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Directorate-General for Agriculture and Rural Development

EU Agricultural Trade: Back on Track?

CONTENTS

Introduction

Recent developments in agricultural trade, particularly in EU trade and its performance compared to other major world players is the subject of the latest MAP. The EU remains the leading trading bloc in the world. Alongside the US it is the leading exporter of agricultural products and remains by far the world's biggest importer.

In this newsletter, we also consider the impact of the recent economic crisis on trade. Trade has played a key role in boosting global economic growth for decades. In recent years we have seen spectacular growth in world agri-trade before the recession. This growth has been helped by the fact that many businesses are increasingly organising their production along global production chains.

In 2009 the economic crisis took its toll with a sharp decline of 13% in the value of global agricultural trade. After several years of consecutive growth, EU agricultural trade also went into reverse. Exports suffered an 8% drop in value compared to 2008, as opportunities for EU exporters were limited by the economic slowdown in key markets. Exports to Russia, the EU's second biggest market, fell by 21%, while sales to the US, still our top market, fell by over 8%.

The impact on EU imports was even greater declining by 13%. The economic crisis undoubtedly contributed to the fall but the severe drop in international commodity prices also played a role.

Trade also slowed down for the EU's trading partners including the US, Brazil, Russia and China as a result of recession. US exports declined by 14% in 2009, though Brazil fared better, with a 6% drop in exports. The weakness of the Russian and Chinese markets is witnessed by how far their imports contracted in 2009; 17% for Russia and 11% for China. Nevertheless China was one of the few growth markets for EU exports in 2009.

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The Big Picture of Agri-food Trade: the EU in a World Setting

EU and the US are the leading exporters ...

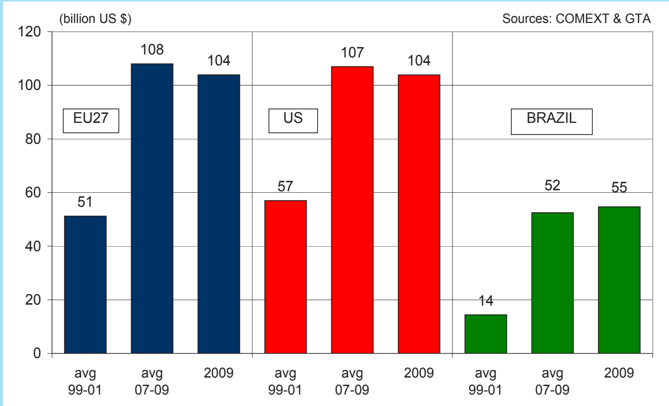
Trade has been a dynamic force for boosting global economic growth for decades. Overall world agricultural trade (expressed in US$) more than doubled between 2000 and 2009. Within recent years in particular we have seen spectacular growth, close to 25% in 2007 and again in 2008. This is also helped by the fact that many businesses are increasingly organising production along global production chains.

The worldwide economic crisis has taken its toll on international trade. According to the WTO, the volume of world trade in goods and services decreased by 12% in 2009, which is dramatic even by the standards of the Great Depression. Due to lower income elasticity of demand for food compared to manufactured goods, the volume of global agricultural trade[1] was relatively less affected (-3%), though its value fell sharply by 13%.

The EU was the leading exporter of agricultural products from 2003 until 2007 (expressed in US$). Then in 2008 the US resumed pole position with exports of $121 billion, some $2 billion above the EU's $119 billion exports[2]. Both the EU and the US suffered a set back in 2009, with a slump in exports of 13-14%, which brought exports for both to just under $104 billion (see graph 1).

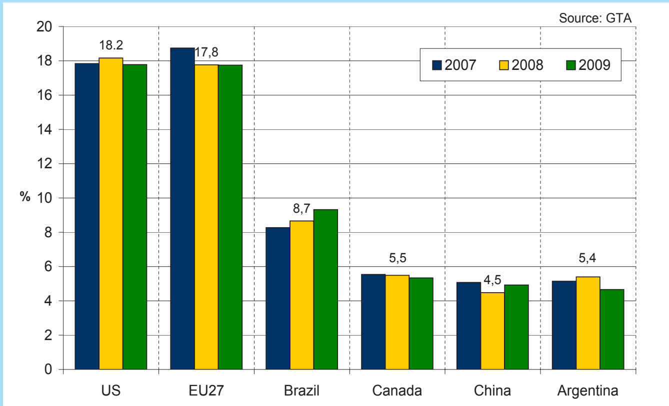
Some of the growth in EU trade in US$, over the past decade, reflects the exchange rate of the Euro against the dollar, which strengthened by 17% from 2006 to 2008. Expressed in $ terms, EU exports grew by 110% from 1999-2001 to 2007-09, compared to 43% expressed in Euro. In 2009 the Euro lost more than 5% of its value against the $US, which further accentuated the decline in EU trade in dollars.

Graph 1: EU27, US & Brazil - Agricultural Exports



The EU lost export market share in 2008, dropping from 19% in 2007 to 18% in 2008, but managed to hold its ground in 2009 (graph 2). On the other hand the US gained market share in 2008 to above 18%, reflecting the increased value of commodities, but lost this in 2009.

