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MAP
Monitoring Agri-trade Policy

European Commission
Directorate-General for Agriculture and Rural Development

EU Agri-Trade: Moving through Turbulent Times

CONTENTS

Introduction

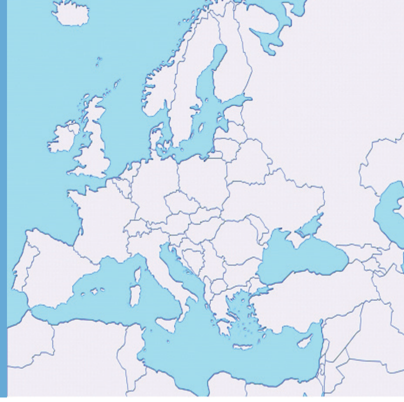
The latest MAP looks at recent developments in agricultural trade. The EU remains the leading trader in the world. In terms of imports it far exceeds its nearest rival, the US and is also the world's leading exporter since 2003. In 2006 the EU had turned into a small net exporter of agricultural products. However this proved short-lived (see MAP brief June 2008), with the EU once again showing a deficit in its agricultural trade balance for 2007 and the trend has continued in 2008. This MAP examines what lies behind the evolution in the trade balance.

What a difference a few years have also made to the US. In 2005 its agricultural trade surplus had shrunk to its lowest level for two decades. However the last 3 years have seen a reversal of fortune for the US, thanks to high commodity prices, so that by 2008 its trade surplus had reached historically high levels.

In this newsletter, we also consider the impact of the current economic downturn 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. However most of the slack was taken up by Russia, which is becoming a bigger export market for the EU.

It is too early to comment definitively on 2009. 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, though the rate of decrease seems to have slowed down in March compared to February. Trade has also undoubtedly slowed down for the other key players including the US, Brazil, Russia, China and Japan. However it is still higher that the same period of 2007, which hints at a return to more normal growth after the exceptional increases of 2008.

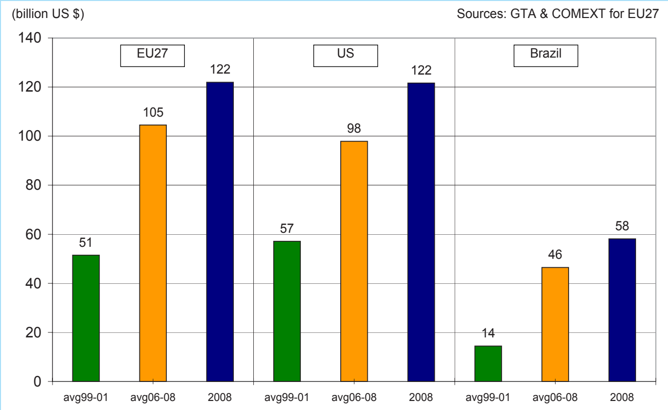
Contact: DG Agriculture & Rural Development: Agricultural Trade Policy Analysis unit
Tel: +32-2-2991111/ email: agri-trade-analysis@ec.europa.eu.
http://ec.europa.eu/agriculture/publi/map/index_en.htm



The EU is still a leading exporter

In 2003 the EU[1] inched ahead of the US to become the leading exporter of agricultural products. From then until 2007 EU exports exceeded those of the US by between $6 and $13 billion. In 2008 the EU's exports of $122 billion were just ahead of the US at $121.7 billion (see graph 1). Some of the growth in EU exports in US$ over the past decade reflects the strengthening of the Euro against the dollar. Expressed in $ terms, EU exports more than doubled from $51 in1999-2001 to $105 billion in 2006-08, compared to an increase of 43% expressed in €, (from €54 billion to €77 billion).

Graph 1: EU27, US & Brazil's Agricultural Exports

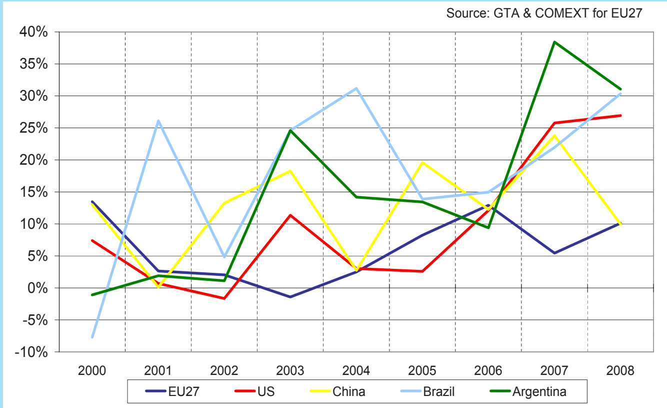


Both the EU and the US have lost market share in recent years. The EU accounted for just over 17% of world exports in 2007 (compared to 19% in 2000), just ahead of the US with less than 17% share (21.5% in 2000). Overall world trade has increased by almost 40 % between 2000 and 2007.

The declining share for the EU and the US is the result of even faster growth for many other key agricultural traders (see graph 2). Brazil is firmly established as the third largest exporter, with 8% share, more than tripling the value of its exports since the start of the decade. It is also the world's biggest net exporter, with a trade surplus of over $50 billion in 2008.

Graph 2 shows the annual growth in the value of exports for the key players, which includes the impact of high commodity prices over the past couple of years. Brazil's exports grew by nearly 60% since 2006, jumping by 30% last year alone to reach $58 billion. The growth in US exports also reflects the increase in the value of commodities. Argentina's exports grew even faster, increasing by 80% since 2006, so that it became the fifth biggest exporter in 2008, after Canada.

