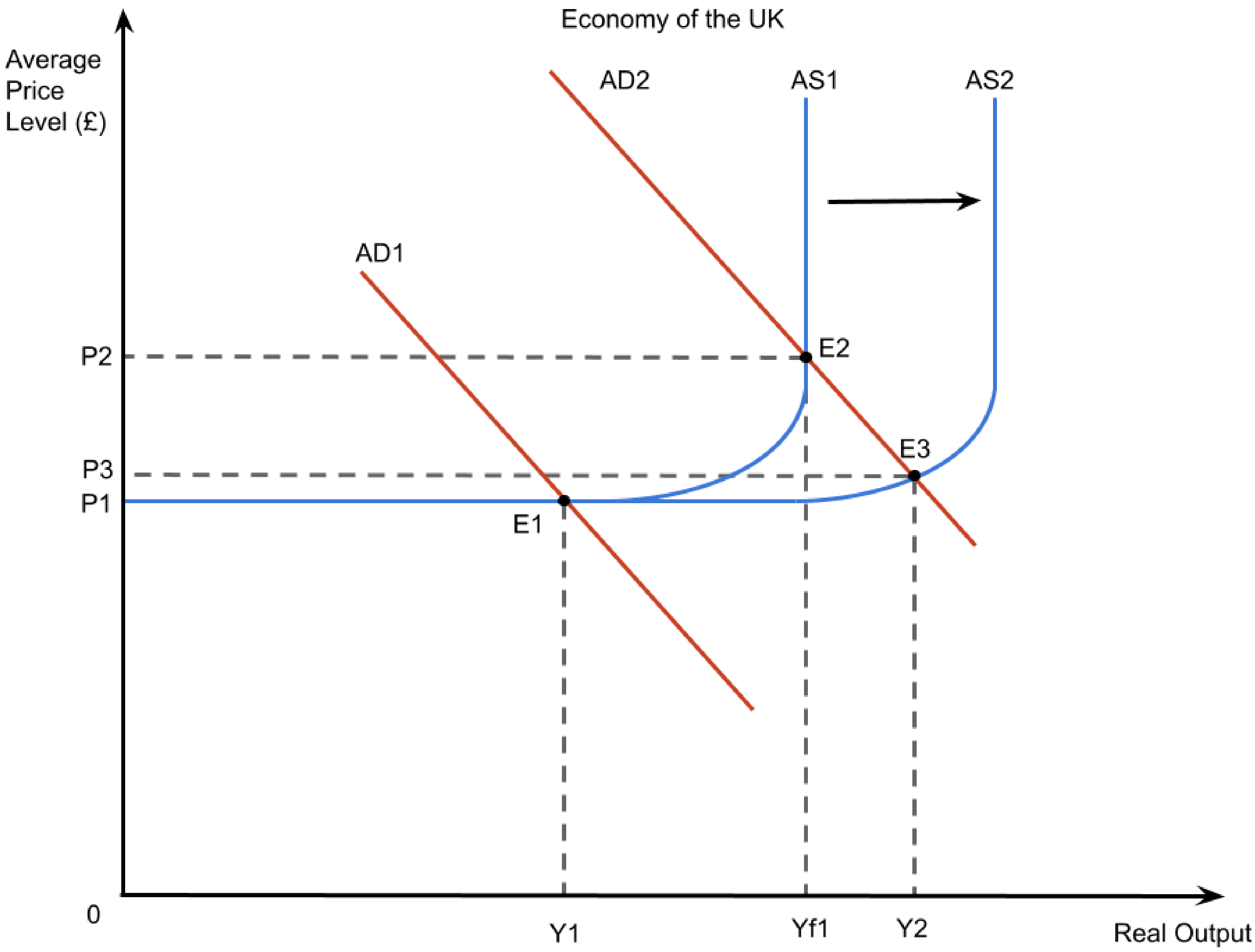

Figure 2

Increasing spending is the **choice** taken by the government and there are alternatives such as market-based policies like encouraging competitiveness and deregulation which could also increase AS in the long-run. The **choice** of government spending is targeted and effective, but costly, and there is the chance for complacency in sectors that receive subsidies.

The spending also has additional positive effects. Investing in transport networks could reduce geographical immobility, possibly reducing structural unemployment. Increasing healthcare subsidies could make it more affordable. Investing in energy generation to improve energy security, funding cheap housing and giving more children access to free school meals could reduce poverty, as those with low incomes would have a smaller portion of their income spent on these necessities.