Graph 2: Market Share in World Agricultural Exports for Top Exporters



Meanwhile Brazil and China are increasing their share. Brazil is firmly established as the third largest exporter

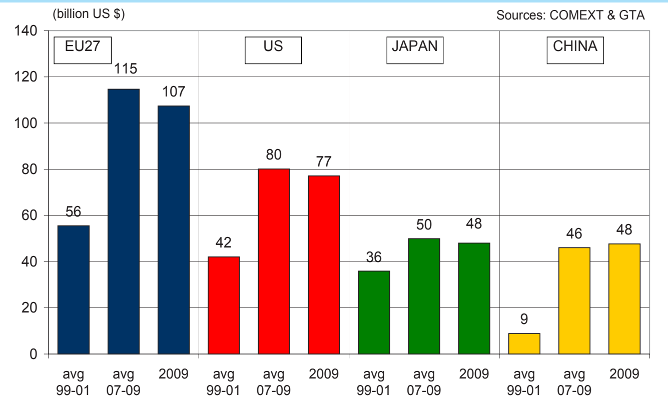
1 Agricultural trade is based on the WTO definition, which includes Chapters 1-24 (excluding fish and fish products), in addition to a number of headings in chapters 33,35,38,41,43 and 51-53.
2 EU exports are lower following a downward revision to EU statistics.

(and the biggest net exporter), with 50% growth in the value of its exports since 2006. China replaced Argentina as the fifth biggest exporter after Canada.

The EU is unchallenged as the world's leading importer ...

The EU is still by far the world's biggest importer with imports of $115 billion in 2007-09, followed by the US. Imports of both almost doubled in value over the past decade (graph 3). China's spectacular growth in imports, which expanded more than fivefold since 1999-01 means that by 2009 it had just overtaken Japan as the third largest importer.

Graph 3: EU27, US, Japan & China - Agricultural Imports

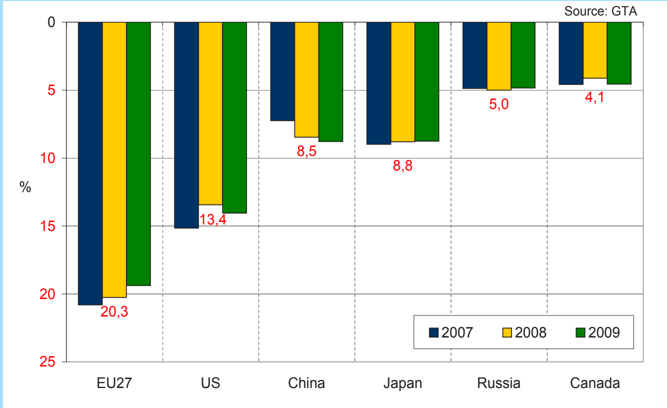


The EU's share of global imports has fallen from 21% in 2007 to 19% in 2009 (graph 4). This is a result of the sharp drop of nearly 18% in imports (in US$) in 2009 after two years of very strong growth of over 20% per year.

The US remains the second largest importer with around 14% share. US imports suffered a less sharp decline in 2009 than the EU, down by roughly 10% in 2009. But this followed 2 years of more sluggish growth in imports (10% per year in 2007 and 2008 or less than half the rate of growth in EU imports).

Japan's slow growth in imports means that it's global share is now less than 9%, just below that of China. Russia also suffered a dramatic fall in imports of 17% in 2009, after phenomenal growth of 27-28% in 2007 and 2008, making it the 5th biggest importer in 2009.

Graph 4: Market Share in World Agricultural Exports for Top Importers

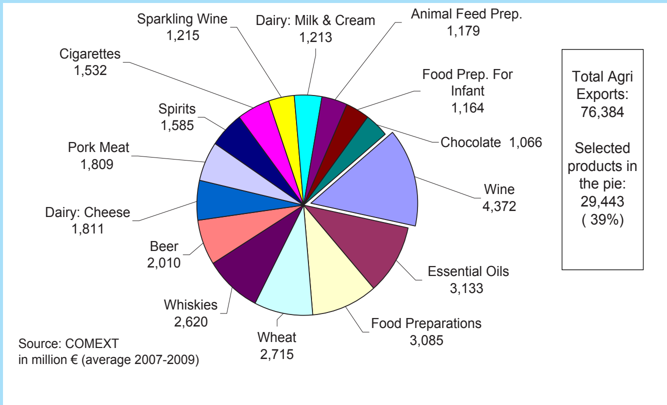


EU Trade in Focus

Exports dominated by final products ...

Final products accounted for 68% of the value of EU exports in 2007-09, while intermediate products and commodities represented 23% and 9% respectively.