Graph 2: Annual Growth in Exports for Selected Top Exporters



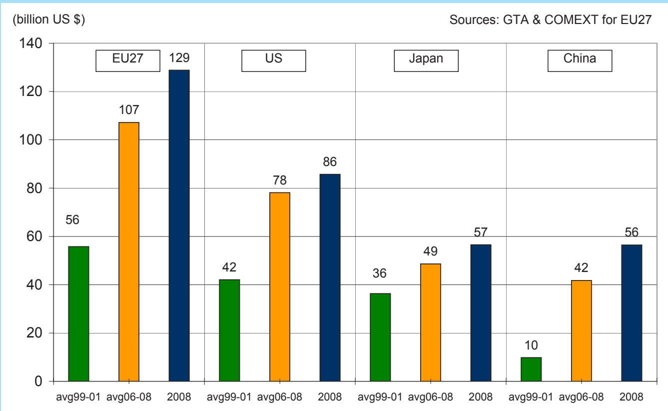
The EU is the world's leading importer …

The EU is still the biggest importer with imports of $107 billion in 2006-08, accounting for nearly 20% of world imports and running a small trade deficit (except in 2006). The US remains the second largest importer with over 14% share, and imports almost doubling in value over the past decade (see graph 3). Japan's imports grew by 34% over the same period, taking its share down to 8% in 2007 (from 12% in

[1] EU now refers to EU27, so graphs relating to EU will not be the same as those in previous MAPs.

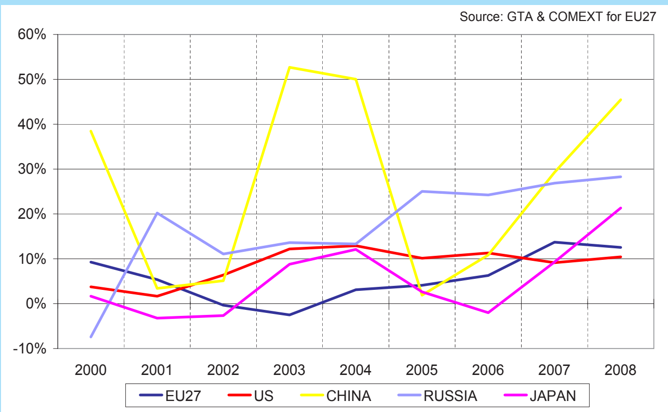
2000), compared to China's 6%. China is now the 4th largest importer after Japan, its imports having expanded more than fourfold since 1999-2001. By 2008 the value of China's and Japan's imports was almost equal.

Graph 3: EU27, US, Japan & China's Agricultural Imports



China's phenomenal growth in imports, with more than a fivefold increase between 2000 and 2008, is shown in graph 4. Russia shows the second highest growth rate this decade, becoming the 5th biggest importer in 2007, pushing Canada into 6th place. Japan's imports also grew strongly (by over 20%) between 2007 and 2008.

Graph 4: Annual Growth in Imports for the TOP 5 Importers

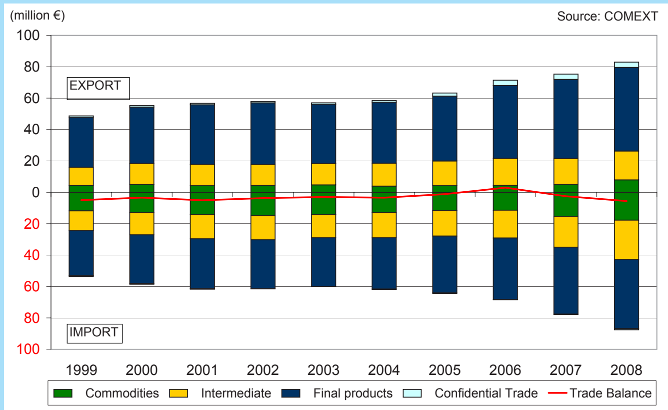


The EU's agricultural trade deficit widens…

EU net trade has been almost in balance since 1999. Therefore small fluctuations can cause a switch in the trade balance from one year to the next. The EU traditionally runs a small agricultural trade deficit. The trade balance improved in 2005 and 2006, to the extent that the EU became a small net exporter of agricultural products in 2006, valued at €3 billion (graph 5).

However this position was reversed in 2007 when the EU became a net importer once again (see MAP Brief, June 2008). The evolution of the EU trade balance in 2007 can be attributed largely to the rise in the value of commodity imports. In 2007 the EU also became a net sugar importer (in volume terms) for the first time. The trend continued in 2008 with the trade gap widening by over €2 billion to reach €4.7 billion[2]. This is mainly due to a deterioration of over €3 billion in the trade balance for intermediate products.

Graph 5: EU27 Structure of Agricultural Trade



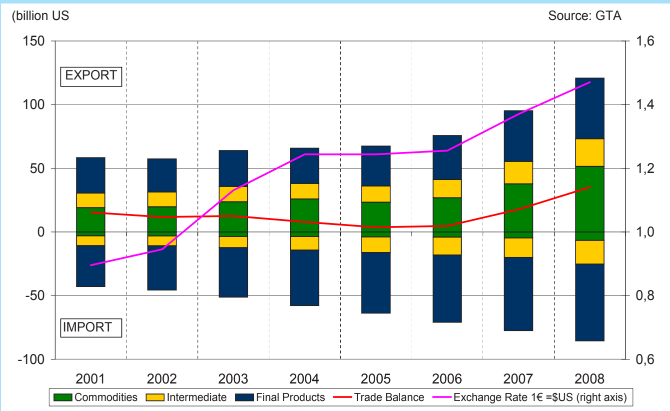
[2] Exports include confidential trade worth around €3 billion in 2006-08. It refers to trade data which a Member state declares as confidential and also contains data which cannot yet be attributed to a specific product though the Chapter is known.

...while the US agricultural trade surplus skyrockets

When we published the MAP newsletter on trade in July 2007, the US trade balance was deteriorating fast. From 2003 the US was overtaken by the EU as the world's biggest agricultural exporter. Its trade surplus had shrunk to below $4 billion[3] by 2005 compared to more than $27 billion in 1996.

However the past 2 years have seen a reversal of fortune for the US. By 2008 its trade surplus had reached $35 billion, the highest level in over 2 decades (graph 6). Although imports continued to grow, export growth was even greater, rising by $45 billion since 2006. This growth can be attributed mainly to a weak dollar and higher commodity prices. Commodity exports almost doubled from $27 billion in 2006 to $52 billion in 2008.