The **choice** of interventionist policies comes with the downside of opportunity costs. In addition to increasing taxes, economists predict the UK government will also cut the budgets of certain “unprotected” sectors. This comes with the opportunity cost of the sectors that were **chosen** to receive cuts, and the benefits they would bring to society.

Comparatively, Market-based policies tend to be less costly, and wouldn’t require tax hikes or funding cuts. For example, the NHS could be privatized instead of increasing funding to increase its efficiency and reducing government expenditure. However, it is possible that privatizing services such as healthcare could lead to inequity.

Additionally, the short-term increase in inflation might be unpredictable and have unintended effects. If the demand-pull inflation caused by the increased spending occurs at the same time as cost-push inflation, it could cause an inflationary spiral.

This **choice** has been criticized as a “spend now, tax later” plan as possible tax hikes and funding cuts will likely be announced later. The resulting uncertainty could reduce aggregate demand due to reduced consumption and investment. This is due to reduced consumer and business confidence, making them less likely to spend.

Overall, government spending is an effective way to increase AD in the short-run, and AS in the long-run and target certain sectors to improve economic well-being and equity. However, it is costly and comes with opportunity costs when choosing which sectors to fund.

Unit of the syllabus to which the article relates	Global Economy
Title of the article	Brussels backs Trump-style tariffs on cheap Chinese steel
Source of the article and **URL**	Financial Times https://www.ft.com/content/8e841112-3e25-47c2-a74b-3fc2d6244f03 https://archive.ph/7HBzY (Non-paywalled link)
Date the article was published	Oct 1 2025
Date the commentary was written	Dec 7 2025
Word count of the commentary	800
Key concept being used	Interdependence

Brussels backs Trump-style tariffs on cheap Chinese steel

New measures would protect industry, but some countries fear that curbing low-cost imports could drive up prices

The European industry commissioner promised industry bosses and unions to levy tariffs of up to 50% on foreign steel © Qilai Shen/Bloomberg

Andy Bounds in Brussels

Published OCT 1 2025

The EU is planning to join US and Canadian efforts to tackle cheap Chinese steel imports by reducing import quotas and increasing tariffs.

The European industry commissioner promised industry bosses and unions to levy tariffs of up to 50 per cent on foreign steel at an emergency meeting on Wednesday, according to two people briefed on the talks.

Stéphane Séjourné said the European Commission would "reduce foreign steel quotas by almost half" and "significantly increase customs tariffs, in line with what our American and Canadian partners are doing", the people said.

The EU is hoping the move will satisfy the White House that it is acting to keep a glut of Chinese steel out of big world markets, and that the bloc will secure lower US tariffs in return. But some EU countries and industries — including carmakers — are warning that curbing cheaper imports could drive up prices.

US President Donald Trump has imposed tariffs of 50 per cent on steel imports as part of a re-industrialisation effort. Ottawa also recently restricted imports for countries with which it does not have a trade deal.

The commission would set EU import quotas at around half the 2024 level, according to two people familiar with the plan. It is scheduled to be adopted on Tuesday.

Séjourné told the meeting that the new regulation would not be time limited, the people said, unlike the current safeguard regime, which expires next year and imposed 25 per cent tariffs.

He added that the EU must not be "naive", in a pointed reference to China. "We refuse to be open without limits to foreign overcapacity. We refuse to accept dumping prices made possible by massive subsidies."

The new regulation requires approval by the European parliament and a weighted majority of member states. While France and 10 others have asked for the measure, some countries are concerned that the restrictions could increase inflation and hit the competitiveness of those making products with steel.

ACEA, which represents car producers, has already cautioned about the impact, and asked for the measure to be temporary and open to review.

Séjourné said “minority interests” would try to block the move and asked for support to “overcome resistance”.

The US has instituted such a “melted and poured” clause in its trade deals. EU trade commissioner Maroš Šefčovič has started talks with Washington to get low tariff quotas.

Payne Griffin, a senior official at the US trade representative in Trump’s first term, said the EU would have to convince the US that it is not a conduit for Chinese metal.

“The US administration is very serious about the rules of origin for the steel negotiations, and they’re going to be very strict to ensure that all the steel that would qualify under any sort of exemption or tariff rate quota procedure is fully produced in the region benefiting from the agreement,” said Griffin, now a consultant at FTI.

