



The Changing Face of EU Agricultural Trade

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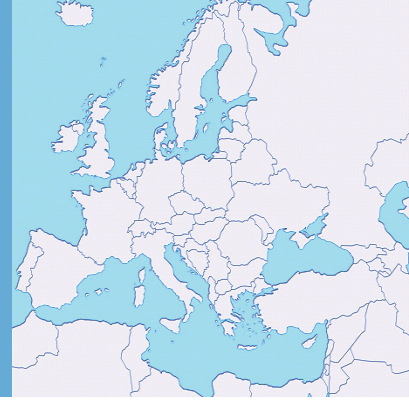
Introduction

This MAP takes a look behind the headline figures and recent developments in EU trade. In recent years we have seen significant changes in trade patterns, turning received wisdom on its head. These changes have been addressed in previous editions of the MAP. In summary, they involve the growth in trade, the emergence of the EU as the largest exporter of agricultural products, the declining trade surplus of the US, and the consolidation of the position of Brazil as the undisputed third largest, rapidly growing exporter.

In the present issue of the MAP we examine the EU's changing face of agricultural trade, using different data sources and, although such comparisons, with different product coverage, must always be treated with caution, some conclusions can nevertheless be drawn.

Firstly the EU is apparently set on a continuous path of growth in agricultural exports. As a result, in 2003 the EU overtook the US as the leading agricultural exporter. The second development is even more recent and indicates that the EU's agricultural trade balance has improved significantly with export growth outstripping that of imports, so that by 2006 it had turned into a net exporter of agricultural products. The improvement for the EU is all the more surprising as it comes despite the strengthening of the euro and despite enlargement, which increased net agricultural imports.

Finally, the growth in EU agricultural exports is mainly in final products. This is partly because of the improved competitiveness of the food industry in quality products, a trend enhanced by the shifts in EU production due to CAP reform. It is telling that nearly all of the top EU exports are high value final products, whose very success in the export market depends upon their EU origin and characteristics.

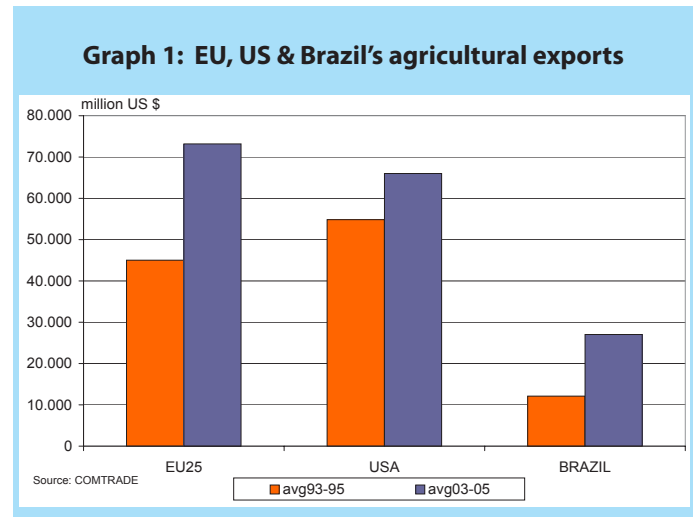


The EU becomes the leading exporter ...

Ten years ago, EU exports were valued at around \$45 billion, roughly \$10 billion less than the US, according to Comtrade (graph 1). By 2003 the EU had overtaken the US, with exports worth \$66 billion compared to the US's \$64 billion. By 2005 the EU's exports at \$79 billion were \$11 billion higher than that of the US, accounting for around 20% of world exports.

Admittedly the growth of EU exports reflects the strengthening of the euro against the dollar. Expressed in terms of €, EU exports increased by 14% in the last 5 years compared to 55% expressed in US\$. Of course, regardless of currency the position of the EU as the largest exporter does not change.

Brazil is now the world's third largest exporter, doubling the value of its exports over the past decade. And it is also the world's biggest net exporter, with a trade surplus of \$28 billion in 2003-05.



The EU remains the leading importer with imports of around \$83 billion, absorbing 20% of the world's total imports and running a consistent, albeit decreasing deficit (around \$6 billion) until 2005. However the situation changed in 2006, when the EU became a net exporter, as we see later.

Definition and Sources

Agricultural products 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.

Inward processing refers to the importation of raw materials, free of tariff, which are then processed and exported at higher value.

The following terms are used to classify agricultural products within different groups:

Commodities are products that are mainly traded in bulk (e.g. grains and oilseeds) and have not been processed.

Intermediate products have undergone a first stage of processing (e.g. from wheat to wheat flour) but are not ready for final consumption.

