**Monitoring Agri-trade Policy**

**MAP**

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# EU Agri-Trade: Moving through Turbulent Times

***Summary***

The latest MAP looks at recent developments in trade, particularly EU trade and compares its performance to that of other major world players. The EU is still the world's leading trader. In terms of imports it far exceeds its nearest rival, with imports of $129 billion in 2008 compared to $86 billion for the US. Since 2003 the EU is also the world's leading exporter, remaining just slightly ahead of the US in 2008. However both have lost export market share in recent years, given that other key players especially Brazil have grown even faster.

The impact of high commodity prices over the past couple of years is reflected in the jump in the value of exports of those countries in which these commodities account for a high share of exports. It is the main factor behind the huge increase in Brazil's (60%) and Argentina's (80%) exports since 2006 and the spectacular growth in the US trade surplus from below $4 billion in 2005 to over $35 billion in 2008. EU trade in final products accounts for two-thirds of the value of EU exports, so the boom in commodity prices had less direct impact on the value of EU exports.

The flipside of high prices is that they mean higher import bills for importing countries. Last year the EU's trade deficit grew from €2.5 billion to reach €4.7 billion in 2008. The decline in the EU's trade balance in 2008 can be attributed mainly to the increased cost of commodities (e.g. soybeans) and intermediate products (e.g. vegetable oils, rapeseed), with these categories accounting for nearly half the EU's import bill in 2008. On average the increase in price was responsible for 83% of the increased value of imports while increases in volume contributed just 17%. However it should be pointed out that the EU deficit of under €5 billion is not high by historical standards.

The hike in prices also has important implications for the import bills facing a number of developing countries including emerging economies. China has seen a phenomenal fivefold growth in its imports this decade, with an 85% increase over the past two years.

The EU remains by far the biggest importer of agricultural products from developing countries, importing 70% of its imports from these countries (nearly one quarter is from Brazil and Argentina), compared to 47% for the US and 39% on average for US, Japan, Canada, Australia and New Zealand together.

In this newsletter, we also consider the impact of the current economic crisis on trade. The recession started to bite in the US in 2008, accelerating the decline in EU exports to the US,

which had already begun in 2007. The loss of a further €1 billion in 2008 could be an indication of the impact of recession in the US on demand, with final goods down by 12%. However most of the slack was taken up by Russia, which is becoming an increasingly important export market for the EU, with exports growing on average by €1 billion per year since 2005. Final goods account for 80% of EU exports to Russia.

It is too early to comment definitively on 2009 as monthly data is only available for the first quarter of this year. Nevertheless some tentative conclusions can be drawn. The EU's deficit expanded in the first quarter of 2009. Total exports fell by 12% with the biggest impact on final products. Although multiple factors contributed to this decline, such as decreasing prices (amplified by the recession) and exchange rates, the size and the speed of the contraction in EU exports after several years of growth suggests that the crisis did play an important role through a drop in world demand for food, a shift away from higher value added products and a lack of trade financing.

The decline in imports was less severe (9%) with final goods down by just 1.6%, possibly indicating that EU consumers were rather less adversely affected by the crisis than consumers in the EU's key export markets. On a more positive note, the rate of decrease in EU trade seems to have slowed down in March compared to February.

Trade has also undoubtedly slowed down for the other key players with US exports down by 21% in the first quarter. This is the result of a combination of factors including the drop in prices of commodities and intermediate goods, declining incomes around the world combined with the short-term appreciation of the dollar. However, since the US farm sector went into the crisis with record-high exports, the drop brings US agricultural exports back on trend. The value of US exports of final products has hardly been affected.

By contrast the biggest decline in Brazil's exports has been in final products, which fell by almost one quarter in the first quarter of 2009, compared to an 8% drop overall. Chinese and Japanese imports are also down; China by almost one quarter and Japan by 7%. Although the value of trade in the first quarter of 2009 is lower than the first quarter of 2008, it is still higher that in the same period of 2007, which may hint at a return to more normal growth after the exceptional increases of 2008. In the case of China nevertheless, the impact on specific sectors has been severe. The impact of recession on the textiles industry is witnessed by the slump in imports of raw materials i.e. cotton, flax and hemp and wool and silk imports, which are down by 58% and 37% respectively.