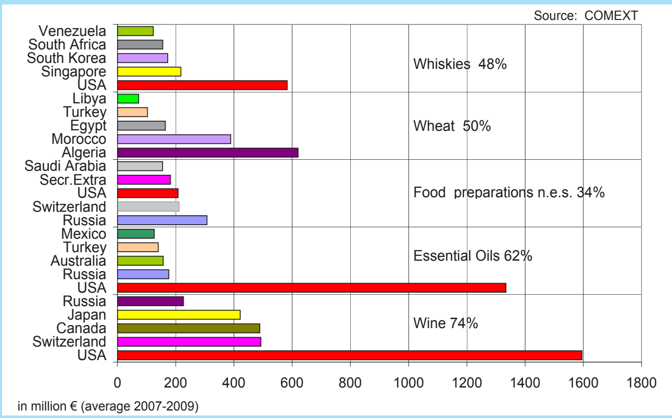
Graph 5: EU27 - Main Agricultural Exports



Graph 5 shows that 12 of the top 15 exports were final goods; the exceptions being wheat, milk powders and essential oils. Wine (€4.4 billion) is still the EU's highest value export for 2007-09. This is followed by essential oils (€3.1 billion), food preparations (€3.1 billion), wheat (€2.7 billion) and whiskies (€2.6 billion). Together these 5 products account for one fifth of exports.

The concentration of exports of the top 5 products in key markets in 2007-09 is shown in graph 6, with the US still the key market for wine, whiskies and essential oils[3]. The five markets identified account for three quarters of EU wine, nearly two thirds of essential oils and half of whiskey exports.

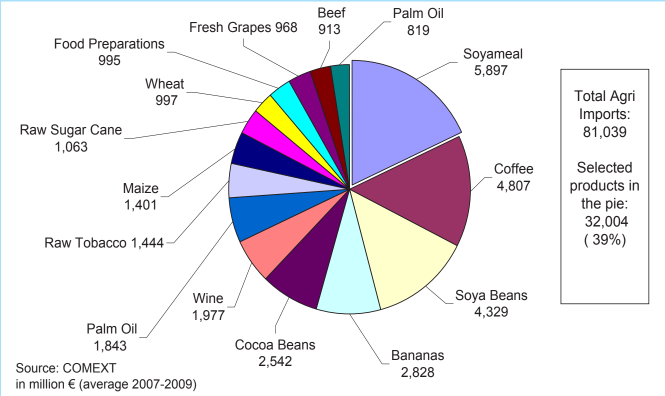
Graph 6: EU27 - Export Value of Main Products by Destination



Imports are more diverse ...

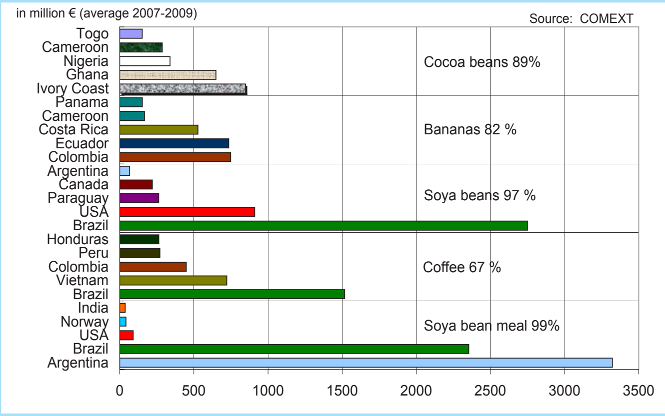
Final products account for 54% of import value, while intermediate products and commodities have 27% and 19% share respectively. The top 15 imports for 2007-09 are shown in graph 7. Soybean meal (an intermediate product) is the EU's top import, followed by coffee (a final product), valued at €5.9 billion and €4.8 billion respectively. Soybeans (a commodity), worth €4.3 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 €2.5 billion) lie in 4th and 5th place respectively. Together the top 5 products account for 25% of the value of EU imports in 2007-09.

Graph 7: EU27 - Main Agricultural Imports



The origin of the EU's top 5 imports is shown in graph 8. 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. Brazil is the number 1 supplier of coffee. The cocoa bean market is also concentrated with Ivory Coast and Ghana accounting for almost 60% of EU imports.

Graph 8: EU27 - Import Value of Main Products by Origin



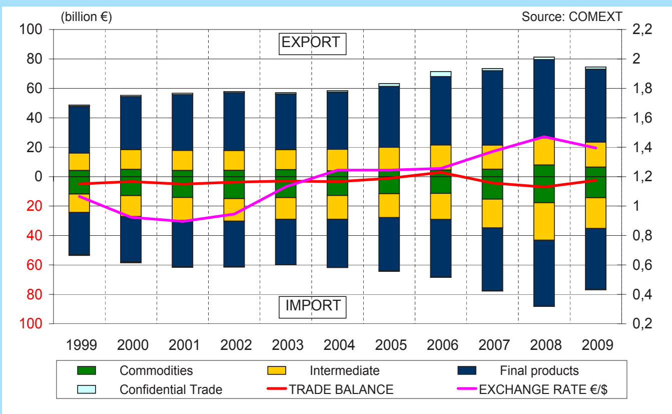
3 Intermediate product used mainly for flavour by the drinks industry.

Impact of the Economic Crisis on EU Agricultural Trade

The EU's agricultural trade deficit improves ...