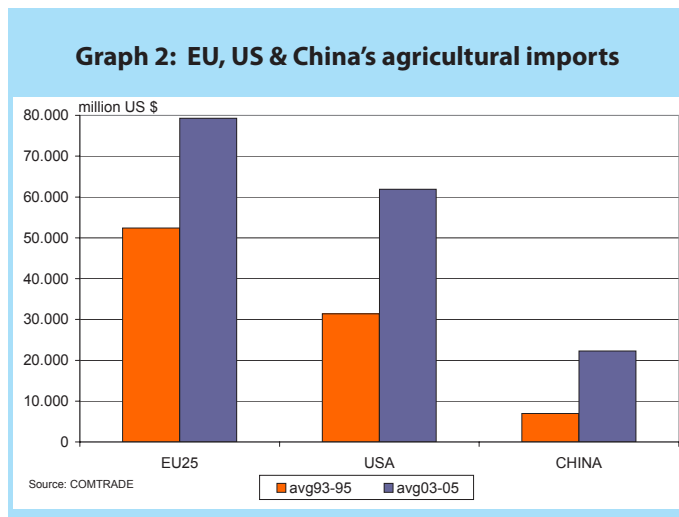
Final products are ready for or very close to final consumption. This encompasses both processed products and unprocessed ones such as fresh fruit and vegetables.

References to the EU mean the EU25 unless otherwise stated.

All data refer to nominal US dollars or euros. For the sake of comparison between different players, we generally used Comtrade (UN) data expressed in dollars. However, where more recent data were not available, we also use Comext (EU) and Bico (US).



The US is still the second largest importer, with imports doubling in value over the past decade, when the dollar fluctuated considerably, as shown in graph 2 below. We also show the growth in China, the 5th largest importer after Japan and Canada, which has seen a threefold increase in imports over this period (much larger than any other importer).



... and a net exporter in 2006

The EU's trade balance continued to improve in 2006, to the extent that the EU became a net exporter of agricultural products valued at \$1.2 billion. This development is counterintuitive because of the strengthening of the euro against the dollar and EU enlargement, that increased net imports (as explained further down). The net surplus is due to the growth in exports, which is mainly in final products. The continuous reform of the CAP played a key role in this respect, with the move away from support based on commodity prices and the stronger focus on sanitary and quality standards.

If we include inward processing, net exports were worth \$6 billion, reflecting the higher value added with further processing, as indicated in the table, based on Comext (including 2006 figures, not yet in Comtrade).

Table: EU25 Agricultural Trade (2000-2006) in billion \$

	2000	2001	2002	2003	2004	2005	2006
Exports	58.3	58.7	63.4	75.2	77.4	79.5	90.7
Imports	58.8	60.5	64.2	75.5	79.6	79.5	84.7
Balance	-0.5	-1.8	-0.8	-0.3	-2.2	0.1	6.0

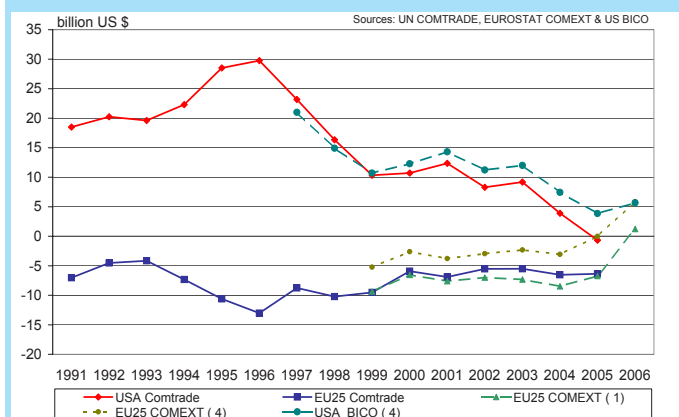
Source: COMEXT (inward processing included)

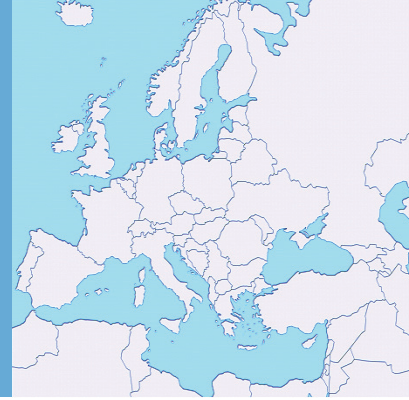
Graph 3 shows both versions of EU net trade: inward processing included (Comext 4) versus excluded (Comext 1). The latter series closely mirrors Comtrade data enabling comparison with the US.

Trade has also evolved for others

The US lost its lead in exports and now ranks second with exports of \$68 billion. Coupled with the doubling in value of imports, the US's trade balance has deteriorated over the past decade. A net surplus of over \$20 billion in 1993-1995 became a small net deficit in 2005 of \$700 million (based on Comtrade), turning the US into a net importer.

Graph 3: EU25 & US agricultural trade balance





On the other hand the US's trade data (Bico), which has slightly different product coverage, continues to show the US as a net exporter of agricultural products, with a net surplus of nearly \$4 billion in 2005.

However in both trade sources the trend is the same, with continued deterioration in the US trade surplus, at least until 2006, when it increased to \$5.7 billion. This is partly due to the rise in commodity prices and also to an increase in volume of exports of soya, maize and cotton.

Other data sources also observe the change in the US trade balance for 2005. The 2006 report of the WTO confirms that the US went into deficit in 2005 in food products (excluding fish), leaving the US with net imports of around \$2.6 billion (compared to net food exports of over \$1 billion in 2004).