Graph 6: US Agricultural Trade Balance



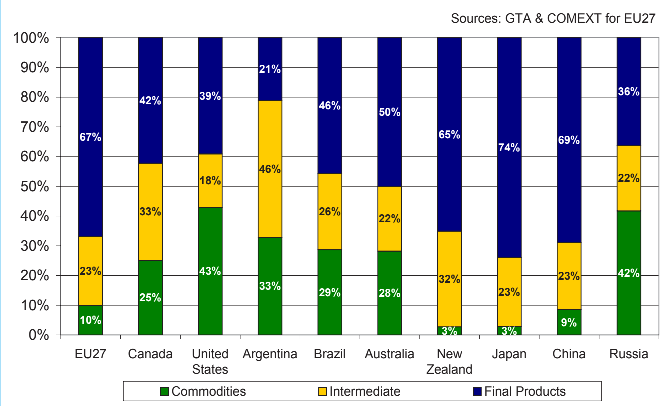
Graph 7 shows the structure of EU exports of agricultural products compared to other major exporters for 2008.

[3] In MAP 02-07 we noted that the US had a small deficit of $700 million in 2005. This was based on Comtrade data which includes Puerto Rico and the Virgin Islands. The present MAP uses Global Trade Atlas for all third countries, which does not include Puerto-Rico and the Virgin Islands for the US as in COMTRADE.

EU trade in final products accounts for 67% of the value of exports, so the boom in commodity prices had less direct impact on the value of exports. For the US, the share of commodities grew in line with the rise in prices to the extent that commodities hold the largest share, at 43% of total agricultural exports, with final goods down to 39%.

Meanwhile the structure of China's exports is remarkably similar to that of the EU while Russia's export profile resembles the US with final goods representing just one third of the value of exports. Argentina relies heavily on exports of intermediate goods with 46% share of exports.

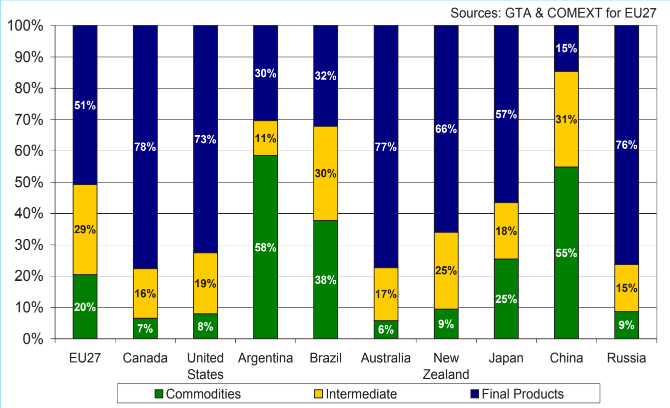
Graph 7: Comparison of Structure of Agricultural Exports for Leading Exporters in 2008



Turning to imports, EU trade in final products accounts for 51% of the value of imports (which is low compared to the recent past pre-2007). The share of intermediate goods has grown to 29% reflecting the rise in prices (graph 8).

The trade structure of the US, Canada, Australia and Russia is very similar with roughly three quarters of their imports in the final goods category. Meanwhile Argentina and China tend to import commodities (over 50% share) for further processing.

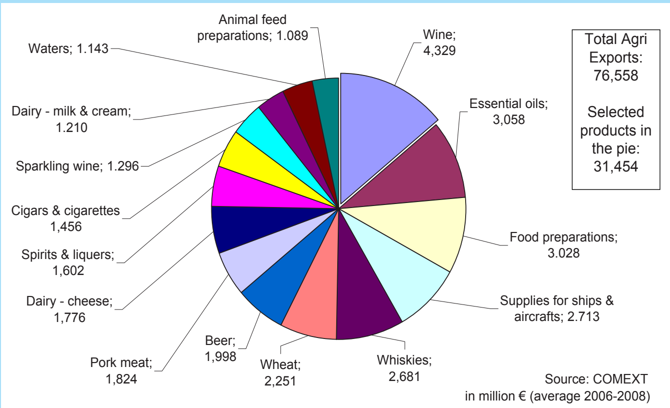
Graph 8: Comparison of Structure of Agricultural Imports of Leading Importers in 2008



EU exports dominated by final products

The EU continues to export mainly final goods (67% of value in 2008), with 12 of the top 15 exports in this category (graph 9); the exceptions being wheat (a commodity), milk and cream and essential oils[4] (intermediate products). Wine (€4.3 billion) remains the EU's highest value export in 2006-08.

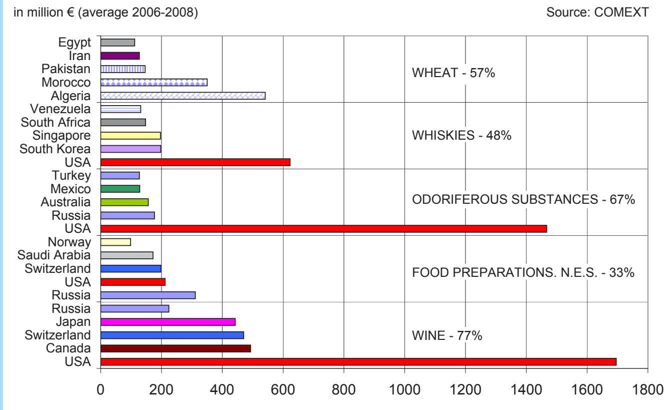
Graph 9: EU27 Main Agricultural Exports



This is followed by essential oils (€3.1 billion), food preparations (€3 billion), [supplies for ships and aircraft[5] (€2.7 billion)], whiskies (€2.7 billion) and wheat in 6th place (€2.25 billion). Together these products account for 20% of total exports.

The concentration of exports of the top 5 products in key markets is shown in graph 10, with the US the main market for wine, whiskies and odoriferous substances. Thus the 5 markets identified account for over three quarters of EU wine exports and two thirds of the market for odoriferous substances.