Imports contracted faster than exports in 2009, so that the EU trade deficit substantially decreased from a record €7 billion in 2008 to just €2.5 billion in 2009 [4] (graph 9). The year 2009 was exceptional as it reversed the growth pattern of EU agricultural trade. Exports suffered an 8% drop in value compared to 2008 after five years of consecutive growth but imports fell even further by 13%. While the financial and economic crisis had a strong impact on both exports and imports, the decline in prices of commodities and intermediate products in 2009 had a bigger impact on the value of EU imports than exports given that they account for a greater share of our imports than exports.

Graph 9: EU27 - Structure of Agricultural Trade

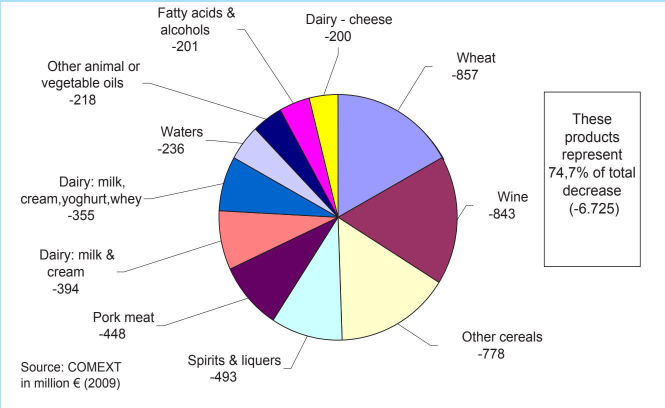


4 Given that EU net trade has been almost in balance in recent years, small revisions to the data can cause significant change in the trade balance. It now appears that the EU's trade deficit was larger than expected in 2007 and 2008 due to weaker exports than hitherto declared. Exports of confidential trade for 2007 were revised down by almost €2 billion, bringing the deficit to €4.4 billion. Further downward revisions to the data for 2008 increased the trade gap in 2008 by €1.5 billion, bringing it to over €7 billion.

Recession took its toll on EU exports ...

EU exports dropped by 8% (€6.7 billion) in value in 2009 compared to 2008, with overall volumes also down slightly. The contraction was exceptional in terms of its size and was also widespread across destinations and products. Final products took the hardest hit in absolute terms (-€3.7 billion, -7%) compared to commodities (-€1.4 billion, -18%) and intermediate products (-€1.3 billion, -7%).

Graph 10: Main Products contributing to the Decrease in EU27 Agri-Food Exports

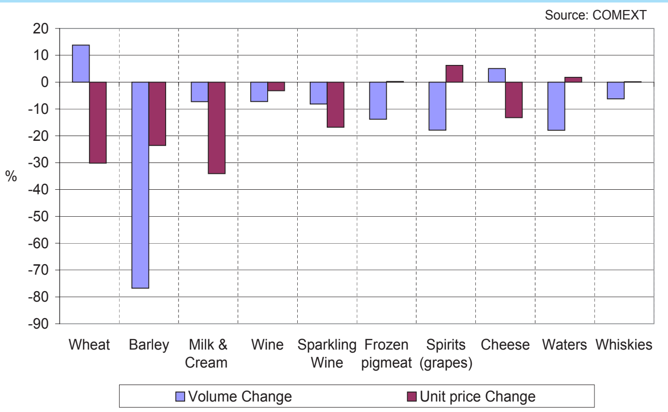


The contraction in the value of exports has been driven by two main factors; on the one hand depressed international prices for commodities and intermediate goods and on the other hand poorer final product sales (reflecting weaker demand in the countries most affected by the economic crisis). Graph 10 indicates those products which suffered the biggest dip in the value of exports in 2009.

Wheat and other cereals were among those affected. For wheat the volume of sales increased by 14% but prices were 30% lower than in 2008 (graph 11). Meanwhile the volume of barley exports (over two thirds of other cereals exports) tumbled by 77% (on top of 24% lower prices). This could be linked to price competition from the other main cereals exporters and reduced international demand especially in North Africa and the Middle East.

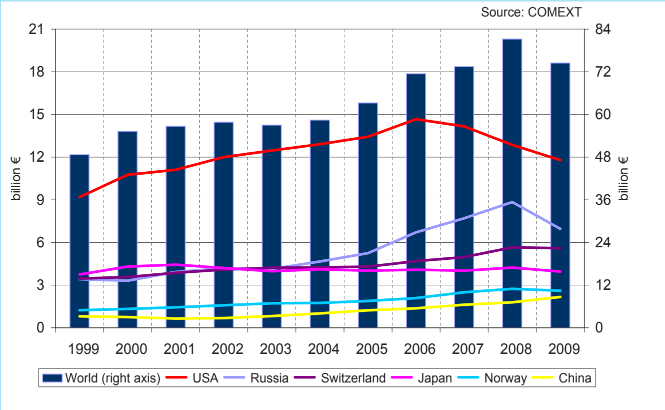
Of the remaining products with the biggest dip in sales, most were final products, reflecting weaker demand due to the global economic slowdown. Within this category, wines (-13% in value, -8% in volume), spirits (-8% in value, - 7.5% in volume), all dairy products (- 17 % in value, +5% in volume), pork meat (-18 % in value, -18% in volume) were amongst the most severely affected. For wines the decline in price as well as volume suggests a shift in consumer preference towards cheaper brands. In the case of cheese, lower prices outweighed the higher volume of sales.