Last year the EU imported 28mn tonnes of steel, a quarter of the total sold in the bloc.

The EU steel sector announced 18,000 job cuts in 2024, adding to the 90,000 job losses since 2008. Another 300,000 direct jobs and 2.3mn indirect jobs were at risk, said Eurofer, which represents the industry.

Steel is used for electric cars, wind turbines and other renewable energy systems the EU wants to produce to reduce emissions.

Axel Eggert, director-general of Eurofer, who co-chaired the meeting, said the measure needed to be implemented early next year.

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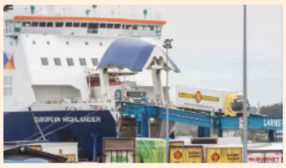

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Commentary

The article describes protectionist policies being applied by the EU against Chinese steel imports to prevent dumping and protect local industries. This policy is being applied alongside Canada and the US as a process of economic integration through a trading bloc as they are **interdependent** on one another to maintain common external barriers. The EU will be increasing tariffs on foreign steel imports and reducing quotas. This will reduce the ability for foreign firms to import steel into the EU.

This is a response to cheap steel imports from China said to be possible thanks to “massive subsidies”. Steel producers in the EU likely have fewer subsidies, meaning they cannot sell at a price as low as Chinese producers. Without intervention, imported steel would be favorable as it would be cheaper than domestic steel, resulting in a reduced consumption of domestic steel and an increase in imports due to increased consumption of imports. This could lead to an unwanted trade deficit and domestic unemployment as domestic producers downsize and lay-off workers. To avoid this, tariffs are applied to imports to increase their price, and a quota is placed to limit the quantity of imports. Applying these policies together with the US and Canada as a trading bloc could instead encourage more trade between the three countries.

This trading bloc is superficially similar to a customs union, as all three countries are interdependent on each other to apply the same policies to a country outside the bloc. However, there is not necessarily free trade between the members of the bloc.

The effects of this trade protectionism for the steel market of the EU can be seen in Figure 1.

Initially, the domestic supply is represented by curve S, world supply by WS and domestic demand by D. Without trade protectionism, domestic producers only produce until point E1, at quantity Q1 and world price, WP. The rest of the quantity demanded, Q7-Q1, is supplied by imports from foreign producers. Total surplus is maximized, as consumer surplus is equal to the area A + B + C + E + F + G + H + I and producer surplus is equal to area D.

The tariff shifts world supply from WP to WP + Tariff. Domestic producers now produce quantity Q2, where S meets WP + Tariff. Foreign producers ideally would meet the remaining demand, Q6 - Q2. However, there is a quota of Q4-Q2, limiting the quantity of imports. After reaching Q4-Q2 supplied, local producers take over again, supplying Q5-Q4.