Graph 10:
EU27 - Export Value of Main Products by destination



Imports are more diverse

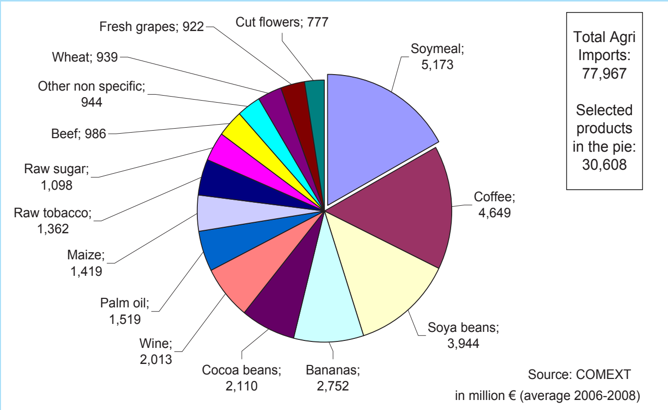
The top 15 imports for 2006-08 are shown in graph 11. Soybean meal (intermediate product) is the EU's top import, followed by coffee (final product), valued at €5.2 and €4.6 billion respectively. Soybeans (a commodity), worth almost €4 billion, is ranked at number 3. Together soybean meal and soybeans account for 12% of total imports.

Bananas (€2.8 billion) and cocoa beans (a commodity valued at €2.1 billion) lie in 4th and 5th place respectively. Together the top 5 products accounted for 24% of the value of EU imports in 2006-08.

[4] The term essential oils is used interchangeably with mixtures of odoriferous substances and flavourings in this MAP. The product is used in the food and drinks industry.

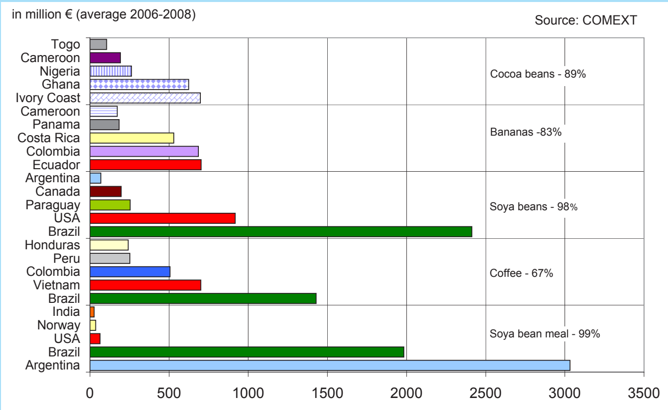
[5] This is food consumed on board aircraft, ships, and oil platforms.

Graph 11: EU27 Main Agricultural Imports



The origin of the EU's top 5 imports is shown in graph 12.

Graph 12:
EU27 - Import Value of Main Products by Origin



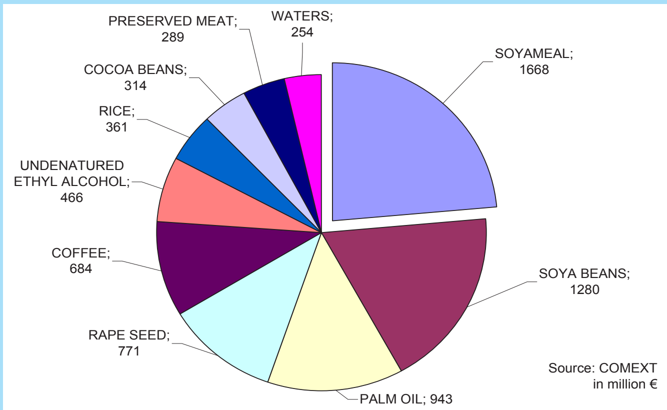
The soya market remains highly concentrated, with nearly 100% of EU imports coming from the key suppliers, Argentina and Brazil for meal and Brazil and the US for soybeans. The cocoa bean market is also very concentrated with 89% of supplies coming from 5 African countries.

What lies behind the EU's widening agricultural trade gap?

Last year the EU's trade deficit grew from €2.5 billion to reach €4.7 billion in 2008 (graph 5). The value of exports grew by €7.6 billion, with commodities and final products both up by around €2.8 billion and intermediate products by €2 billion. This represents a 58% increase for commodities, 12% for intermediate products and just 6% for final products. Meanwhile the value of imports rose by € 9.8 billion, with intermediate products up by over €5 billion (27%).

Graph 13 shows the top ten products which have contributed the most to the deterioration in the EU trade balance in 2008. Soymeal and soybeans net imports together rose by almost €3 billion. Growing imports of palm oil and rapeseed for biodiesel also contributed to the worsening trade balance by around €900 million and €800 million respectively. Meanwhile the deterioration for ethyl alcohol and water is due to a drop in net exports.

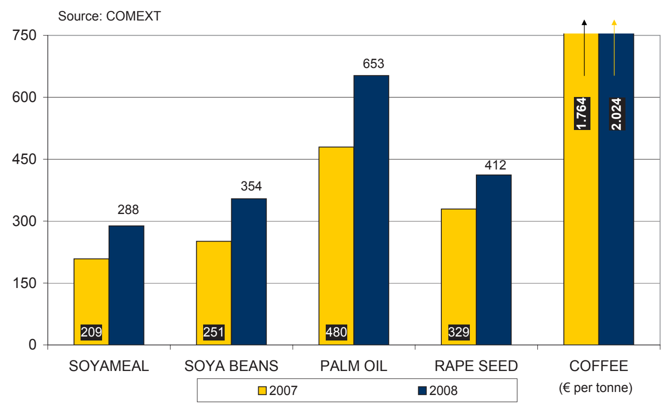
Graph 13: Main Products contributing to the Increase in EU27 Agri-Food Net Imports



For these ten products we have estimated that 93% of the decline in the EU's trade balance is due to the increasing value of imports while just 7% can be attributed to the declining value of exports.

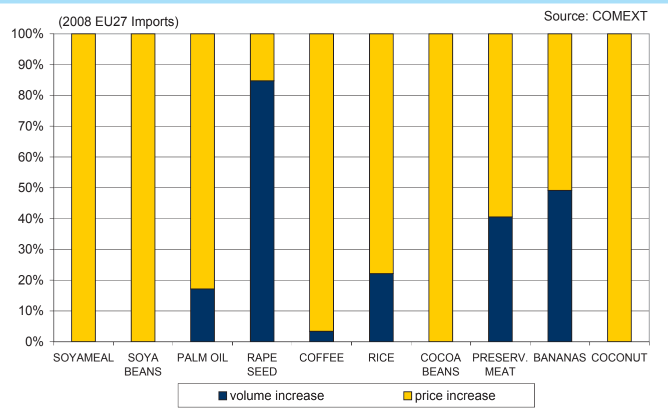
The continued tightness of world markets can be seen in the increase in EU unit import prices in 2008 for the products indicated in graph 14. Soybeans and meal prices are up by about 40%, while palm oil prices rose by more than one third and the rapeseed price was up 25%.