Graph 11: Change in Unit Value & Volume for Main Products contributing to Fall in Exports (2009)



The EU lost sales to most of its top export markets (mainly developed countries), with the exception of China (graph 12). Sales to the US declined for the second year in a row, by over 8% or €1.1 billion in 2009 following a 9% loss in 2008. But the biggest decline in exports in 2009 (-€1.8 billion) was to Russia where sales fell by over 21%. The US is still the largest market, though its share is down to under 16% of EU exports in 2009 followed by Russia with over 9%. By contrast, the EU managed to increase its exports to China by over 20% (mainly final products).

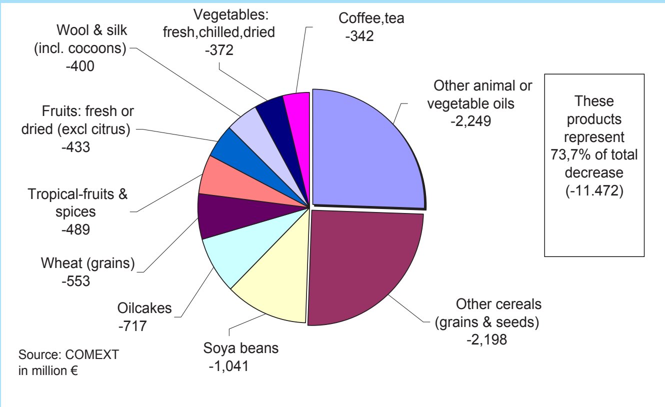
Graph 12: Agricultural Exports by Destination



Impact of Recession on Imports ...

After years of continuous growth prior to the economic slowdown, EU agricultural imports experienced an even more pronounced decline than exports with a double-digit drop of 13% in value (over €11 billion) and 9% in volume. The decline was also widespread across origins and products. Commodities and intermediate products suffered the sharpest contraction, by 20% and 18% respectively, compared to 8% decline for final products. Graph 13 indicates the products which contributed most to the decline in the value of imports in 2009.

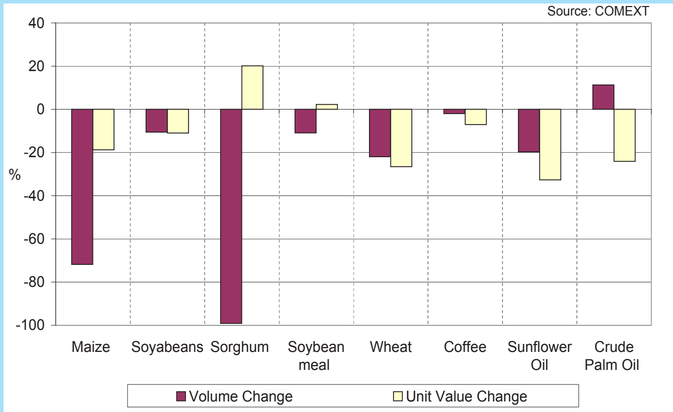
Graph 13: Main Products contributing to the Decline in EU Agri-Food Imports in 2009



Commodity imports were most severely affected both in value and volume terms. Other cereals (mainly maize), soybeans and wheat account for almost one third of the reduction in import value. The volume of imports of other cereals collapsed by 78%. The 20% decline in the value of soybeans imports can be attributed both to 12% lower world prices in 2009 and an 11% drop in quantities imported (graph 14).

The value of oils and oilcakes (used for animal feed), which together account for over half of EU intermediate imports, contracted by 30% and 10% respectively and consequently was responsible for almost a quarter of the total fall in EU import value. Lower import expenditure for oils was mostly driven by lower prices (-30%), while volume was down by 6%. Lower oilcakes imports (-10% in value, -5% in volumes) point to reduced demand for feed by the European livestock sector.

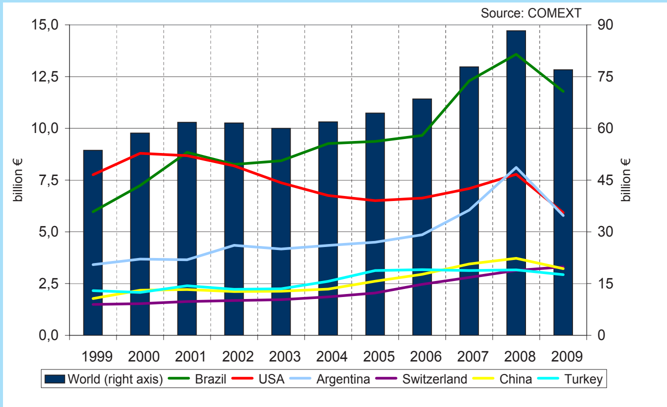
Graph 14: Change in Unit Value & Volume for Main Products contributing to Fall in Imports (2009)



Amongst final products, tropical products (fruits, spices, tea and coffee) and fruits & vegetables (fresh and processed), which together account for two thirds of imports within this category (and one third of total EU imports) fell by 6% and 10% in value and 4% and 14% in volumes respectively. However, there was one notable exception to the overall decline, with the value of cocoa imports up by over 20%, mainly due to higher prices.

