Romania's position in the EU extra-european agrifood trade

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ROMANIA'S POSITION IN THE EU EXTRA-EUROPEAN AGRIFOOD TRADE

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Abstract: *Since the EU accession, Romania's agrifood trade increased significantly, in both volume and value terms. Although the old free trade agreements, that have been in force for the last 15 years, were discontinued when it joined the Single Market, Romania continued its trade relations with its traditional extra-EU partners, under the new EU rules. The EU is currently the largest player in the world agrifood markets, and the 2004 and 2007 enlargements contributed to the consolidation of that position. The present paper is empirically examining the position and contribution of Romania among the other EU member countries to the extra-EU agrifood trade, in terms of values, quantities and directions of flows. The competitiveness of the Romanian extra-community agrifood is analyzed as well, since it improved significantly for the last three years, shifting the trade balance from negative to positive.*

Keywords: *agrifood trade, extra-EU trade, competitiveness, trade balance*

INTRODUCTION

The international agrifood markets experienced important changes during the last 15 years. The top 3 players, EU, USA and China changed several times their ranking, due first to the structural changes in the EU (the 2004 and 2007 enlargements), then to the occurrence of the economic crisis in 2008-2009 and then to the changes in the EUR/USD exchange rates.

Romania's international trade changed as well. At the accession time, Romania was presenting a significantly less developed and efficient agrifood sector as compared not only to the Old member States (OMS), but to many of the 2004 New Member States (NMS-10). Nevertheless, the free access on the Single Market, even hindered for several products by quality issues or sanitary and veterinary problems resulted in a spectacular increase of the Romanian agrifood trade.

MATERIAL AND METHODS

After EU accession, the statistical registration of the international trade changed in Romania: the exchanges with the other Member States (MS) are accounted as intra-community trade, while the exchanges with non-EU countries are accounted as international trade (extra-community trade), and these are the figures used in international comparisons, as well as in the present paper.

The calculations used data from Faostat and Eurostat databases, in SITC rev.4 and 2-digits Combined Nomenclature (CN), taking into account the conversion rules between the two classification systems.

The analysis focused on the value and direction of the exchanges, as well as upon the export and import flows composition by products.

RESULTS AND DISCUSSIONS

Since setting up the Common Agricultural Policy, EU aimed at increasing its agri-food production in order to maximize the coverage of the domestic demand and export the surpluses. In time, the first objective has been mostly achieved; moreover, due to the increased agrifood production volume and quality, EU became a major exporter on the world agrifood markets; at the same time, consumption increased as well, and imports completed the domestic demand.

Since 2000, the total world value of agrifood trade flows (exports+imports) increased continuously: in 2007 it had already doubled (2.12 times as compared to 2000) and in 2011 it had tripled (3.16 times as compared to 2000). The upward trend discontinued in 2009 only, due to the

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economic crisis, but resumed its growth since 2010. The EU has been the largest player on the world agrifood markets for the last two decades, followed by the USA and lately, by China.

In 2004, after the 15-25 enlargement, EU-25 became the largest world agrifood products exporter (with a 12% share), and kept its leading position until 2006 only; since 2007, USA took the first position and EU-27, despite the 25-27 enlargement, stepped down to the second position. Brasil maintained its third rank all along, and China the fourth (table 1). In a five-year period (2006-2011), despite the negative influence of the world economic crisis, exports increased; the highest rates were shown by Indonesia (almost 3 times), Thailand, Brazil, Argentina and China (more than 2 times) (table 1). EU-27 exports increased at the slowest pace among the top 10 group.

