Agricultural and food trade

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1. Agri-food products are mostly traded within the EU but exports to third countries are increasingly important

- Exports to the internal market (i.e. among EU Member States) constitute the bulk of EU-28 agri-food exports. In 2016, 72.7% of EU MS exports of agri-food products were delivered to other EU-MS. 11 years earlier, this share stood at 77%.

- Between 2005 and 2016, exports among EU MS increased by 72%, to reach EUR 350 billion EUR in 2016. Exports to third countries increased even more in relative terms: from EUR 57.6 billion in 2005 to EUR 129.1 billion in 2015, i.e. +124%.

- This means that an increasing share of EU agricultural production is exported to third countries. Whereas exports of agricultural primary products to third countries represented 6.5% of the value of EU production back in 2007, they reached 11.9% in 2015. The same trend can be observed regarding products from the food industry, whose exports reached 10.1% of the production value in 2015.

![Figure 1: Trends in intra and extra-EU exports of agri-food products over 2005-2016](source: COMEXT)

![Figure 2: Share of exports to third countries in production value](source: Eurostat, calculations: DG AGRI)
2. CAP reforms and the EU trade policy helped turn the EU from net importer to the world's top exporter of agri-food products

- Since 2006, both EU agri-food exports and imports from third countries have doubled in value. The annual value of EU agri-food exports in 2016 reached a new record level of EUR 130.7 billion, which is EUR 1.7 billion (1.3%) higher than in 2015 and EUR 29.4 billion higher than five years ago (+29%). EU agri-food imports reached EUR 112 billion in 2016.

- This means that the EU trade balance in agri-food is now positive, and this has been the case for the EU since 2010.

- Today, the agri-food sector represents 7.5% of total EU exports in goods in 2016 and 6.6% of all imported goods are agri-food. With its surplus of EUR 18.8 billion, the agri-food sector is a major contributor to the overall surplus of the European Union in merchandise trade, which stands at EUR 39.3 billion in 2016.
• Not only did the EU become a net exporter of agri-food products, but it became in 2012 the world's number one exporter, before the USA. Besides, six EU Member States feature among the world top ten exporters of agri-food products.

• This development took place in a rapidly expanding world trade environment. Over the period 1995-2015, agricultural exports from Brazil, China and Canada grew at a fast pace. EU agricultural exports, although they grew slower, have exhibited a compound annual growth rate of 3.6 %, compared to 2.7 % for the USA.

• This good performance has been driven mainly by EU agricultural policies, structural change and technological progress in the agri-food sector, as well as trade policies. A recent study commissioned by the European Commission on the impact of implemented trade agreements shows that EU bilateral trade agreements contribute to increased EU exports and imports, the latter not necessarily at the expense of domestic production.

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2 Id.
This development underlines the increased competitiveness of EU agri-food products. The successive CAP reforms indeed helped bridge the gap between EU and world prices.

One notable feature in this context is the gradual phasing-out of CAP export subsidies, once a major component of the CAP expenditure. Following CAP reform, they could only be used in very limited circumstances. In practice - and contrary to many of its competitors - the EU hasn't used them since 2013, although they remained as an instrument in the CMO regulation. The DDA Nairobi agreement of the WTO reached in December 2015 now provided for the elimination for good of all forms of export subsidies and introduced disciplines on other potentially trade-distorting export measures.
• The EU is also the world top importer of agri-food products. In particular, the EU is the first trade partner of Least Developed Countries (LDCs) regarding agri-food products. The EU alone imports more from LDCs than the other "big-5" importers (the USA, Russia, Japan, China, and Canada).

• More generally, main origins for EU agri-food imports in 2016 were Brazil, USA, Argentina and China, followed by Switzerland, Turkey, Indonesia, Ukraine and Ivory Coast. Most important export destinations for EU agri-food products in 2016 featured the USA, China, Switzerland, Japan and Russia.

EU main agri-food trade partners, share in the value of exports/imports, 2016 (source: COMEXT)
3. However, not all sectors are equally impacted

- EU-28 agri-food exports are balanced across classes of products. In 2016, 54.5% of EU agri-food exports consist in agricultural food and feed products (commodities: 18.1% of total agri-food exports; other primary agricultural products: 17.8%; and agricultural processed products including wine: 18.6%); 34.4% are products of the food and drink industry (food preparations: 21.2%; beverages: 13.2%); while the remaining 11.1% are non-edible products. EU imports are dominated by agricultural food and feed products (80% of EU imports of agri-food products in 2016), especially commodities, which account for 41.7% of all EU agri-food imports in 2016.

- In more detail, wine, vermouth, cider and vinegar, spirits and liqueurs, infant food, food preparations, wheat and pig meat are flagship EU-28 export products. Main import products consist of tropical fruit, nuts and spices, unroasted coffee and tea in bulk, oilcakes, fruit excluding citrus and tropical fruit, palm and palm kernel oil and soya beans.
• However, not all sectors are equal in the face of international competition.

• In a context where 90% of the additional world demand for agri-food products over the next 10-15 years is expected to be generated outside Europe, exports to third countries will be instrumental to the growth of the agricultural sector. Given the limited progress in the multilateral trading system (WTO), bilateral agreements create opportunities for EU producers on global markets.

• The agenda of negotiations is set in the "Trade for all" communication\(^3\). It foresees opening or resuming negotiations with some key world agricultural exporters, allowing for more imports and increasing competition on domestic agri-food markets. In order to assess the potential cumulative impact of ongoing and upcoming trade negotiations on the EU agricultural sector, the European Commission carried out an economic study\(^4\).

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That study focuses on 12 agreements yet to be implemented. It is based on scenario simulations run by means of economic models. Reciprocal liberalisation of import tariffs between the EU and the relevant trading partners was modelled for two theoretical scenarios (conservative/ambitious). The conclusions of the study provide an indication about the likely potential direction and magnitude of the impact of those scenarios, and are not a forecast of the outcome of future agreements.

The study shows a positive impact for the EU agriculture as a whole, with an increase in production value ranging from €0.24 billion to €2.1 billion. However, significant differences exist between specific commodities.

Although the sensitive sectors are not the same in all agreements, the study overall anticipates losses for beef meat and rice, both in terms of trade effects and of decline in producer price. Other struggling sectors are sugar and sheep meat, although to a lesser extent.

On the bright side of the equation, significant gains are expected to be achieved in the EU dairy and pigmeat sectors and, to a slightly lesser degree, by wheat producers. For all other sectors, the respective gains or losses are more moderate.

The size of the sector-specific impacts is obviously magnified when moving from the conservative scenario to the ambitious one, albeit the direction of the change does generally not change.

Due to methodological limitations, the study tends to underestimate gains for EU agriculture (removal on non-tariff barriers and protection of geographical indications in partner countries are not taken into account). It shows the impact of a tariff reduction for sensitive sectors, which in reality will not happen. The impact for sensitive sectors will be limited by negotiating tariff rate quotas instead of general tariff reductions.

Figure 14: Cumulative impact of trade agreements – change in EU producer prices