Brazil now is not just the world's third biggest exporter, with exports valued at \$32 billion in 2005. It also has the world's largest agricultural trade surplus, worth \$28 billion, as it imports very little. Brazil's share of world trade has almost doubled in 5 years, growing from 4.5% in 2000 to 8% in 2005 (see graph 4).

meal accounting for one-third of total value. It is now the world's leading exporter of sugar, ethanol, coffee, orange juice, beef and poultrymeat.

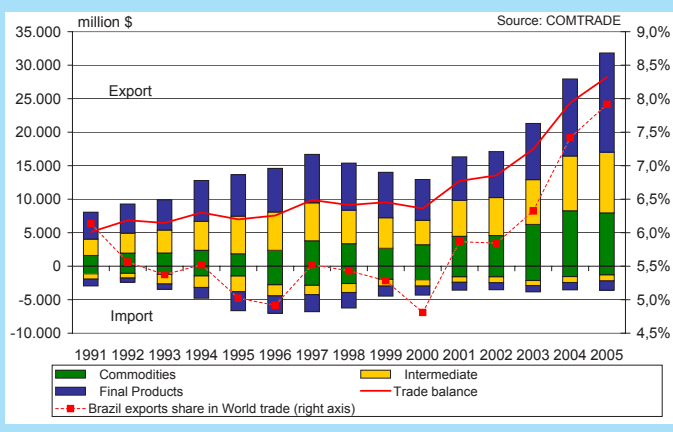
The impact of EU enlargement

The improvement in the EU's trade balance emerges whether we look at EU15, EU25 or EU27. This is illustrated using EU Comext data (expressed in €), by analysing the impact on agricultural trade, of the enlargement of the EU from 15 to 25 and now 27 Member States.

As the EU15 already had significant trade with the 10 new Member States, the impact of adjusting the data to take account of the expansion of the EU to 25 Member States, is to reduce the overall value of the EU's external trade. In 2005, the EU15 had a "net trade surplus" in excess of €2 billion with the 10, with final products accounting for two-thirds of trade. The EU 15 was the main trading partner for the 10, accounting for over 60% of their total imports and 50% of their exports (trade that is now included in intra-EU trade).

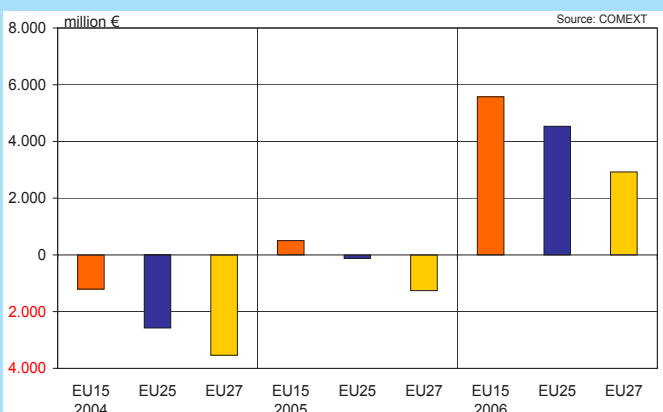
With respect to the two newest Member States, the EU15 and the EU25 had a surplus with Romania while trade with Bulgaria was roughly in balance.

Graph 4: Brazil's agriculture trade & share of world trade



Its top exports are balanced between commodities, intermediate and final products, with soybeans and