Table 1 – Top 10 players on the world agrifood markets

	2006	2007	2008	2009	2010	2011	2011/2006
World – total exports (billion USD)	***721.3***	***873.3***	***1063.0***	***950.2***	***1080.0***	***1313.9***	***1.82***
Share of top 10 exporters (%)							
EU-25/27	11.9	10.4	10.2	9.9	10.0	10.1	1.55
USA	9.9	10.6	11.1	10.6	11.0	10.6	1.96
Brazil	4.8	4.9	5.2	5.6	5.7	6.1	2.30
China	3.6	3.7	3.4	3.7	4.0	4.0	2.00
Canada	3.4	3.4	3.5	3.3	3.2	3.1	1.66
Australia	2.9	2.4	2.3	2.3	2.5	2.5	1.54
Argentina	2.7	3.1	3.3	2.8	3.0	3.3	2.21
Thailand	2.1	2.1	2.2	2.2	2.4	2.8	2.44
Indonesia	2.0	2.0	2.6	2.2	2.8	3.2	2.93
Mexico	1.9	1.6	1.5	1.6	1.6	1.6	1.56
World – total imports (billion USD)	***754.2***	***912.8***	***1117.9***	***987.4***	***1104.0***	***1350.7***	***1.79***
Share of top 10 importers (%)							
EU-25/27	11.7	11.5	11.4	10.6	10.1	10.3	1.58
USA	9.6	8.7	7.8	7.9	8.1	7.9	1.48
China	6.3	6.5	7.2	7.4	9.0	9.5	2.70
Japan	5.6	5.0	5.1	4.8	4.9	5.1	1.62
Russian Federation	2.6	2.7	2.8	2.7	2.9	2.8	1.93
Canada	2.6	2.5	2.3	2.5	2.5	2.3	1.61
Mexico	2.1	2.1	2.1	1.8	1.8	1.9	1.63
Republic of Korea	1.6	1.6	1.7	1.5	1.7	1.7	1.87
Saudi Arabia	1.2	1.3	1.2	1.1	1.5	1.4	2.10
Hong Kong	1.2	1.2	1.2	1.4	1.5	1.5	2.19

Source: author's calculation using Faostat data

In terms of imports, the EU has ranked first for the last 15 years, and increased 1.6 times in 2006-2011. China's imports of agrifood products almost tripled during the same period, while the USA imports increased at a slower pace. As a result, since 2010 China became the world second largest agrifood importer, and USA stepped down to the third position.

In its agrifood trade, the EU showed a continuous deficit for the last 15 years, while USA showed a continuous positive trade balance (except for 2005-2006). During 2006-2011, China's agrifood trade deficit increased sharply (3.6 times), from 21 to 76 billion USD.

The two consecutive enlargements, in 2004 and 2007, from 15 to 25 and then 27 countries, had significant impact upon the EU trade. In absolute value, the total general and agrifood international trade increased, but its weight on the world markets diminished as a result of several opposing trends:

a) Starting from the accession moment of a New Member States (NMS), its total international trade becomes statistically separated into intra-EU trade (trade between the NMS and the rest of the EU) and extra-EU trade (trade of the NMS with non-EU countries). As a consequence, the extra-EU trade diminishes by the value of the trade with the NMS before accession, and increases by the trade of the NMS with non-EU countries;

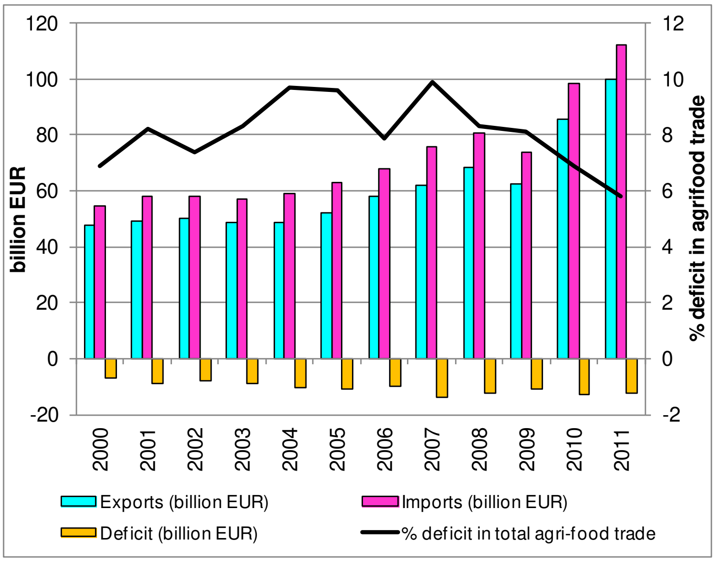
b) both Old Member States (OMS) and NMS increased their trade volumes in absolute terms during the period 2004-2007, since it has been a general economic expansion period in Europe;

c) the NMS added their trade with non-EU to the general „extra-EU" trade volume;

d) the overall continuous growth in both exports and imports since 2002 has been temporarily reversed in 2008-2009 due to the financial turmoil at the end of 2008.