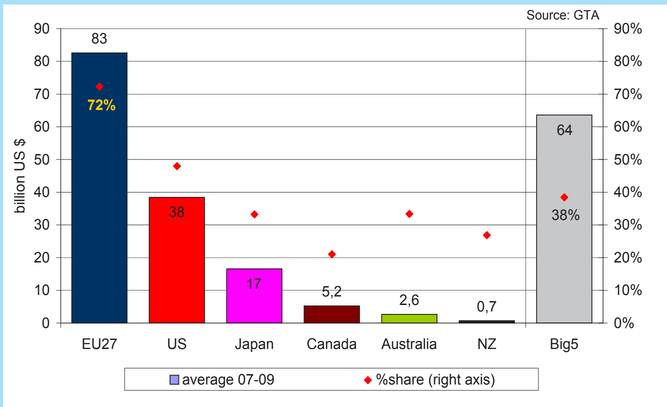
Most of the top suppliers lost sales to the EU in 2009 (graph 15). The US and Argentina suffered the heaviest fall in sales of 24% and 29% respectively. Brazil remains the EU's biggest supplier since 2003, with 15% share of EU imports, though it suffered a 13% decline in sales. Among the other top suppliers Switzerland and Ivory Coast increased their exports to the EU by 5% and 19% respectively. As the world's biggest exporter of cocoa Ivory Coast benefited from the 12% increase in cocoa prices, becoming the 8th biggest exporter to the EU.

Graph 15: EU27 - Agricultural Imports by Origin



The EU is still by far the biggest importer of agricultural products from developing countries (see graph 16).

Graph 16: EU27 - Agricultural Imports from Developing Countries



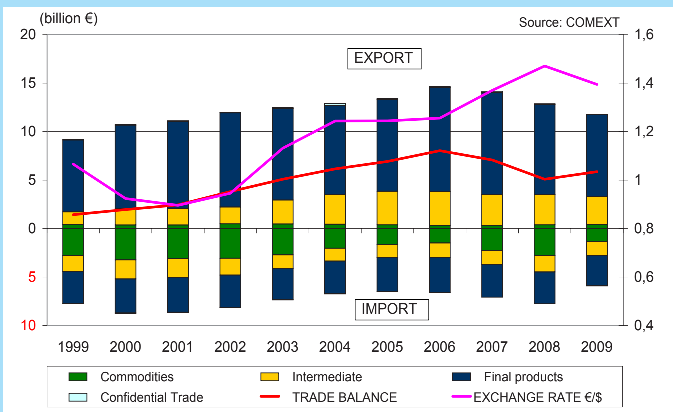
The EU imports $83 billion from developing countries in 2007-09, which is more than the US, Japan, Canada, Australia and New Zealand put together. Their imports from developing countries reached just $64 billion over this period. Indeed more than 70% of total EU imports come from developing countries compared to 48% for the US and just 38% on average for the 5 countries mentioned.

Evolution of EU Trade with key partners in 2009 ...

EU exports to the US have fallen consistently since 2006, declining by over €1 billion (-9%) in 2009. This follows the loss of over €1 billion in 2008 which could be indicative of the impact of the US recession on EU exports already in 2008.

The loss in 2009 was mainly down to a drop of 9% in final goods. The biggest decline in exports in 2009 was in wine sales, which dropped by over €250 million (16%). Losses were also recorded for spirits, water, cheese and olive oil. Meanwhile sales of essential oils bucked the downward trend, increasing by 5% in 2009.

Graph 17: EU27 - Trade with US

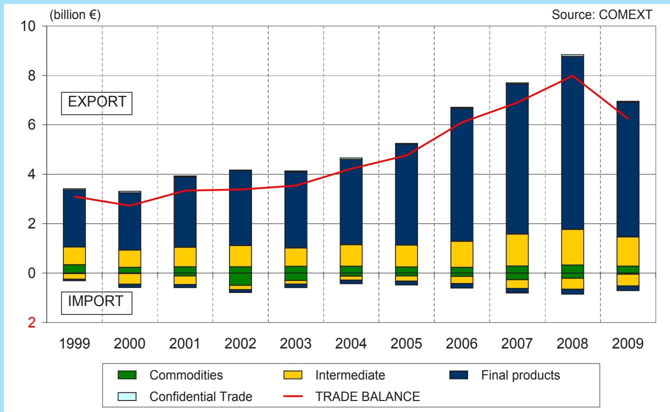


Final goods account for more than three quarters of EU exports to the US. Wine is still the top export, valued at $1.6 billion in 2007-09, followed by essential oils. Together the top 10 products account for almost 60% of export value.

Meanwhile imports accelerated between 2005 and 2008, despite the decline in the value of the US$ against the Euro. The sharp fall in imports of €1.9 billion in 2009 (mainly commodities which declined by 50%) was partly linked to lower prices although the US$ had strengthened. The EU's trade surplus in agricultural products with the US, reached €6 billion in 2009 (see graph 17).