Graph 5: EU15, EU25 & EU27 agricultural trade balance





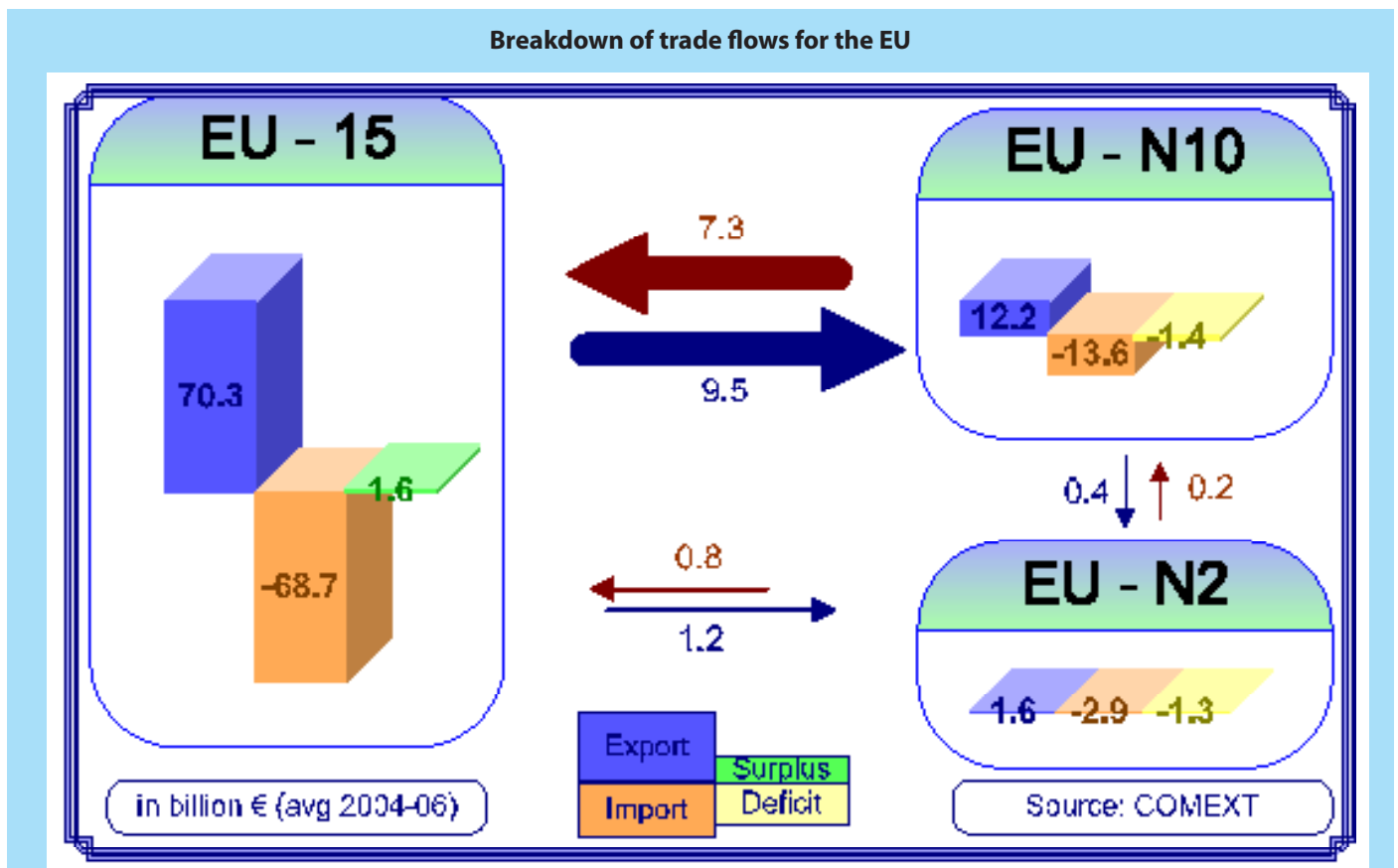
Graph 5 shows the evolution of trade as the EU has expanded. In 2005 the EU15 had already become a small net exporter of around €500 million while the EU25 remained a small net importer. By 2006 the trend was clear with the EU25 emerging as a net exporter valued at €4.8 billion (the EU15's net trade surplus would be around €1 billion more).

The trend is the same if we consider an advanced EU27 aggregate for 2006, including Bulgaria and Romania. The EU would still have been a net exporter in 2006, albeit with a lower surplus of €2.9 billion. Later in this newsletter we will take a closer look at what lies behind this net surplus.

The chart below shows the breakdown of trade among the different groups of Member States, taken in isolation, for 2004-06.

This decomposition is intended to further clarify the changes in trade that occur with enlargement, showing that a significant share of external trade of the EU15, EU-N10 and EU-N2 (Romania and Bulgaria) has become intra trade.

By 2004-06 the EU15 had become a net exporter of €1.6 billion. The 10 new Member States (EU-N10) were still net importers with a deficit of €1.4 billion. The two most recent new members (EU-N2), considered together, were also net importers with a growing deficit of €1.3 billion. They too had the EU as their main trading partner. In 2005 Romania had a net deficit of €1.4 billion. Over 2/3 of its exports and half of its imports were with the EU25. Meanwhile Bulgaria was a small net exporter with a surplus of €200 million in 2005, conducting around half of its trade with the EU25.



EU-N10: 10 new MS acceding in 2005

EU-N2: Romania & Bulgaria



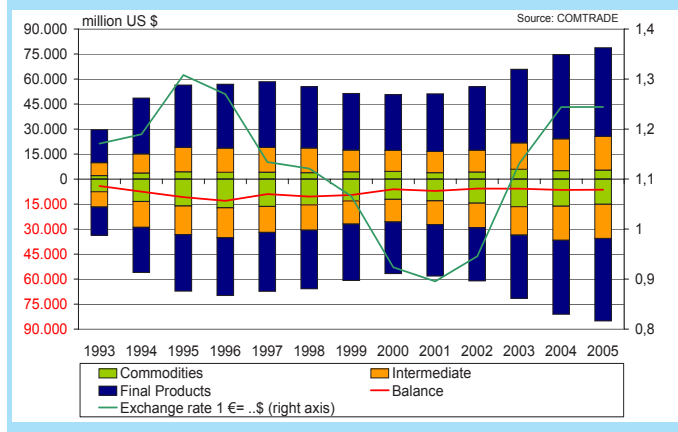
The EU specialises in final products

To examine the structure of trade we apply the classification of agricultural products into the 3 groups of commodities, intermediate and final products, as outlined in MAP July 2006. Graph 6 shows developments in the level and composition of EU trade in agricultural products. In the last 5 years, both imports and exports have increased and the depreciation of the US\$ played a role in the growing value of trade flows.

Nevertheless there is another factor which explains the dynamism of EU exports. Most of the growth in exports is in final products.

The share of the EU in export markets for commodities has declined from 8% in 1999-2001 to 7.5% in 2003-05. This reflects enhanced domestic use following CAP reform. Over the same period, the EU share of the global market in final products grew from 22.7% to 24.2%.

