



Impacts of EU trade agreements on the agricultural sector



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Executive summary

The EU is the single largest exporter of agri-food products with exports reaching 129 bn. EUR in 2015. This export performance has been driven mainly by EU agricultural policies, structural change and technological progress in the agri-food sector, as well as EU trade policies.

Following successive reforms, the focus of EU agricultural policies has shifted towards enabling economic viability of the agricultural sector and rural areas more generally and to cater to the needs of a growing global population. Not only has the level of support been lowered but the character of the EU's agricultural policy support has also moved from market distortion towards increased market orientation.

Due to structural change and technological progress in the agricultural sector, agricultural production in the EU takes place in fewer, larger and more capital-intensive farms. The total number of farms in the EU has thus dropped by 26 per cent from 2005 to 2013, and the consolidation process is expected to continue. Declining farm numbers have also led to larger farms and an increase in output per farm as well as to a drop in employment in the agricultural sector.

The EU market is relatively saturated and the European Commission expects 90 per cent of the additional world demand for agri-food products over the next 10-15 years to be generated outside Europe (European Commission, 2015). At the same time, the Russian ban had a large negative impact on EU exports, and EU exporters are looking for new market opportunities. Income and employment in the EU agri-food sector are thus dependent on access to export markets.

The ambitious bilateral trade agenda pursued by the EU over the last 10-15 years is therefore set to continue. Trade agreements create opportunities for EU producers on global markets and benefit the EU economy and consumers. However, gains from trade agreements on the EU agri-food sector should not be taken for granted, and it is important to continuously monitor and improve existing agreements as well as to learn from agreements already in place to improve new trade agreements that are being negotiated.

In this study, we have analysed the EU's trade agreements on the basis of trade agreements with different characteristics: The trade agreements of the EU with Mexico ("first generation" trade agreement), South Korea (new generation Deep and Comprehensive Trade Agreement DCFTA) and Switzerland (specific sectorial agreements). The purpose was to assess the economic, social and environmental impacts of the agreements and to identify the main factors that have fostered and impeded the development of EU agri-food trade.

To this end, we have collected data on global bilateral trade before and after the trade agreements entered into force on a detailed product level. We have also collected data on the preferential access granted by the trade agreements.

We use a triple-difference model that controls for a range of factors that influence bilateral trade between the trading partners, and the model thus estimates the isolated impact of the agreements. We supplement the quantitative analysis with five case studies (Danish pigmeat exports to South Korea, Polish sugar confectionary exports to South Korea, French wine exports to Mexico, EU citrus fruits imports from Mexico and German cheese exports to Switzerland) to get insights into the broader impacts of the agreements on actors of the agri-food supply chain.

Overall, the analysis finds that the trade agreements with Mexico, South Korea and Switzerland have increased EU agri-food exports by more than 1 bn. EUR and raised value added in the agri-food sector by 600 mn. EUR. The increased exports have supported almost 20,000 jobs in the agri-food sector, of which 13,700 jobs are in primary agriculture. There have also been benefits to other actors in the agri-food supply chain. Value added in other sectors has increased by more than 400 mn. EUR and an additional 7,700 jobs in the EU have been supported by the agreements. Most of these jobs are in wholesale and retail trade and in other business activities related to agri-food production and export. The trade agreements have also increased EU imports and given EU consumers access to agri-food products at lower prices.

When production in the EU increases, CO₂ emissions in the EU also increase. For a given level of consumption, this production replaces production in the trading partner or a third country, and the total environmental impact will depend on the environmental efficiency in the EU relative to this country as well as the environmental costs of transportation.

The analysis shows that the trade agreements have ensured that EU exporters compete on more equal terms against exporters from third countries. An important lesson from this is that, looking ahead, continuously benchmarking of third countries' trade negotiations with main EU trading partners and an efficient trade negotiation process with limited delays can lower the risk of foregone trade with other trading partners.