After the two enlargements, both EU exports and imports increased immediately (figure 1), and the same happened with the agrifood trade deficit, since the combined extra-EU trade balances of the 10 and then 12 NMS has been negative. In 2008 the EU total agrifood trade (export + import) reached a first peak (149 billion EUR).

Figure 1 – EU extra-community agrifood trade in the 2004 and 2007 enlargements decade



Source: author's calculations on Eurostat data

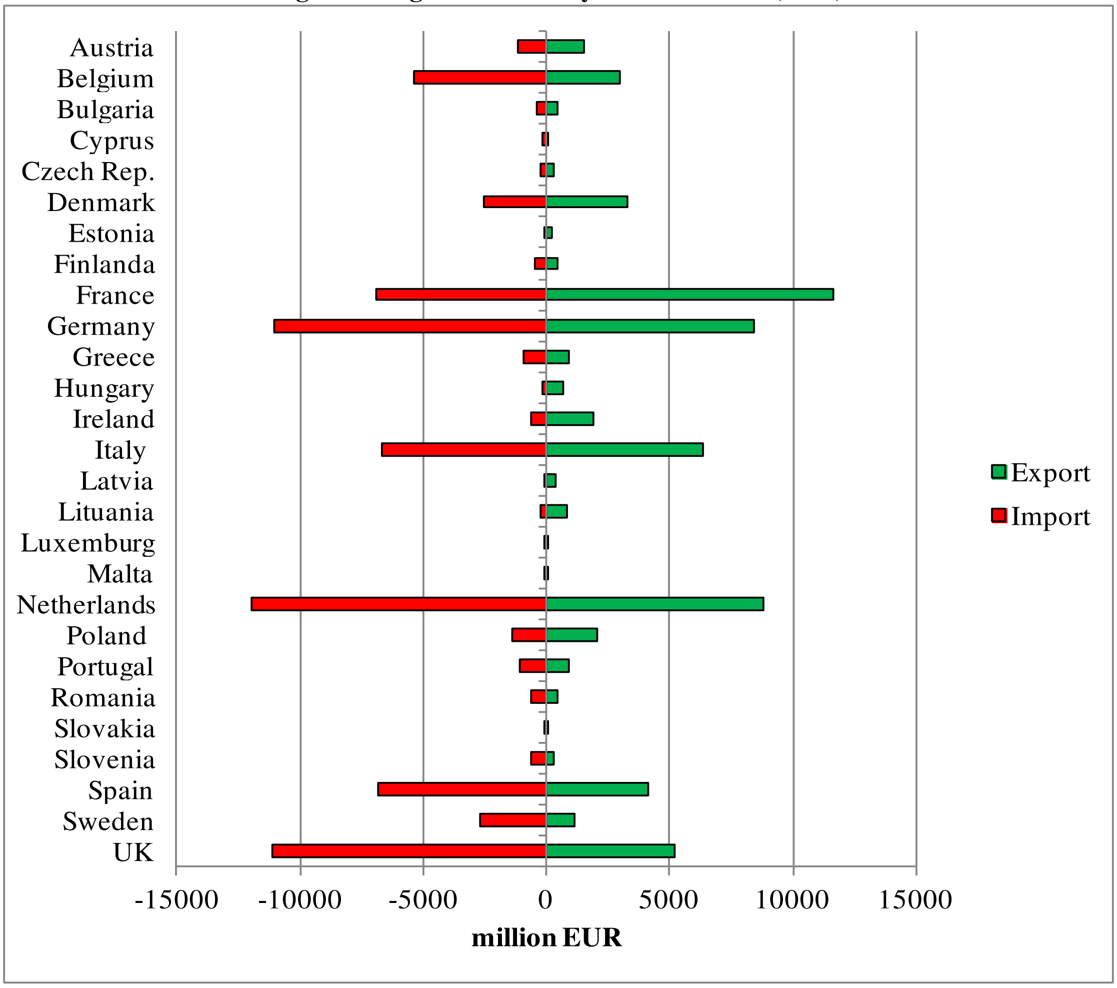
The economic crisis showed its effects upon trade as late as 2009, by both an export contraction (of 7.5%), and import contraction (of 11.1%) Since 2010, the increasing trend in trade flows resumed and in 2011 a new peak has been reached: a total trade value of 212 billion EUR, of which 100 billion EUR agrifood trade exports and 112 billion EUR imports. The trade balance, which reached a 14 billion EUR maxim, diminished subsequently to a share of 5.8% of the total trade. The increased exports and imports were mainly the consequence of a substantially higher volume of traded goods, and at a far lesser degree of price and EUR/USD exchange rate variations.