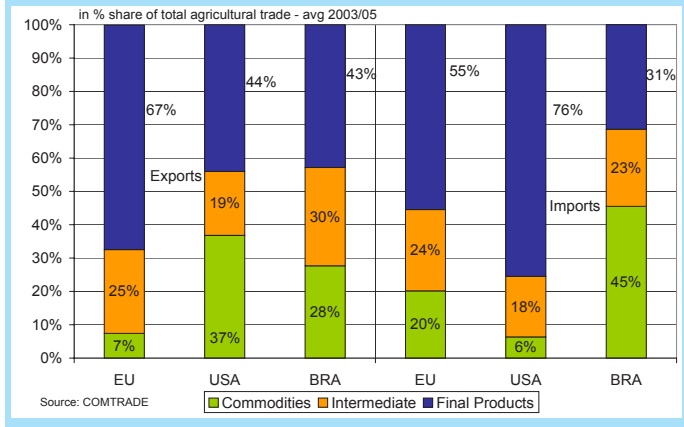
Graph 6: EU25 structure of agricultural trade (1993-2005)



The evolution of the trade balances of the EU and US can be explained in part, by the differences in their trade structure (see graph 7). The focus of EU trade is on final products, which account for over two thirds of the value of exports and over 55% of imports. Meanwhile the US is still heavily reliant on exports of commodities, which

account for 37% of total agricultural exports, compared to just 7% in the EU, while three quarters of its imports are final goods. Brazil's structure of trade, more balanced, is also included for comparison.

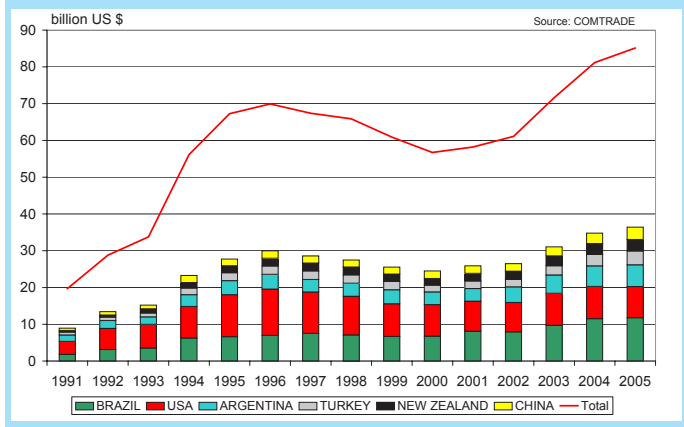
Graph 7: Comparison of structure of EU, US & Brazil agricultural trade



EU imports under the microscope

Turning to the EU's main suppliers, Brazil is the biggest since 2003, and now accounts for 14% of EU imports (2003-05). The US is in second place with 11%, followed by Argentina with 7%.

Graph 8: Agricultural imports by origin

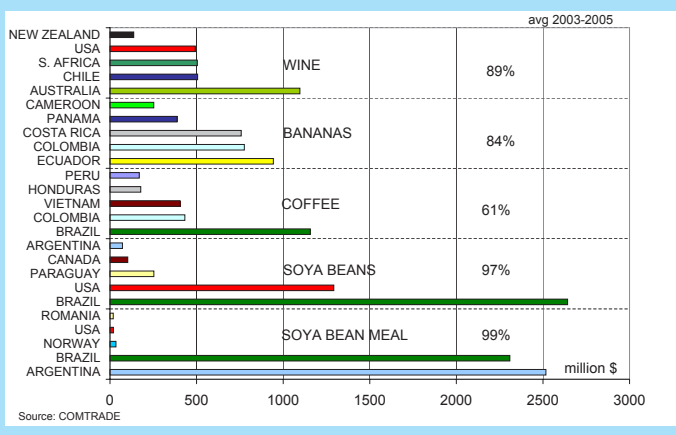


The value of EU imports from Brazil in 2005 was \$12 billion, compared to \$8.5 billion from the US and \$6 billion from Argentina. Turkey and New Zealand are in 4th and 5th place (Graph 8).

The EU's top 2 imports continue to be soybean meal (an intermediate product) and soybeans (a commodity), valued at \$4.9 and \$4.5 billion respectively and together accounting for 12% of imports in 2003-05 (graph 9). The other imports in the top 5 are final products; coffee (\$3.8 billion), bananas (\$3.7 billion) and wine (\$3.1 billion).