Rising protectionism both in the EU and in main trading partners may limit trade in the future and hinder negotiations of new trade agreements. It is therefore important to continuously evaluate the impacts of existing trade agreements and use the results to engage in public debate about the pros and cons of trade liberalisation. It is also important to keep in mind that impacts differ across member states and sectors, and aggregate EU impacts may hide large disparities across individual actors in the EU agri-food supply chain.

The EU-Mexico FTA

The EU-Mexico FTA entered into force in 2000. EU agri-food exports to Mexico have increased throughout the period 1995-2014 although at a lower rate than the general increase in Mexican agri-food imports, and the EU has lost market share throughout most of the period. This study finds that the EU-Mexico FTA has increased EU exports to Mexico by around EUR 105 mn. This increase is mainly due to an increased export volume of processed agri-food products that EU producers already exported to Mexico before the FTA entered into force.

Increased agri-food exports to Mexico did not seem to have taken place at the expense of exports to Brazil, the export market most comparable to Mexico, which leads us to conclude that the increase in EU exports to Mexico reflects an increase in total EU exports.

EU agri-food imports from Mexico showed no immediate change after the FTA entered into force but imports started to increase after 2004. Growth in EU imports from Mexico has been larger than the general increase in EU agri-food imports, and Mexico has increased its market share throughout most of the period. This study finds that the EU-Mexico FTA has increased EU imports from Mexico by around 315 mn. EUR. This increase is mainly due to an increased import volume of primary agricultural products that were already imported from Mexico before the FTA entered into force. Increased imports from Mexico did not take place at the expense of intra-EU trade, and we therefore expect that the increased EU imports have had little impact on production in the EU.

For a given level of consumption, the increase in the volume of EU exports has increased EU agri-food production, and the EU-Mexico FTA has supported around 2,000 jobs in the EU agri-food supply chain. These jobs are mainly in processed food and beverages.

The EU-Mexico FTA has also facilitated increased imports of primary agricultural products at lower or no tariffs, and has given EU consumers access to these products at lower prices. The lower prices have also benefitted EU companies that use the imported primary agricultural products in their production of processed food and beverages.

The increase in EU imports is larger than the increase in exports measured both in absolute and relative terms. This is likely to be due to large tariff peaks on the Mexican side with faster and more in-depth elimination of tariffs on the EU side. In addition, the case studies suggest that SPS requirements on the Mexican side have effectively shut out EU agri-food products from the Mexican market. On the EU side, specific rates and quotas continue to pose a barrier to increased imports from Mexico.

The study thus concludes that there is a trade potential in eliminating specific rates and quotas and increasing the scope of the EU-Mexico FTA on the EU side while at the same time reducing tariff peaks and solving SPS issues on the Mexican side.

The EU-South Korea FTA

The EU-South Korea FTA entered into force in 2011. EU agri-food exports to South Korea have increased after 2011, and the FTA appears to have reversed the negative trend in the EU's market share in South Korea since 2005. This study finds that the FTA has increased EU exports to South Korea by around 440 mn. EUR. This increase is mainly due to an increased export volume of primary agricultural products that EU producers already exported to South Korea before the FTA entered into force. Increased exports to South Korea did not seem to have taken place at the expense of exports to Japan the export market most comparable to South Korea, so we expect that that the increase in EU exports to South Korea reflects an increase in total EU exports.

EU agri-food imports from South Korea have increased substantially since the FTA entered into force, albeit from a very low level. Growth in EU imports from South Korea has been larger than the general increase in EU agri-food imports, and South Korea is thus gaining market share, although the share is still less than 0.15 per cent of total EU agri-food imports. This study finds that the FTA has increased EU imports from South Korea by around 20 mn. EUR. This increase is mainly due to an increased import volume of processed agri-food products that were already imported from South Korea before the FTA entered into force. Increased EU imports from South Korea did not take place at the expense of intra-EU trade, and we therefore expect that the increased EU imports have had little impact on production in the EU – also taking the absolute value into account.

