

# ANALYSIS OF THE AGRARIAN FOREIGN TRADE OF THE EUROPEAN UNION IN THE CONTEXT OF THIRD COUNTRIES \*

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## **ABSTRACT**

*Trade is historically the oldest and the most important part of the external economic relationships. Agrarian trade is a significant part of the world economy, even if its share in world trade is continuously decreasing. Currently, the EU agrarian trade has become a very significant proportion of the world trade with agrarian production. The share of the EU in the world agrarian export such as import value is very high. This work is focused on the foreign trade of the European Union in the light of agricultural commodities, on its territorial as well as commodity structure. The main aim of our contribution is to characterize the development of foreign trade in the agricultural products between the European Union and third countries.*

## **KEY WORDS**

*Agricultural products. European Union. Foreign trade. Import. Export.*

**JEL classification:** *Q17*

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## **INTRODUCTION**

Agrarian trade is a significant part of the world economy, even if its share in world trade is continuously decreasing. For the EU countries, agrarian trade in both forms of the intra – trade and extra – trade represents a very important part of the Common Agricultural Policy. Currently, the EU agrarian trade has become a very significant proportion of the world trade with agrarian production. The share of the EU in the world agrarian export as well as import value is very high. [12].

The last few years have seen considerable changes in the world as well as in the regional trade. The EU agrarian trade was influenced by world trade liberalisations and the new member countries that joined EU in 2004 and 2007 were affected by the accession negotiations. [12]. The agri-food industry is the second largest segment of the EU industry. Over the last two decades, the EU

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\* *The contribution is the partial output of grant solution VEGA 1/0541/11: "Analysis of the determinants of performance in subjects farming on land according to the regional differentiation of Slovakia".*

significantly opened its market. Two-thirds of its agricultural imports are from developing countries. Thanks to bilateral agreements are valid for many countries low tariffs for imports of agricultural products and the 50 poorest countries in the world may be exported to the EU without duties or quantitative restrictions.

The European Union is the largest global player in the international trade. Trade is the engine of the global growth and contributes to the creation of the long-term jobs in the EU and worldwide. It has a real impact on daily life of citizens and entrepreneurs in Europe and offers a development path for those who most need the help, regardless of where they live. [9] There are several authors who have already been addressed by foreign trade with agricultural products. Török and Jám bor dealt with agri-food trade of the new member states since the EU accession. [13]. Antimiani et al. devoted to agri-food exports in the enlarged European Union. [1]. Svatoš and Smutka studied the influence of the EU enlargement on the agrarian foreign trade development in member states. [11]. This issue is also partially analyzed by the following scientific studies such as [15] and [2].

### ***MATERIALS AND METHOD***

Main aim of this article is:

- ✓ to characterize the development of foreign trade in the agricultural products between the European Union and third countries.

The main data were obtained from organizations that fall under the European Commission such as Eurostat and DG Agriculture and Rural Development. We analyzed the period from 2002 to 2011. We used the following logical scientific methods: analyse and synthesis, graphical methods and methods of the descriptive statistics. We used the numerical calculations, too.

When writing this paper, it has become necessary to explain the following terms. International trade is an important indicator of the performance of the European Union economy showing how it interacts with other countries and its status in the international economy. Statistics of international trade in goods captures the value and quantity of goods traded between EU Member States (intra-EU trade) and goods traded between EU Member States and third countries (extra-EU trade). [8].

Definitions for Extra-EU-trade are:

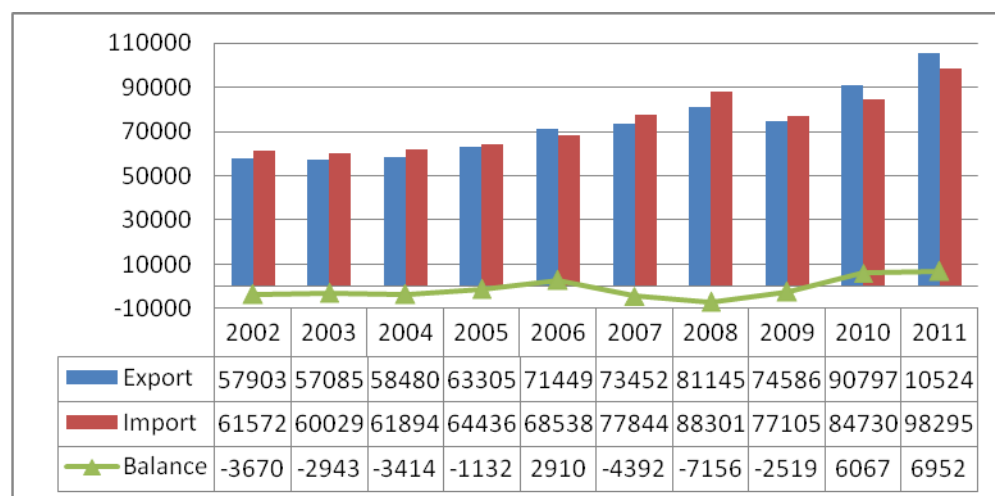
- ✓ imports are goods, which enter into the statistical territory of the EU from a non-member country and are placed in customs regime free circulation, inward processing or processing under customs control, either immediately or after a period in a customs the warehouse.
- ✓ exports are goods which leave the statistical territory of the EU to a non-member country after being placed under the customs procedure for exports, outward processing, or re-exportation following either inward processing or processing under customs control. [8].