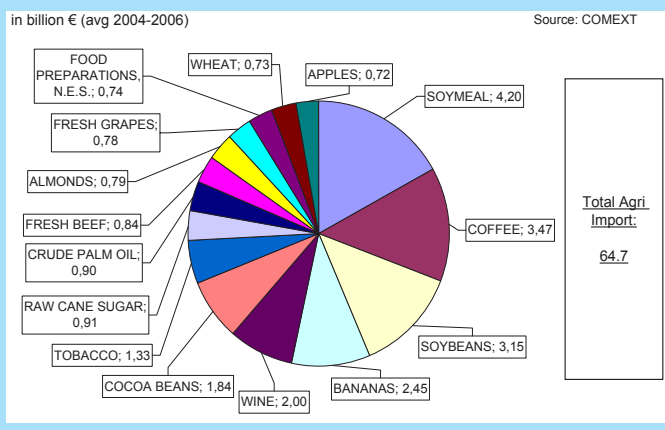
The soya market is particularly concentrated, with nearly 100% of EU imports coming from the key suppliers; Argentina and Brazil for meal and Brazil and the US for soybeans. Brazil is also the top supplier of coffee. Ecuador, Colombia and Costa Rica are the dominant banana suppliers. Meanwhile Australia dominates EU wine imports, (worth \$1 billion which is nearly one third of the market), while Chile, South Africa and the US each have around \$500 million. Together these 5 products accounted for 25% of EU imports in 2003-05.

Graph 9: EU25 import value of main products by origin



Based on the latest Comext data for 2006, graph 10 shows a more complete picture of imports, with 8 out of the top 15 imports being final products.

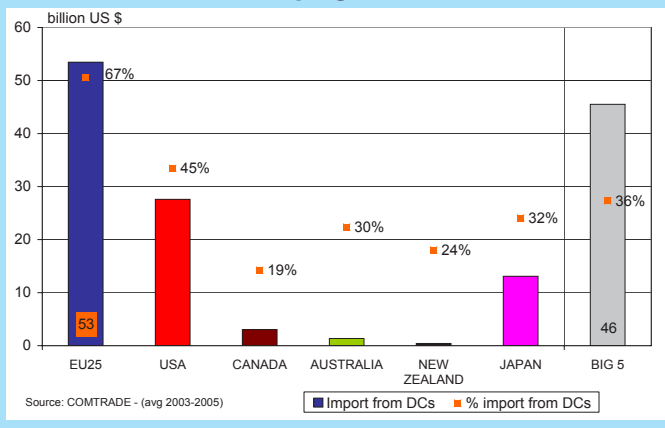
Graph 10: EU25 - main agricultural imports



The EU is still the biggest importer from Developing Countries

The EU continues to be by far the biggest importer of agricultural products from developing countries, importing \$53 billion worth of goods in 2003-05. This is ahead of the US, Japan, Canada, Australia and New Zealand put together, whose joint imports from developing countries only reached \$46 billion in the same period. Two thirds of total EU imports come from developing countries compared to one third on average for the 5 countries shown in graph 11.

Graph 11: Agricultural imports from developing countries

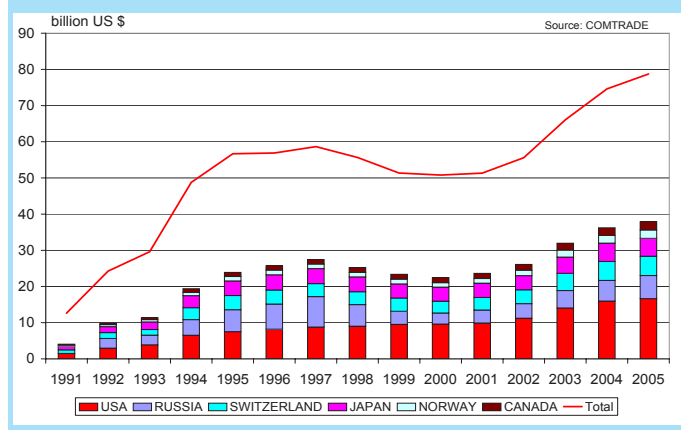


Indeed four of the EU's top six suppliers, identified in graph 8, are classified as "developing" according to FAO. Brazil is the main supplier, with a share in total EU imports (14%) nearly as high as the share of the whole ACP group put together (15%), a group that benefits from preferential agreements. The share of the four Mercosur countries (22%) far outweighs that of the ACP group, reflecting the weight of soya beans and meal in EU imports, which enter the EU duty-free.

A closer look at EU exports...

Contrary to imports, the top export markets for the EU are developed countries. This reflects the focus of EU exports on final goods. The US is the single biggest market, taking 21% of EU exports (2003-05). Switzerland and Japan each take around 7% of EU exports, as indicated in graph 12. Russia, a transition economy, is in 2nd place with 8%. In 2005 EU exports to the US were valued at \$17 billion, compared to Russia (\$6 billion), Switzerland and Japan (both around \$5 billion).

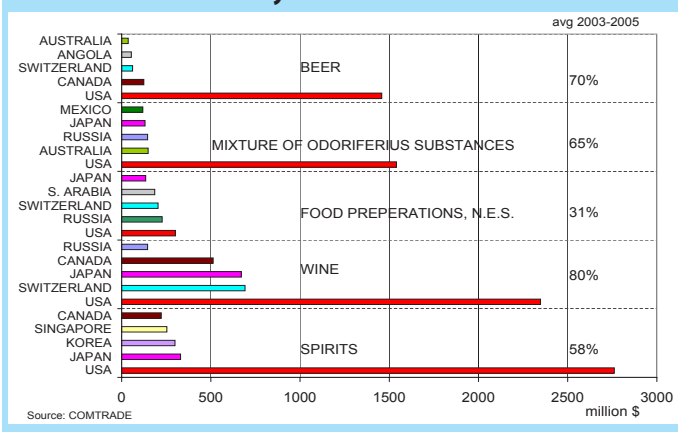
Graph 12: EU25 - agricultural exports by destination