The increase in the volume of EU exports has increased EU production of agri-food products, and the EU-South Korea FTA has supported around 15,000 jobs in the EU agri-food supply chain during 2011-2015, mainly in primary agriculture. As tariffs are not yet fully phased out, the impact of the FTA is likely to become even larger during the next 10 years. The agreement is the most ambitious ever implemented by the EU and there is little room for increasing the depth or scope of the agreement (once it is fully implemented). However, the study concludes that real market access in the EU-South Korea FTA should not be taken for granted, and the implementation of the agreement is important for realising the expected trade potential.

The EU-Switzerland trade agreements on agri-food products

The EU and Switzerland have in place two sectoral trade agreements that regulate trade in agri-food products. The agreement covering primary agricultural products under Bilaterals I entered into force in 2002 whereas the most recent agreement covering processed agri-food products under Bilaterals II entered into force in 2005.

EU agri-food exports to Switzerland were largely unchanged up until 2005, after which exports gradually increased. The EU accounts for around 75 per cent of Swiss agri-food imports, and this share has remained relatively stable throughout the last decade. This study finds that the trade agreements on agri-food products have increased EU exports to Switzerland by around 530 mn. EUR. This increase is mainly due to an increased export volume of processed agri-food products that EU producers already exported to Switzerland before the agreements entered into force. Increased exports to Switzerland did not seem to have taken place at the expense of intra-EU trade, and the increase in EU exports to Switzerland is likely to reflect an increase in total EU exports and, for a given level of consumption, an increase in production.

EU agri-food imports from Switzerland have increased substantially since the agreements entered into force. Growth in EU imports from Switzerland has been larger than the general increase in EU agri-food imports, and Switzerland is thus gaining market share (although the share remains relatively low). This study finds that the EU-Switzerland trade agreements have increased EU imports from Switzerland by around 1,170 mn. EUR. This increase is mainly due to an increased import volume of processed agri-food products that were already imported from Switzerland before the agreements entered into force. Increased imports from Switzerland did not take place at the expense of intra-EU trade, and we therefore expect that the increased EU imports from Switzerland have had little impact on agri-food production in the EU.

The increase in the volume of EU exports has increased EU production of agri-food products, and the trade agreements have supported around 10,000 jobs in the EU agri-food supply chain. These jobs are mainly in processed food and beverages as the increase in exports consisted mainly of processed agri-food products.

The EU and Switzerland trade mainly in processed food and beverages, and the trade agreements have thus given EU consumers access to a more agri-food products at lower prices. The increase in EU imports is larger than the increase in exports measured both in absolute and relative terms. This is likely to be due to a large number of non-zero preferential rates on the Swiss side, which make EU agri-food products more expensive in the Swiss market. On the EU side, only a limited number of agri-food products are covered by the agreements.

The rationale for the scope and depth of the existing EU-Switzerland trade agreements may have changed over the last 10-15 years, and there could be a trade potential in eliminating preferential rates on the Swiss side and increasing the number of products covered on the EU side.

The EU agri-food sector can benefit more from completed trade agreements

A general finding of the analysis is that there is a potential for increasing EU trade further even within the existing scope and depth of the trade agreements. The EU trade agreements are in many cases a precondition for entering new markets or launching new products in existing export markets, but EU exporters also need to build a reputation and establish distribution networks before they are able to penetrate new markets. In most cases, there are significant fixed costs of entering a new market (e.g. related to networking, promotion, advertising, etc.) that warrant a targeted export strategy and call for collaboration between EU exporters and for common EU promotion campaigns. This will particularly benefit SME exporters.

EU exporters (mainly SMEs) are not always fully aware of the trade potentials in new EU trade agreements and the threat of losing market share when their trading partners sign trade agreements with third countries. Companies and organisations thus need to be better informed about new trade agreements, and there could be a scope for carrying out common information campaigns when new EU trade agreements enter into force. Likewise, information about new trade initiatives in main EU partner countries will allow EU exporters to anticipate changing business conditions and implement the right commercial strategies.

The study points to the particular potential of exports to the Asian export markets, where demand for agri-food products of high quality and limited domestic production capacity offer new business opportunities for innovative EU companies that are willing and able to adjust their production to local preferences.