Graph 14: Change in Unit Value of Imports



We also estimated the contribution of price increase and changes in the quantities traded to the increase in value of EU net imports for the top10 products which had net import growth in 2008 (graph 15).

Graph 15: Contribution of Volumes & Unit Prices to the Increase in Value of EU Imports

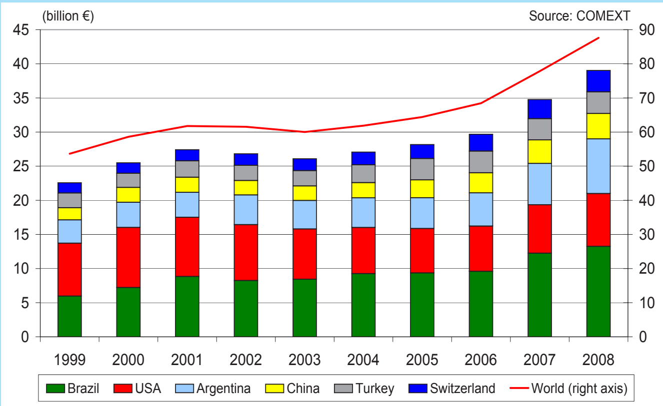


On average the increase in price is responsible for 83% of the increased value while increases in volume contributed just 17%. The increase for soybean meal, soybeans, cocoa beans and coconut is entirely due to price. Meanwhile the volume of rapeseed imports quadrupled, from 500,000 tonnes to 2.2 million tonnes in 2008.

EU trade with key partners

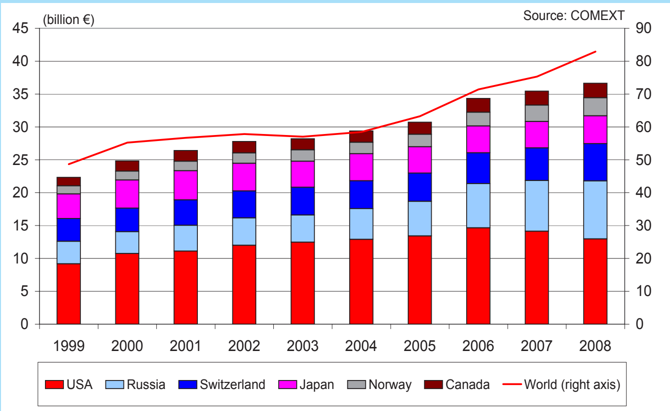
Brazil is the biggest supplier to the EU since 2003, accounting for a growing market share, with over 15% of EU imports in 2008 (€13 billion). Argentina also gained ground with over 9% of the EU market (€8 billion). Their gain is the US's loss, which is pushed into third place, at under 9% (€7.75 billion). Since 2007 China is the EU's 4th biggest import partner, moving Turkey into 5th place (Graph 16).

Graph 16: EU27 Agricultural Imports by Origin



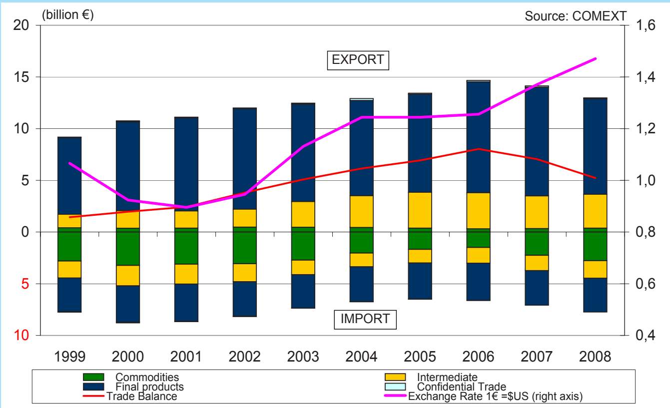
Developed countries still represent the top export markets for the EU, reflecting the EU's focus on final goods. The US remains the largest market though its share dropped from 19% in 2007 to under 16% of EU exports in 2008 while Russia's share grew to over 9%. Switzerland and Japan account for around 6% and 5% respectively (graph 17), while Norway and Canada each account for around 3%. In 2008 EU exports to the US were valued at €13 billion, compared to Russia (nearly €9 billion), Switzerland (€6 billion) and Japan (€4 billion).

Graph 17: EU27 - Agricultural Exports by Destination



The EU runs a consistent trade surplus in agricultural products with the US, reaching a peak of €8 billion in 2006 (graph 18), declining to over €5 billion in 2008.

Graph 18: EU27 Trade with the US

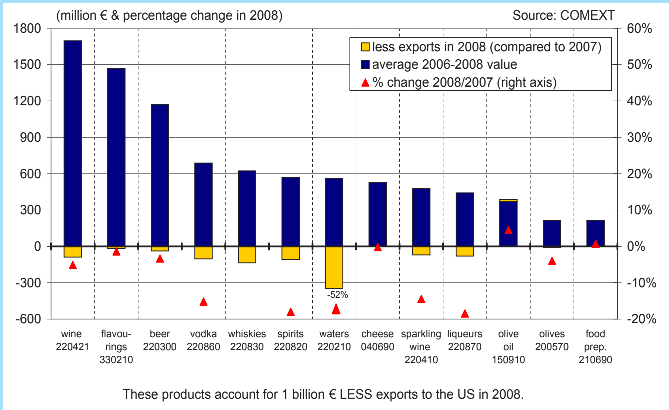


EU exports to the US have fallen since 2006, while imports have accelerated since 2005, in line with the depreciation of the US$ against the Euro. The decline in the trade balance last year is due to the drop in EU exports to the US by over €1 billion, to just over €13 billion in 2008. The loss was due to a decline of 12% in final goods (which account for over three quarters of EU exports to the US). Meanwhile EU imports from the US grew by €600 million (mainly commodities which grew by 23%).