In 2009, the top 5 countries exporting outside EU accounted for 65% of the total extra-EU exports and have been France, Netherlands, Germany, Italy and UK. In terms of agrifood exports, Romania ranked 19 of 27. The top 5 extra-EU importers have been the Netherlands, UK, Germany, France and Spain, accounting together again for 65% of the total imports, with Romania ranking 14 of 27.

In terms of trade balance, France, Ireland, Denmark, Poland and Lithuania were the top 5 with extra-EU positive balance; among the NMS, Hungary, Latvia, Estonia, Bulgaria and Malta had also a positive agrifood trade balance in 2009.

The main contributors to the 2009 EU trade deficit have been UK, Netherlands, Spain, Germany and Belgium; among the NMS, agrifood trade deficits were presented by Slovenia, Romania, Cyprus, Slovakia and Czech Republic.

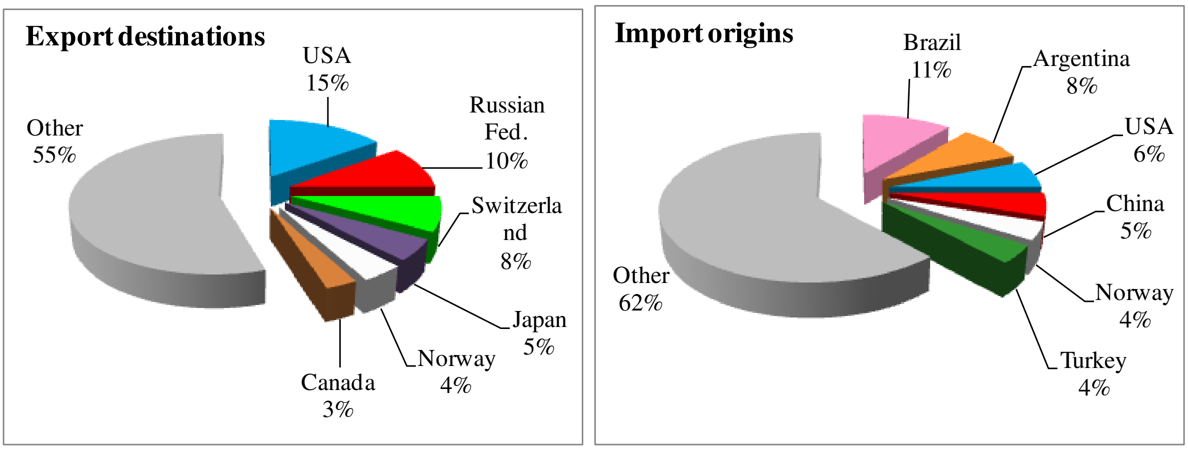
Figure 2 - Agrifood trade by member states (2009)



Source: author's calculations on Eurostat data

In terms of export destinations of the EU-27 exports, six countries are accounting for 45% of the total volume: USA, the Russian Federation, Switzerland, Japan, Norway and Canada. Among the exported products, beverages only accounted for a quarter of the exports, other products were cereals, fruit, vegetables and dairy products (figure 3).