One of the most commonly used classification is the Standard International Trade Classification (SITC rev. 4) of the United Nations (UN), which allows you to compare statistics of foreign trade on a worldwide basis. The agricultural production is included SITC 0 (Food and live animals), SITC 1 (Beverages and tobacco), SITC 2 (Crude materials, inedible, except fuels) and SITC 4 (Animal and vegetable oils, fats and waxes). [14].

## RESULTS AND DISCUSSION

The following figure shows the development of EU trade in agricultural products towards non-member countries. We can observe a positive trend of growth in trade until 2008. The sharp decline in exports and imports was recorded in 2009, but since 2010 the export and import achieve growth again. In 2009, the impacts of recession were reflected in the business as a whole. For many years the EU has been a net food importer. In fact, food security was one of the main reasons for the development of the Common Agricultural Policy in the 1960s. As shown in the following figure, EU 27 countries achieved long-term negative balance of trade in agricultural commodities. Positive trade balance was achieved in 2006 and in the period from 2010 to 2011.

Figure 1 Development of Extra-EU- 27 trade in agricultural products (in mil.euros)

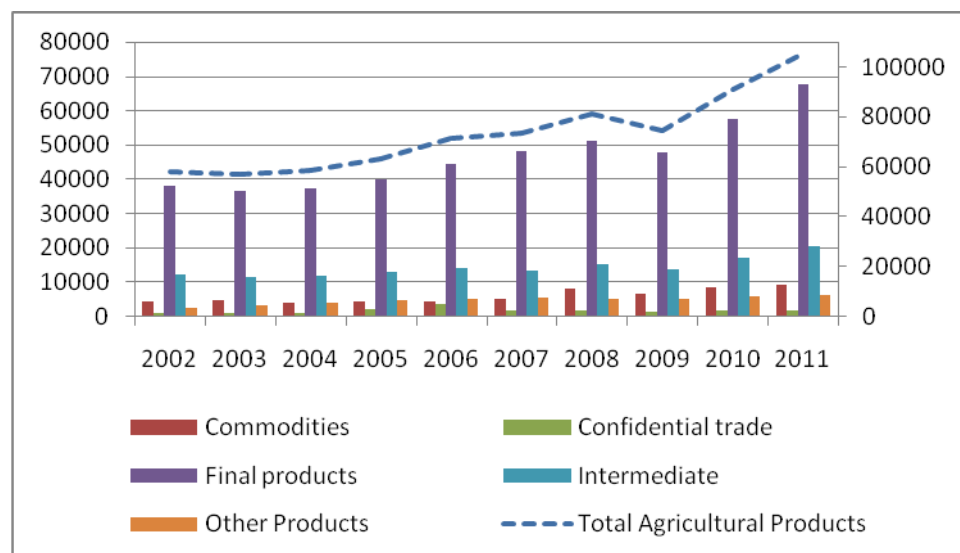


Source: European Commission – Directorate General for Agriculture and Rural Development. Own processing.

Figure 2 shows the development of extra-EU27 exports in the agricultural products. Exports recorded an increasing trend from 2003 to 2008 and from 2009 to 2011. The negative trend was observed only in the period starting from 2002 to 2003 and from 2008 to 2009. The export of commodities, final products, intermediate products, confidential trade and other products is displayed on the left scale. The final products and intermediate products were the most exported. The export of final products increased by 77 % and the export of intermediate products increased by

65 % from 2002 to 2011. The right scale shows the development of exports of total agricultural products. The exports of total agricultural products increased by 81 % from 2002 to 2011. The most significant increase was observed from 2009 to 2011.