The EU's top exports to the US are largely final products, as shown in graph 19. Alcoholic beverages account for 7 of the top 10 products. Wine is the biggest export, valued at €1.7 billion in 2006-08, followed by odoriferous substances. Together the top 10 products account for 60% of the value of exports.

Already in 2007 EU exports to the US were down by 4% (€500 million), both in intermediate products and final products. The biggest decline was in odoriferous substances (-€150 million) and alcoholic beverages (with sales down roughly €100 million in each of vodka, liqueurs and beer). The loss of a further €1 billion exports to the US in 2008 could be indicative of the impact of the US recession on EU exports last year. However, global US agricultural imports grew by 9-10% in both 2007 and 2008 (graph 6).

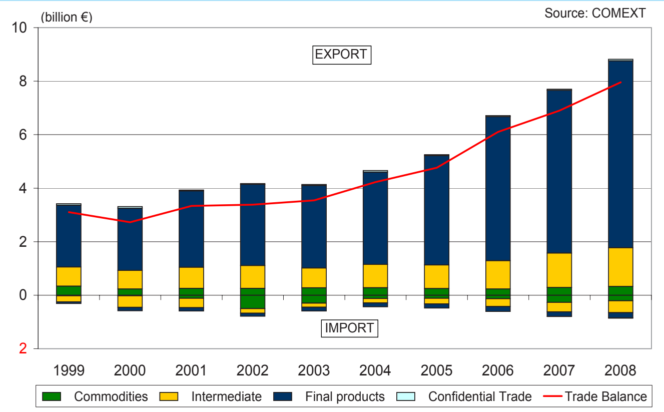
Graph 19: Top EU27 Exports to the US



Graph 19 shows that the most dramatic decline has been in sales of water, which collapsed by €350 million (over 50%) in 2008. Significant drops were also recorded for vodka, spirits and whiskies, which declined by 15-20% (with losses of over €100 million each). Food sales meanwhile have remained steady (cheese, olive oil, olives) and appear less affected by the downturn in the US economy in 2008.

The slack has been taken up by the expansion of EU exports to Russia, which grew faster than sales to the other top 5 markets. Exports grew by more than €1 billion per year since 2005, to reach nearly €9 billion by 2008. This growth is concentrated in exports of final products, which together account for almost 80% of the total (graph 20).

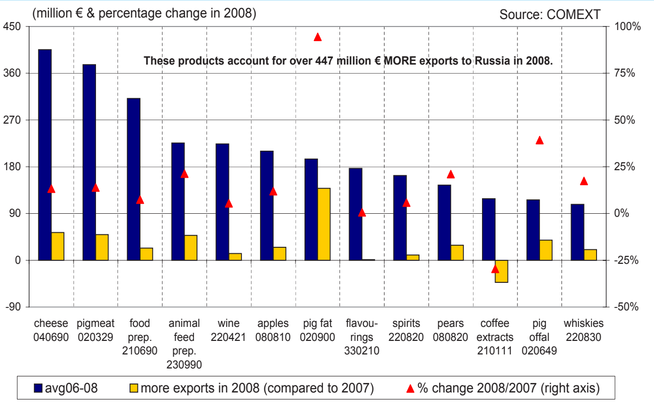
Graph 20: EU27 Trade with Russia



EU exports to Russia are spread across a wider spectrum of products than to the US (graph 21). Together the top 15 products account for just 39% of the value of exports to Russia in 2008. With the sole exception of odoriferous substances, all these products are final products. The biggest exports are cheese and frozen pigmeat. Five of the top fifteen are fruit and vegetable products.

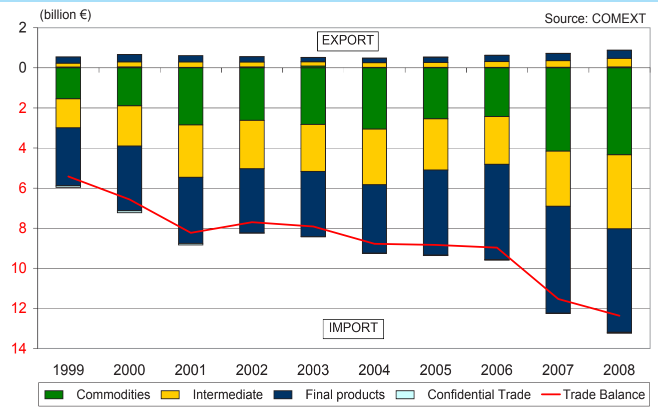
Sales to Russia grew by €1 billion in 2008, despite the crisis in the world economy in the latter part of the year. The biggest growth was in pig fat, sales of which almost doubled. In addition to the products shown here, strong growth of over 140% was also recorded for live pigs, frozen beef, potatoes (198%) cabbages (124%) and tomatoes (33%).

Graph 21: Top EU27 Exports to Russia

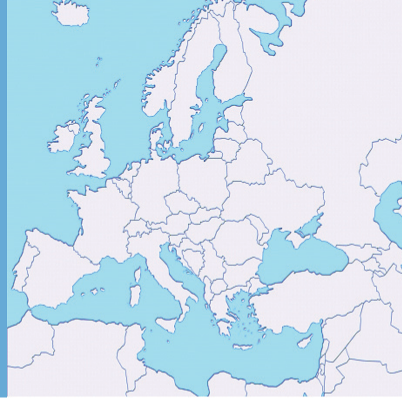


Turning to the key suppliers, trade with Brazil continues to grow sharply. The value of EU imports of commodities from Brazil grew by €1.7 billion (70%) from 2006 to 2007. In 2008 the biggest growth was in the intermediate products sector which grew by one third or almost €1 billion.