Russia is the EU's second biggest export market. After the exceptional growth in exports particularly since 2005, 2009 marked a sharp downturn of €1.8 billion, of which €1.5 billion is final products (graph 18).

Graph 18: EU27 - Trade with Russia

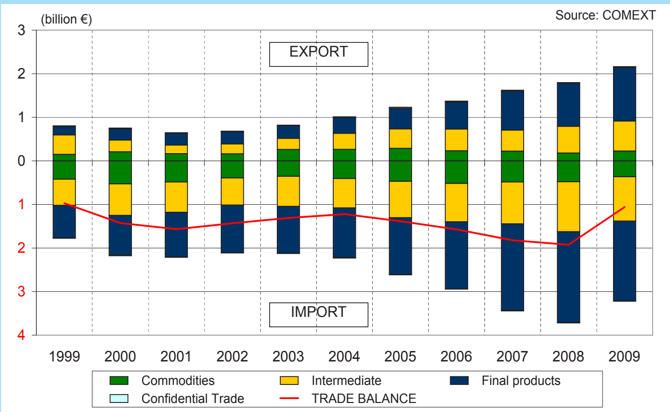


EU exports to Russia are spread across a wide spectrum of products; 80% of which are final goods. The top exports are cheese and frozen pigmeat. Export sales to Russia fell by 21% or €1.9 billion in 2009, with losses spread across most sectors. Live pigs and soybean meal were among the few strong growth areas in 2009 (up by 60% and 70% respectively).

On the other hand China was one of the few big growth markets for EU exports in 2009. The EU managed to increase sales by over 20%, with final products up by 25% (graph 19). The EU's top exports of raw hides and skins grew by 12%, cereals preparations by 87% and wine by 40%, indicating that China was one of the few markets that was less affected by recession. However, spirits (the second biggest export from the EU) were down 3%.

Meanwhile EU imports from China declined by 13%, so the EU's agricultural trade deficit with China fell by €900 million in 2009. The biggest drop in imports was recorded for wools and silks (- 41%), fruit juices (- 46%) and fruits and vegetables.

Graph 19: EU27 - Trade with China

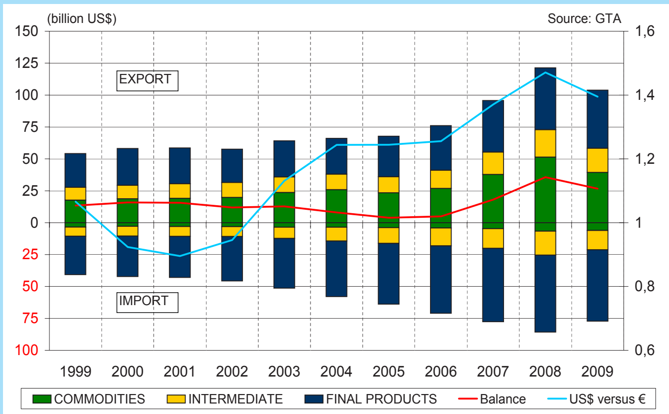


Impact of the Economic Crisis on Agricultural Trade Worldwide

The recession also had an impact on the EU's trading partners. US exports worldwide fell by 14% ($17.5 billion) in 2009. This is the result of a combination of factors including the drop in prices of commodities and intermediate goods, declining demand due to economic recession and the appreciation of the dollar.

The value of US commodity exports dropped by 23% ($12 billion), with the biggest losses in other cereals, wheat and cotton. Intermediate products fell by 12% in value and final products by 6%. However, since the US farm sector went into the crisis with record-high exports, the fall still leaves US agricultural exports above the level of 2007 (graph 20).

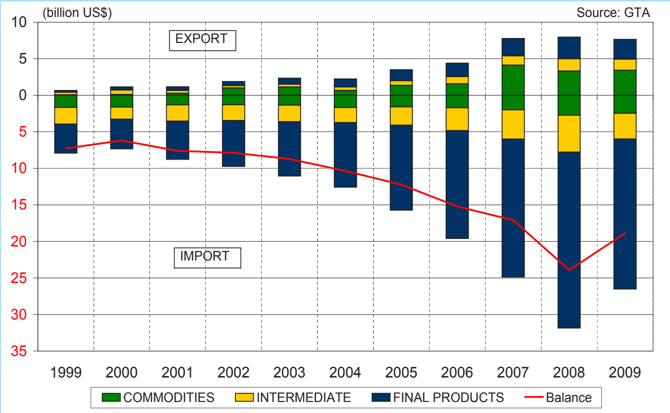
Graph 20: US - Agricultural Trade Balance



The decline in imports was less pronounced, falling by 10% (€8.5 billion), over 50% of which is in final products (-7%) and the rest mainly in intermediate goods (-20%). The record trade surplus of $36 billion recorded in 2008 (the highest in over 2 decades) was therefore reduced by $9 billion in 2009.

Russia's exports were not greatly affected by recession in 2009, declining by just 4%. However, its imports worldwide fell by 17% overall, with more than 30% decline in the value of intermediate goods, partly due to weakness of domestic demand and partly as result of trade restrictions (see graph 21). Among the most severely affected sectors were oilcakes (-50%), vegetable oils (-45%) and sugar (-43%), where import duties were increased.