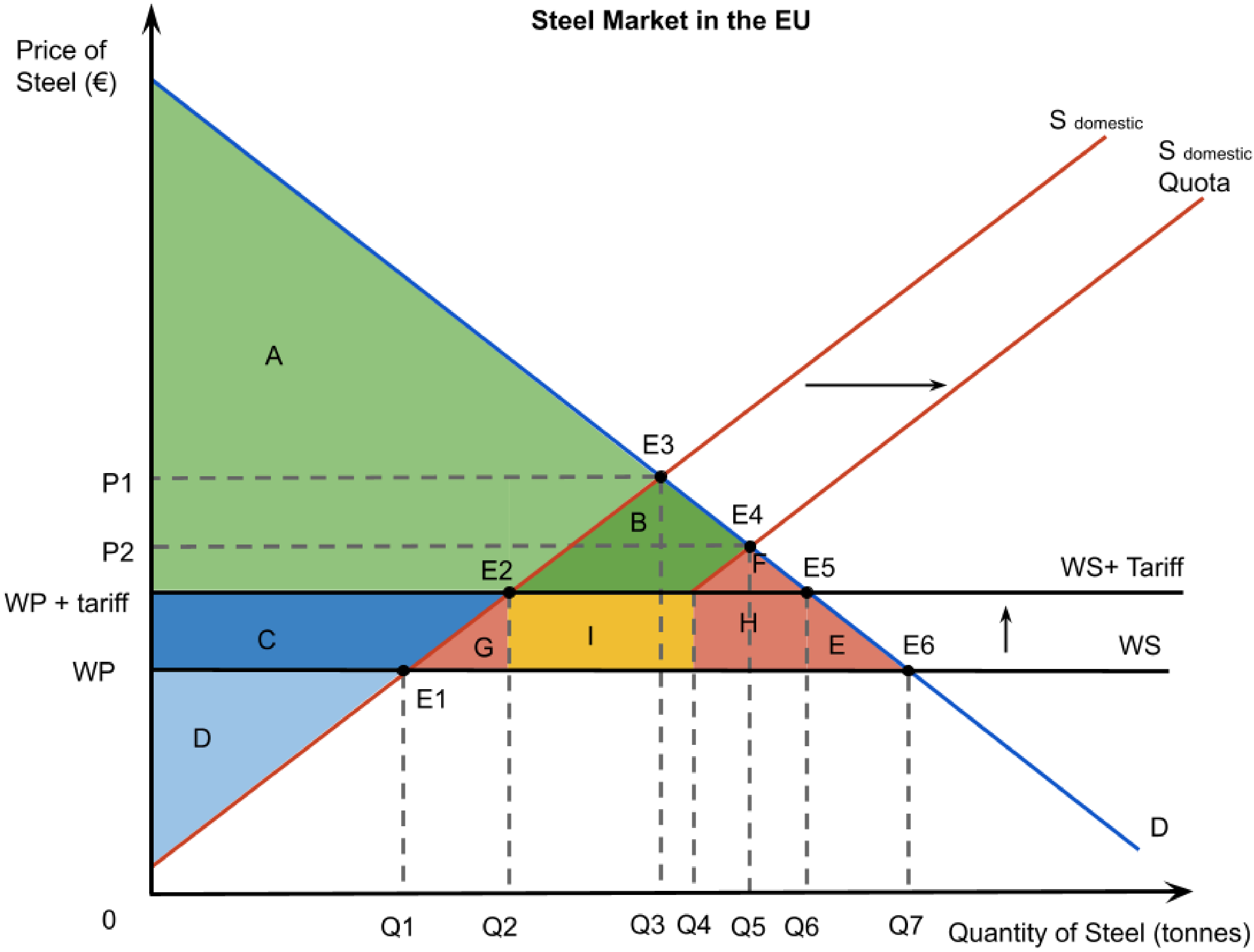
Steel Market in the EU
Price of Steel (€)
A
B
C
D
E
F
G
H
I
E1
E2
E3
E4
E5
E6
P1
P2
WP + tariff
WP
WS+ Tariff
WS
S domestic
S domestic + Quota
D
0
Q1
Q2
Q3
Q4
Q5
Q6
Q7
Quantity of Steel (tonnes)

Figure 1

The tariff and quota in total cause the price to increase from WP to P2. This leads to welfare loss, given as the areas G+F+H+E. It is caused by inefficient local producers producing more of the steel consumed by the EU instead of efficient foreign producers. Comparatively inefficient domestic producers use more resources during production and deliver steel at a higher price.

These policies reduce competition for domestic firms, possibly leading to complacency in domestic steel manufacturers. However, they protect from potentially unfair competition due to dumping and large subsidies Chinese steel manufacturers benefit from. It also protects the jobs of those working for steel manufacturers who might be laid off if domestic steel manufacturers are forced to downsize, as “300,000 direct jobs and 2.3mn indirect jobs were at risk”. Steel is also a strategic industry, so countries and unions would want to avoid losing their domestic steel industries.

Consumers and other firms might face increased prices due to the increased production costs of firms using steel, causing inflation. Steel is a primary good and is very widely used, so these increased prices will likely reflect upon many markets dependent on it, such as carmakers. It will also make it harder for the EU to meet their sustainability goals as steel is used in “electric cars, wind turbines and other renewable energy systems”.

The USA, Canada and the EU are interdependent on each other. Many EU countries who don’t want steel tariffs are dependent on the USA not imposing high tariffs. The USA depends on the EU reducing the influence of the Chinese steel industry by imposing trade barriers such as tariffs and quotas.

Many countries and industries in the EU might be unsatisfied with increased tariffs, as they are dependent on steel. There are a lot of stakeholders in this situation as the EU itself is a trading bloc with lots of different countries with differently organized industries. One country might benefit a lot from the protection of steel manufacturers whereas another might only face the increased prices with little benefit, potentially leading to inequality in the EU.

Lastly, it is possible China might retaliate against these protectionist policies with policies of its own limiting imports from the EU into China, which could damage industries in the EU and the EU economy as a whole.