Graph 22: EU27 Trade with Brazil



The biggest growth in imports has been from Argentina, the value of which has risen by 65% since 2006. The story is the same as for Brazil. The value of commodities grew by 165% from 2006 to 2007. Then in 2008 the biggest growth was in the intermediate products sector (which accounts for

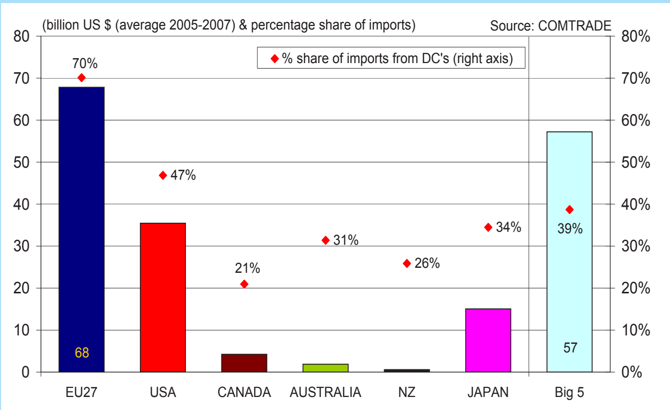


two thirds of the total) which grew by over one third or €1.3 billion.

The EU is the biggest importer from Developing Countries

The EU is by far the biggest importer of agricultural products from developing countries, importing $68 billion worth of goods in 2005-07 (graph 23). This is more than the US, Japan, Canada, Australia and New Zealand put together, whose imports from developing countries reached just $57 billion in this period. Indeed 70% of total EU imports came from developing countries compared to 47% for the US and just 39% on average for the 5 countries mentioned.

Graph 23: Agricultural Imports from Developing Countries

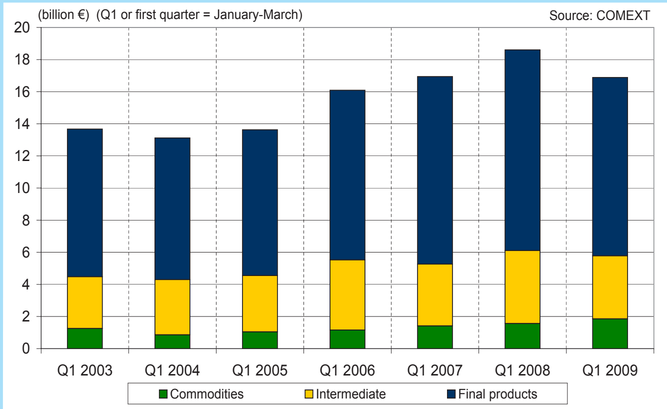


In fact 4 of the EU's top 6 suppliers identified in graph 16 are classified as "developing" according to FAO. Together Brazil and Argentina account for 23% of total EU imports in 2006-08, reflecting the weight of soya beans and meal in EU imports.

Impact of the economic crisis on agricultural trade

Monthly trade data available for the first quarter[6] of 2009 indicates a year-on-year contraction of EU agri-food exports of 12% in value (€2.3 billion). This decline comes after four years of export growth bringing the value of total EU exports to 3% below the level observed in the first quarter of 2007. On a more positive note the year-on-year rate of decrease stabilised in February (-15%) and slowed down in March (-5%), thus indicating that it may be bottoming out.

Graph 24: EU27 Agri-Food Exports - Quarterly value



Final products were the most severely affected with a decrease of €1.4 billion (-11%) in Q1 2009 (graphs 24 and 25). Within this category, wines (-21% in value, -19% in volume), spirits (-20% in value, -17% in volume) and milk, cream and yoghurt (-28 % in value, -5% in volume) have been amongst the most severely affected. In some cases, (e.g. exports of wines to Japan), exports have substantially fallen in value (-15%) but the volume was unchanged, thus suggesting a shift in consumer preference towards cheaper brands.

Exports in the intermediate products sector fell

[6] Jan-March 2009 is henceforth abbreviated as Q1 2009.

by over €600 million (-13%). Sales of essential oils dropped by €112 million (-13%) as well as intermediate dairy products (-27%), vegetable products (-14%) and oilseeds (-51%) compared to a year earlier.

In contrast the value of commodity exports grew by almost €300 million (+18%) in Q1 2009 compared to a year earlier. This was driven mainly by the increased volume of wheat exports following an exceptional EU harvest in 2008, combined with the weaker Euro (end 2008/beginning 2009), so the EU switched from a net importer of wheat in 2007/2008 into a net exporter in 2008/2009.

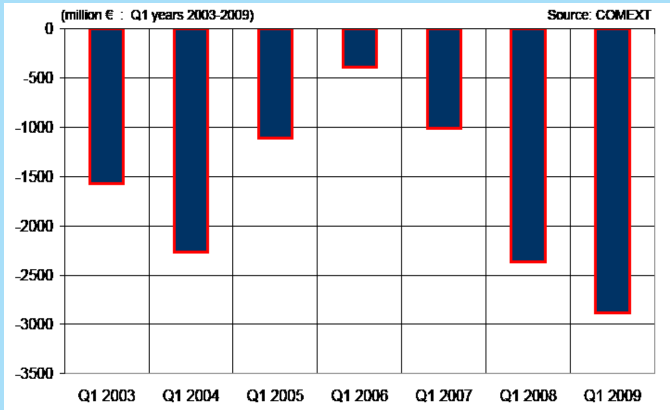
Meanwhile EU imports have been relatively less affected, with a 9% decline in value in Q1 2009. Although this interrupts three years of growth, the absolute value for this period (€20 billion) is still above the value of the corresponding period of 2007 (€18.7 billion). The decrease is mainly due to a drop of 27% in commodity imports, attributable to a reduction in imports of cereals and lower commodity prices.

The value of intermediate product imports fell by 8%. Within this category, the value of oilcakes and other animal and vegetable oils (which together account for almost half of the value of EU intermediate exports) dropped significantly (after years of constant growth) by 10% and 15% respectively, mostly driven by lower prices since the volume imported fell by 4% (oilcakes) and 2% (oils).

Imports of final products are practically unchanged (-1.6%) possibly indicating that EU consumers have not been so adversely affected as those of the EU's key export markets (US, Russia and Asia).