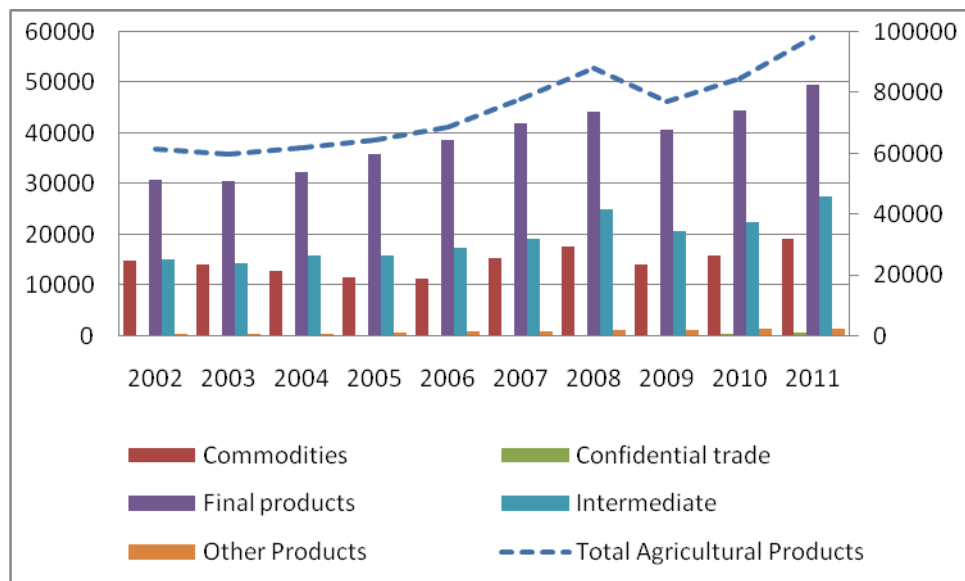
Figure 2 Development of Extra-EU-27 exports in the agricultural products (in mil.euros)



Source: European Commission – Directorate General for Agriculture and Rural Development. Own processing.

Figure 3 shows the development of extra-EU27 imports in the agricultural products. The imports recorded an increasing trend from 2003 to 2008 and from 2009 to 2011. The negative trend was observed only in the period starting from 2002 to 2003 and from 2008 to 2009. The imports of commodities, final products, intermediate products, confidential trade and other products is displayed on the left scale. The final products, commodities and intermediate products were the most imported. The imports of final products increased by 61 %, of commodities by 27 % and imports of intermediate increased by 82 % from 2002 to 2011. The right scale shows the development of imports of total agricultural products. The imports of total agricultural products increased by 59 % from 2002 to 2011. The most significant increase was observed from 2010 to 2011.

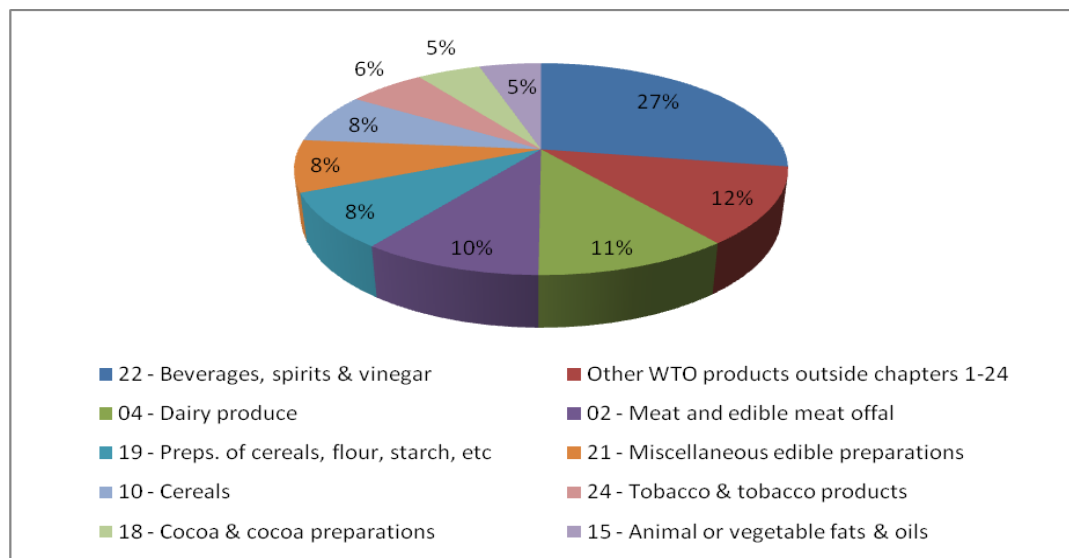
Figure 3 Development of Extra-EU-27 imports in the agricultural products (in mil.euros)



Source: European Commission – Directorate General for Agriculture and Rural Development. Own processing.