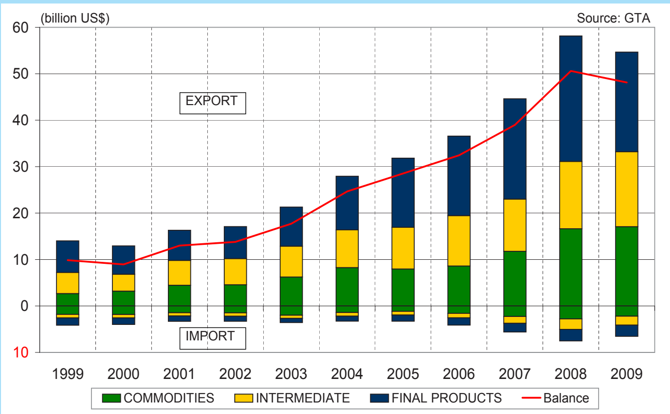
Graph 21: Russia - Agricultural Trade Balance



Imports of final products dropped by nearly 15 %, accentuated by trade restrictions in the pork and poultry sectors, which were ostensibly linked to sanitary concerns.

Brazil's exports declined by 6% in 2009. The fall was concentrated in final products, which are down by 21% (graph 22), while the value of both commodities and intermediate products was up (by 3% and 11% respectively) despite lower prices.

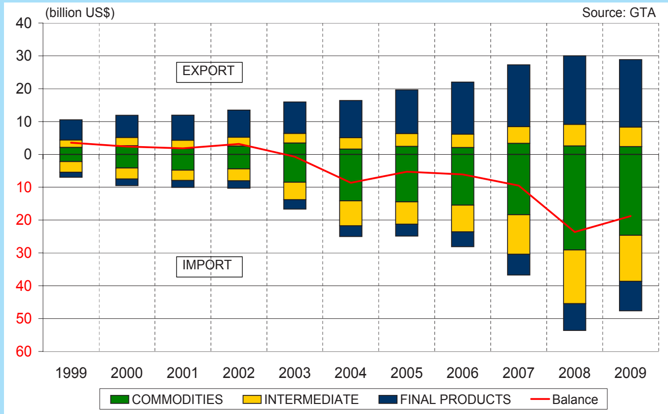
Graph 22: Brazil - Agricultural Trade Balance



In particular beef exports have fallen due to market access constraints into the EU and Russia relating to traceability problems, so that exports were 25% lower than in 2008 (also a bad year for beef exports). Poultry exports were also down by 18%; a sharp drop after years of significant export growth.

China's exports were hardly affected by recession in 2009 (- 4%). The impact of the crisis may partly be seen however in the 11% drop in total imports, particularly the 14-15% decline in the value of commodities and intermediate products.

Graph 23: China - Agricultural Trade Balance



The impact on the textiles industry is witnessed by the 38% slump in cotton, flax and hemp and the13% decline in wool and silk imports. Meanwhile imports of final goods were up by over 10% (graph 23).

Conclusions

Trade has played a dynamic role in boosting global economic growth for many decades. Within recent years we have seen spectacular growth in world agricultural trade (expressed in $US), with annual rates of 21% - 25% in 2007 and 2008. This growth is also helped by the fact that many businesses are increasingly organising their production along global production chains.

The global economic and financial crisis that emerged in 2008 had a dramatic impact on world trade in goods and services. Although world agricultural trade was relatively less affected, it nevertheless fell by 13% in value and 3% in volume in 2009.

As regards EU agricultural trade, the year 2009 was also exceptional as it reversed the growth pattern of the previous years, with a decline both in imports and exports. EU exports suffered an 8% drop in value after five years of consecutive growth. The EU's opportunities for export were limited by the economic slowdown in many of its key trading partners. Exports to Russia, the EU's second biggest market, fell by 21%, while sales to the US, still our top market, fell by over 8%. The weakness of the domestic EU market due to the economic crises contributed to the sharp decline of 13% in EU import value, after years of continuous growth. The US suffered a 24% fall in exports to the EU while Brazil saw sales drop by 13 % in 2009.

Although it is not possible to precisely disentangle all the factors contributing to the contraction in trade, there is no doubt that the crisis has had a strong impact on EU demand. The severe drop in international commodity and intermediate product prices from their peaks in 2007/2008 to their troughs of 2009 (itself partially a consequence of the crises) as well as exchange rate fluctuations have also contributed to the decline.

The economic slowdown affected other countries too. The US suffered a set back of 14% in its exports in 2009. Brazil fared better, experiencing a 6% drop in global export sales. The weakness of the markets of some major importers is witnessed by the sharp contraction in imports; 17% for Russia, which was accentuated by restrictive market access measures and 11% in the case of China. Nevertheless, despite the global fall in its imports, China was one of the few growth markets for the EU in 2009, with an impressive 20% increase in EU exports last year, reducing the EU's agri-trade deficit with China from €1.9 billion to just over €1 billion.

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