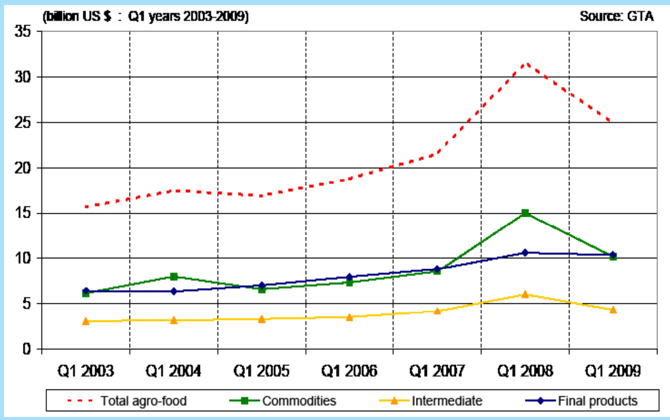
Since exports have fallen faster than imports, the EU trade gap widened in Q1 2009 (graph 25). The deficit grew by a substantial 22% in value compared to the same period of 2008 to reach €2.9 billion, the highest level in seven years.

Graph 25: EU27 Agricultural Trade Balance



Turning to other key traders, US exports fell more sharply even than EU exports in Q1 2009, with a 21 % year-on year decline (graph 26). This is the result of a combination of factors including the drop in prices of commodities and intermediate goods (export values are down by 32% and 28% respectively) and declining incomes around the world combined with the short-term appreciation of the dollar.

Graph 26: US Agri-Food Exports in Value

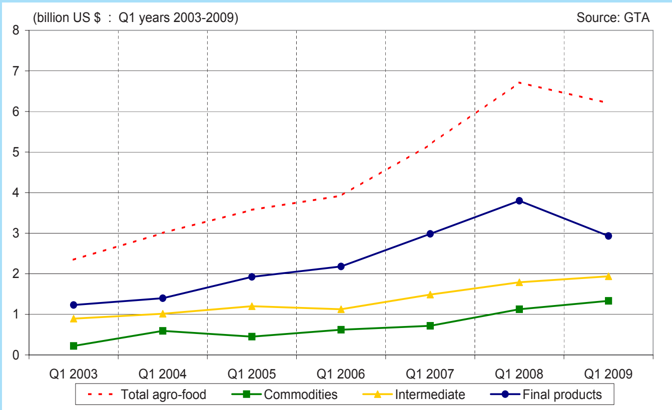


But as US agricultural exports were already at record levels, the drop brings them back on trend. The

value of exports of final products (-2%) has hardly been affected. Meanwhile the 7% fall in US imports was less severe than for exports, with the biggest decline in the value of intermediate imports (-12%), compared to final products (-6%) and commodities (+ 1%).

Brazil's exports fell by almost 8% in Q1 2009 though the drop just brings exports back on trend. With commodities and intermediate products both up (by 18% and 8% respectively), the fall is concentrated in final products, which are down by 23%. In particular the recession explains part of the decline in beef exports, which fell sharply since November 2008, so that exports in Q1 2009 were 44% lower than one year ago.

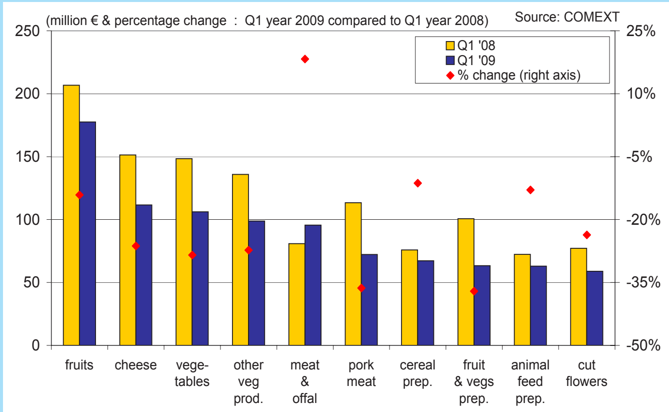
Graph 27: Brazil's Agri-Food Exports in Value



Given the EU's growing dependence on Russia, its 19% drop in imports in Q1 2009 is of concern (though they are still above the level of Q1 2007). EU exports to Russia dropped by 24% (over €500 million) in Q1 2009, with the heaviest losses in final products including spirits, wine, pork, ice cream and chocolate, cheese, fresh/chilled vegetables and fruit and vegetable preparations (graph 28).

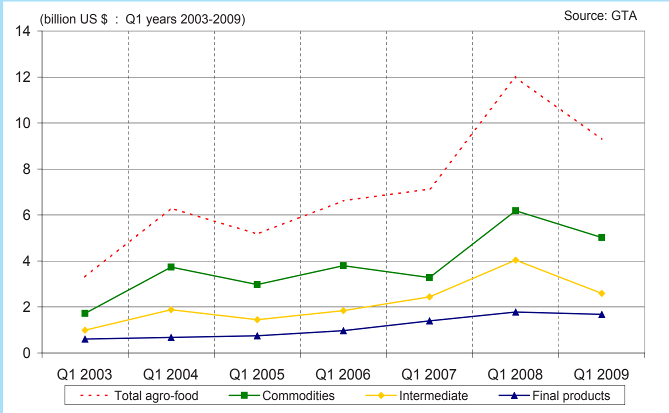
For China and Japan import values in Q1 2009 are below Q1 2008 (China -23% and Japan -7%).

Graph 28: EU27 Exports to Russia



However they are still higher than in 2007, thus indicating that the normal trend of growth may be continuing after the exceptional increases of 2008. In the case of China nevertheless, the impact on specific sectors has been severe (graph 29).

Graph 29: China's Agri-Food Imports in Value



Almost half of the $2.7 billion drop in imports is in animal/vegetable oils (an intermediate product), which is 53% down. The impact of recession on the textiles industry is witnessed by the 58% slump in cotton, flax and hemp and the 37% decline in wool and silk imports (commodities). Final products overall have suffered a smaller decline of just 6%.

Conclusions

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, just slightly ahead of the US. 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.

The flipside of high prices is that they mean higher import bills for importing countries. 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. 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, including 85% in the past two years alone.

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.

For the past two years the US appears to be a declining market for the EU. Exports fell in 2007 and 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%. The EU is becoming increasingly dependent on the Russian market with exports growing on average by €1 billion per year since 2005 and final goods accounting for 80% of EU exports.

Considering the impact of the economic and financial crisis on trade, 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 and Brazilian exports down as well as Chinese and Japanese imports. However, 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 hints at a return to more normal growth after the exceptional increases of 2008.

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