Figure 3 – Main trading partners for EU-27 (2009)



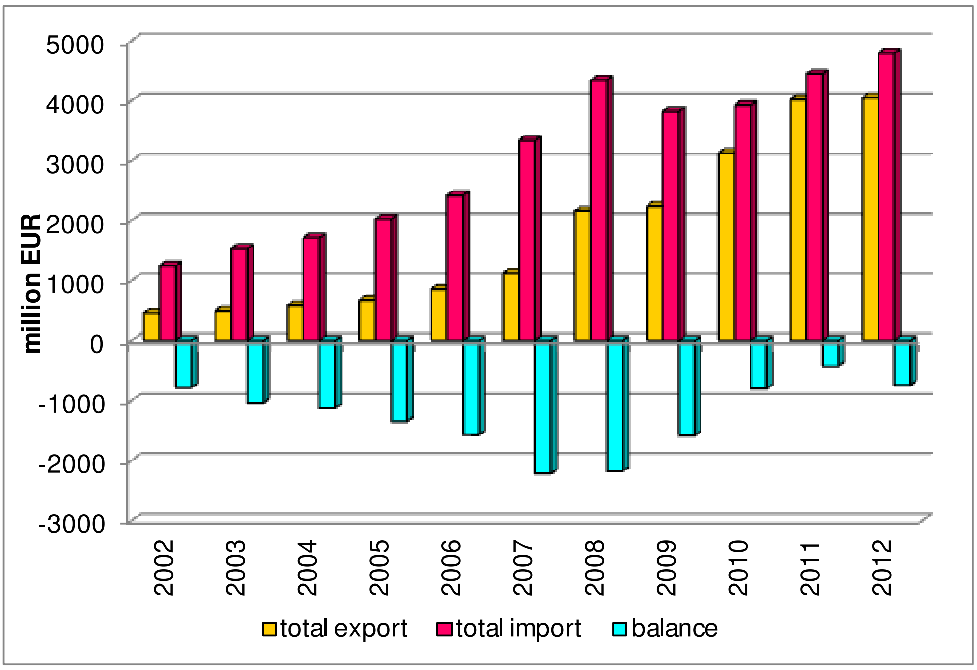
Source: author's calculations on Eurostat data

On the contrary, the EU-27 extra-community imports are more dispersed in terms of countries of origin and far more concentrated in terms of the trade flows composition. The top 6 countries supplying agrifood products to EU-27 are accounting for only 38% of the imports: Brazil, Argentina, USA, China, Norway and Turkey. The top 5 imported products are: coffee, tea, fruit, vegetables and fish, and they are accounting for almost 2/3 of the total imported agrifood products.

After EU accession, the efforts of the Romanian agrifood sector focused on enhancing competitiveness, by improving efficiency and product quality along the food chains, in order to achieve a better presence on both the EU Single Market as well as on the international markets.

The lifting of the import bans since 1990, the partial elimination of the trade restrictions, their complete removal in 1997, together with the enforcement of a moderate tariff regime allowed a massive penetration of imported agrifood products on the Romanian domestic markets. Due to the breakup of the traditional food chains as a result of the relocation on private basis of the whole agrifood system, from the agricultural production, to the industrial processing and finishing in the retail sector, the domestic supply could not keep pace with the demand expansion, both in quantity and quality terms, and was not able to face the competitive pressure of the imported products. Although the Romanian exports increased continuously since 2002, the imports increased at a faster pace, and, as a result, the agrifood trade deficit increased massively, to a historical peak of 2,2 billion EUR in 2007 (figure 4).

Figure 4 – Romanian total international agrifood trade



Source: author's calculations on Eurostat data

EU accession meant for Romania, at least during the first 2 years, a considerable increase in the agrifood total international exchanges; thus in 2008, the total value was double as compared to 2006, the last pre-accession year. The absolute value of the agrifood trade increased both in the pre-accession period, and in the post-accession period, with a slight contraction in 2009. From the agrifood trade point of view, the economic crisis resulted in a contraction of the total trade exchanges in 2009; afterwards, the upward trend resumed.

In the Romanian total international trade, the post accession extra-community trade is about 27% (for both exports and imports). A notable exception has been 2008, when the rations changed substantially: for exports the extra / intra-community ratio dropped to 13% / 87% (as compared to 27/73 in 2007, 2009 and 2010), and for import the extra / intra-community ratio increased to 30% / 70% (as compared to 27/73% in 2007, 2009 and 2010) (table 3).