In 2011, these commodities were most exported from EU: beverages, spirits and vinegar; dairy produce; meat and edible meat offal; preparations of cereals, flour and starch; miscellaneous edible preparations; cereals; tobacco and tobacco products; cocoa and cocoa preparations; animal or vegetable fats and oils. The percentage of each commodity is shown on the figure 4.

Figure 4 Top 10 commodities by Extra-EU-27 exports (in %)

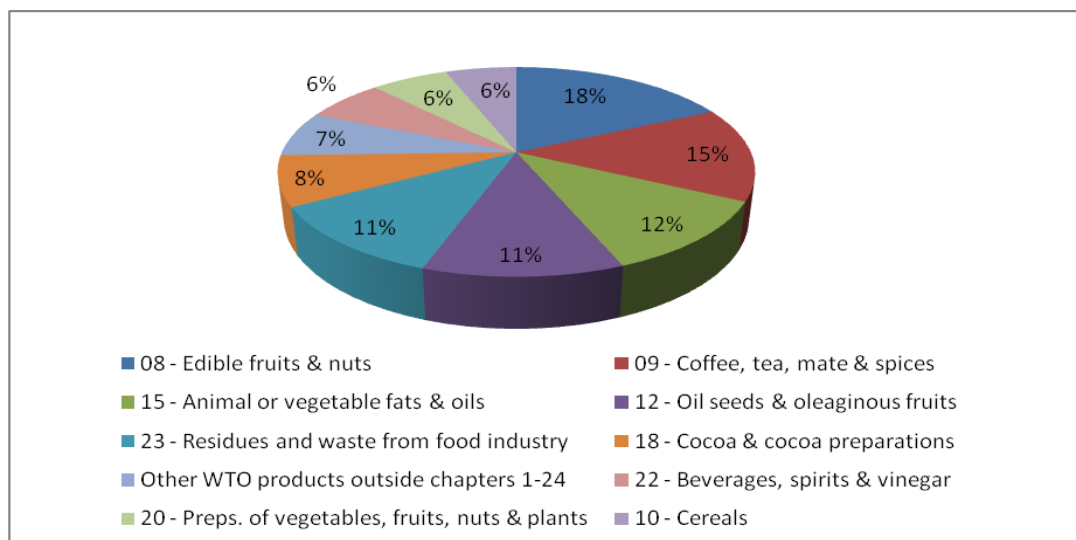


Source: European Commission – Directorate General for Agriculture and Rural Development. Own processing.

In 2011, these commodities were most imported to EU: edible fruit and nuts; coffee, tea, mate and spices; animal or vegetable fats and oils; oil seeds and oleaginous fruits; residues and waste

from food industry; cocoa and cocoa preparations; beverages, spirits and vinegar; preparations of vegetables, fruits, nuts and plants; cereals. The percentage of each commodity is shown on the figure 5.

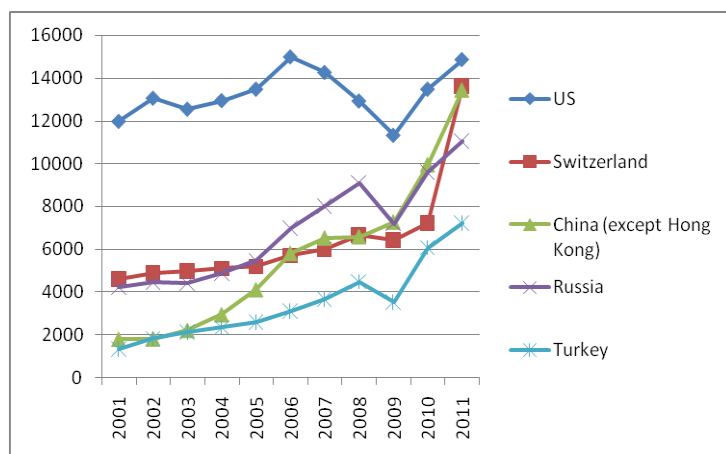
Figure 5 Top 10 commodities by Extra-EU-27 imports (in %)



Source: European Commission – Directorate General for Agriculture and Rural Development. Own processing.