The top exports are all final products (see graph 13). Spirits and wine (valued at \$6.6 billion and \$5.5 billion respectively) are the most important, followed by food preparations (\$3.3 billion), aromas (\$3.2 billion) and beer (\$2.5 billion) in 2003-05. Together these products

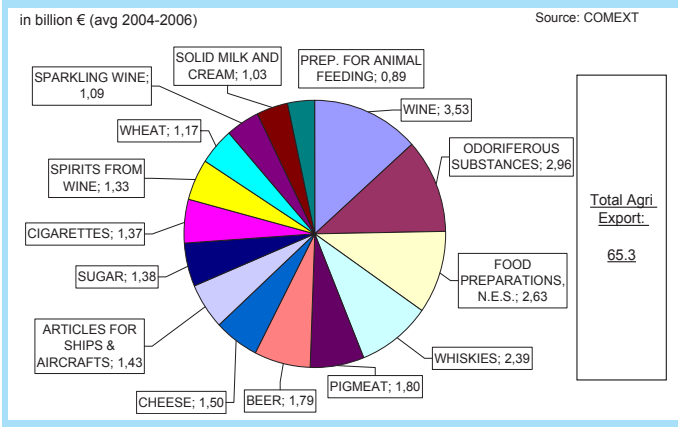
account for nearly 30% of total exports, with the US the key market for all of them. The graph also shows the concentration of exports in key markets, thus the 5 markets identified account for 80% of EU wine exports.

Graph 13: EU25 - export value of main products by destination



Using the most recent Comext data for 2006 (expressed in €), the trend towards final goods continues, with 13 out of the top 15 exports in this category, the exceptions being wheat (a commodity) and sugar (an intermediate product), as shown in graph 14.

Graph 14: EU25 main agricultural exports



Although the product ranking is slightly different (due to the inclusion of 2006 and to different product



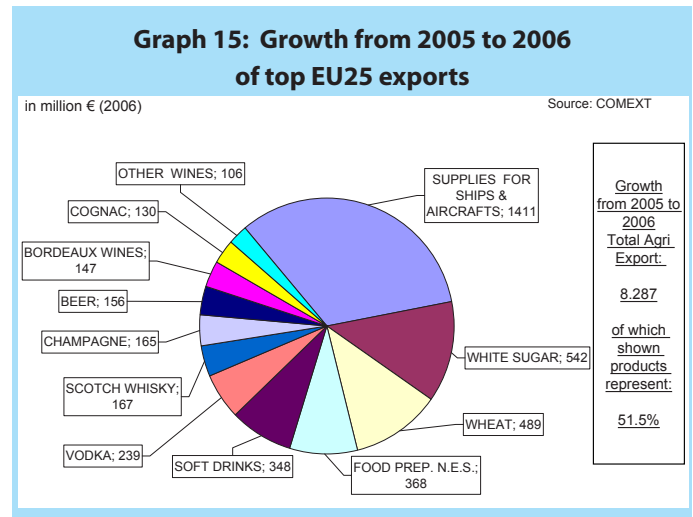
aggregates), the overall picture is the same. Food preparations, pigmeat, cheese, sugar and other dairy products fall within the top 15. And it is striking that 5 of the top 15 are alcohol products, sales of which grew strongly last year. Wine is the EU's highest value export.

What lies behind the EU's net agricultural surplus in 2006?

The EU's net agricultural surplus of €4.8 billion in 2006 (based on Comext data including inward processing), comes from the sharp increase in the value of EU exports by €8.3 billion (or 13% over 2005), compared to the rise in imports of €3.6 billion. A close look into the export data for the top 15 products, indicates that although some of the increase is because of the rise in commodity prices, most is due to higher volume and value of food and especially alcohol sales.

Graph 15 shows the composition of this hike in the value of exports. The biggest increase is in the category supplies for aircraft and ships, one that is too general to identify. Leaving this aside, the biggest increase was for white sugar exports, which rose by 39% despite a small fall in volume of sales, reflecting higher prices (after the low prices of 2004-05). The second biggest increase was in the value of wheat exports which grew by 50%, broken down into a volume increase of 36% and a price hike of 9%.

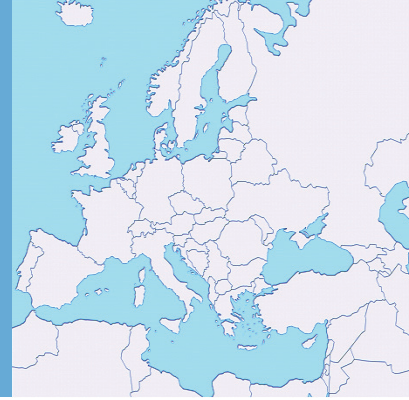
But perhaps what is most striking is that exports of beverages, soft drinks and alcohol, have shot up in value and in volume terms, with many of the EU's flagship alcohol products showing very strong growth. The numbers are impressive, with the volume of soft drinks up 22%, vodka up 65%, blended whisky up 6%, champagne up 19%, beer up 15%, Bordeaux wines up 13%, cognac up 5%, other quality wine up 52% and malt whisky up 28%, ranked by greatest increase in value in absolute terms.