The figure 6 shows the 5 main partners of the EU27 for that product group. Exports are expressed in value terms and measured fob (free on board). [7]. The most important export partner of agricultural products is US. In the second place is China, followed by Switzerland, Russia and Turkey. The US is the top destination for agricultural trade of EU. The bulk of EU exports are final products, mainly alcoholic beverages such as wines, beers, spirits accounting for around 40% of the total EU exports. The next leading export categories to US include: odoriferous substances; cheese; olive oil; and cereal preparations. [3]. To China are the most exported categories such as raw hides and skins; meat products; wines and spirits; cereals preparations; and vermouth and liquers. [4]. EU has the positive and rising net trade balance with China, which is a sign of an increasing demand for EU products. Switzerland itself is the EU third export partner and together with Norway it absorbs around 10% of EU exports. The main exported products to Switzerland are wine and vermouth; cereal preparations; fruits and vegetables; and vegetable products. [5].

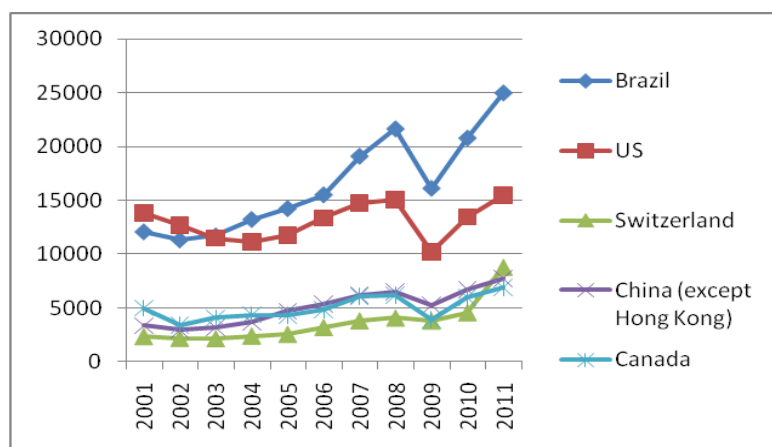
Figure 6 Top 5 trading partners for Extra-EU-27 exports of the agricultural products (in mil.euros)



Source: Eurostat. Own processing.

The figure 7 shows the 5 main partners of the EU27 for that product group. Imports are expressed in value terms and measured cif (cost, insurance, freight). [7]. The most important import partner of agricultural products is Brazil. In the second place is US, followed by China, Canada and Switzerland. Brazil is the largest economy of Latin America and its trade with the EU accounts for 37% of the EU's total trade with the Latin American region in 2011. EU imports from Brazil are dominated by primary products, in particular agricultural products (41%) and fuels and mining products (31%). [3]. Brazil is an important supplier of sugar, poultry meat and soya beans to EU. The leading import categories from US include: cereals, mainly wheat; soya beans; processed fruit and vegetables; wine; nuts; and raw tobacco. [3]. From China are the most imported categories such as animal products unfit for human consumption; processed fruit and vegetables; wool and silk; and products of oilseeds. [4].

Figure 7 Main 5 trading partners for Extra-EU-27 imports of the agricultural products (in mil.euros)



Source: Eurostat. Own processing.

## **CONCLUSION**

The EU is the second largest agricultural exporter after the US. In the past the EU held a trade deficit in agricultural products, but in 2010 the EU enjoyed a positive balance in the trade of agricultural products. The evolution of EU agricultural exports has followed a positive trend, from final products to commodities. The exports of total agricultural products increased by 81 % from 2002 to 2011. The evolution of EU agricultural imports has also the positive trend. The imports of total agricultural products increased by 59 % from 2002 to 2011.

The most important EU's export partner of agricultural products is US. In the second place is China, followed by Switzerland, Russia and Turkey. On the other hand, the most important EU's import partner of agricultural products is Brazil. In the second place is US, followed by China, Canada and Switzerland. China and Hong Kong are among the EU's fastest growing markets. China could become a net importer of several agrarian crops such as soya and maize. This may be favorable report to European farmers, who could begin to develop more activity for the export of its production to Asia. It is very probable that in the near future undoubtedly China manifested more interest in agricultural commodities. EU farmers should be ready to offer to China our production. It will be necessary to look for ways to get our produce as cheaply as possible to the port as well as look for business partners in third countries for sales. [10].

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