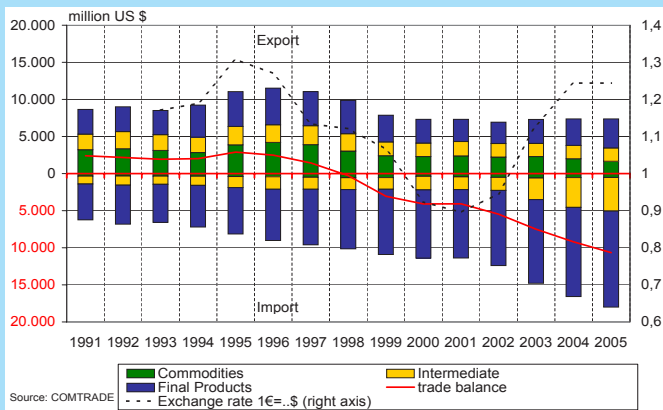
Changes in EU trade with key partners

The US is the single biggest export market for the EU, taking 21% of EU exports. It also ranks as the second largest supplier of imports into the EU, with 11% of total imports. The EU is also important for US trade. It is the top exporter to the US, accounting for nearly 27% of its agricultural imports, ahead of the US's NAFTA partners Canada with nearly 20% and Mexico at 13%. By contrast the importance of the EU market for US exports is declining, reflecting the US's diversification to NAFTA and other regions such as Asia. In 2003-05, the EU was the 4th export market for the US (taking just 11% of exports), behind Canada (17%), Mexico (13.5%) and Japan (14.5%).

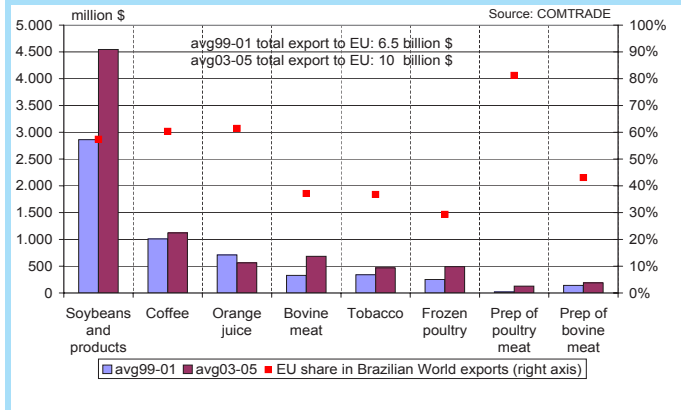
Since 1998 the US has run a large trade deficit in agricultural products with the EU (graph 16), reaching over \$10 billion in 2005. While the value of US exports to the EU has remained remarkably steady (\$8 billion), US imports from the EU have grown substantially, particularly in final products, which account for 70% of the total, reaching €18 billion in 2005. Top US imports from the EU are spirits, (valued at \$3.5 billion), wine



Graph 16: US agri trade with EU25



Graph 17: Brazil's main exports to the EU & share of EU in total Brazilian exports



(\$2.7 billion), aromas (\$2 billion), beer (\$1.5 billion), cheese and olive oil (\$700 million). Turning to US exports to the EU, nuts is the biggest export (\$1.5 billion), followed by soybeans (\$600 million), tobacco and wine.

Brazil is the EU's number one supplier and conversely the EU is also Brazil's most important agricultural market, absorbing 37% (\$10 billion in 2003-05) of the value of all Brazilian farm exports (graph 17). Its top exports, soya beans & products and coffee, enter the EU with low or no tariffs, with around 60% of these exports destined for the EU.

But beef and poultry are also among the top exports to the EU, despite high and medium tariffs respectively, with the EU taking 37% of beef and 30% of frozen poultry exports. This is because the EU is not just a lucrative market for Brazil, but also the only WTO market that is essentially open for Brazil in these products. As a result of this fact and the cross-subsidisation between high-value exports to the EU and lower-value exports to the second Brazilian market, Russia, Brazil can export not only within the EU quota, but also with the full out-of-quota duty applied.

Conclusions

Overall trade flows have been increasing since the early nineties, and their growth accelerated when the Uruguay Round came into effect. Within this context, EU exports have grown somewhat faster than imports, largely due to their continuing shift towards final products. As a result, the EU became the world's leading exporter. Indeed the EU's trade deficit has been shrinking to the extent that the EU was a net agricultural exporter in 2006. The increase in EU exports, despite the strong euro, is mainly the result of the structure of EU agriculture. Although the EU has lost share in world markets for commodities, this has been more than compensated by the growth in exports of final goods. The EU has succeeded in carving out a market for itself in the area of high value final products thanks to adjustments in production, both in the farm sector and in the food industry. The continuous reform of the CAP played a key role in this process, with the move away from product-based support and the stronger focus on sanitary and quality standards. This has improved market orientation, therefore the EU agriculture and food sectors are in a better position to react to dynamic developments on the demand side.