Table 3 – Extra / intra-community ratio in the Romania agrifood trade (%)

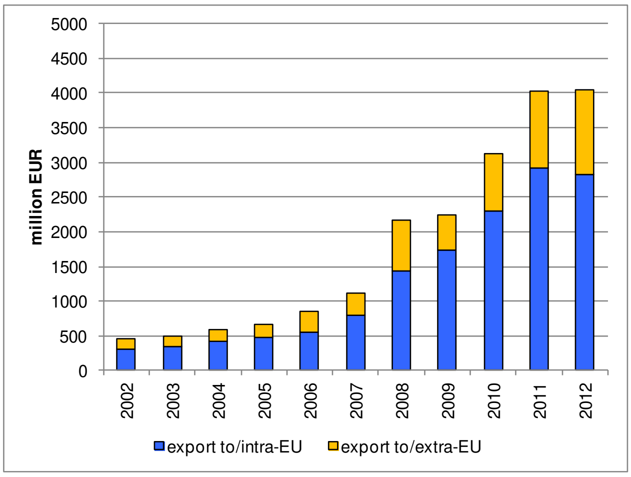
	2004	2005	2006	2007	2008	2009	2010
Extra-community export	45.5	35.0	39.3	30.0	35.0	22.9	26.9
Intra-community dispatches	54.5	65.0	60.7	70.0	65.0	77.1	73.1
Extra-community import	48.9	47.2	45.4	27.6	21.0	19.7	19.0
Intra-community arrivals	51.1	52.8	54.6	72.4	79.0	80.3	81.0

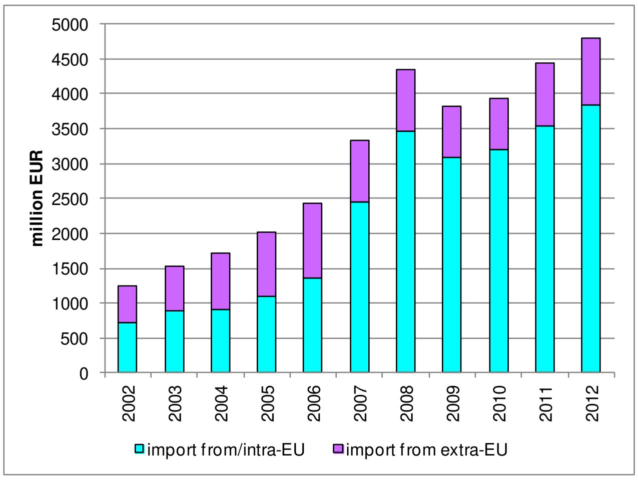
Source: author's calculations on Eurostat data

A possible explanation might be the faster RON/EUR exchange rate depreciation (by 10% in 2008/2007) as compared to the RON/USD exchange rate (by only 3% in the same period), which might have temporarily redirected the Romanian trade flows towards the EU at the expense of the extra-EU ones, and at the same time a temporary favoring, for 2008 only of the extra-EU imports in USD.

The evolution trends in the Romanian extra-community trade are different from those of the intra-community trade (figure 5). Thus, the extra-community exports increased continuously, reaching a peak in 2011 (1.1 billion EUR), while for imports, the increasing trend from the pre-accession period reversed since 2008, to drop in 2010 to a minimum of 720 million EUR, and then back upward to 903 million EUR in 2011.

Figure 4 – Romanian extra-Eu versus intra-EU agrifood trade





Source: author's calculations on Eurostat data

The intra-community agrifood trade deficit decreased continuously, the same as for the extra-community balance, due to the combined action of the export expansion and import contraction. The year 2010 is special, because for the first time since 1990, the extra-community agrifood trade balance turned positive: exports exceeded imports, and the trend continued in 2011 as well.

The Romanian extra-community agrifood trade flows are different from those of the EU-27 in terms of the share of destination and origin countries (table 4). It is quite normal, taking into account that:

a) during the '90's, Romania lost some important export markets – the ex-COMECON markets, mainly Russia;
b) penetrating new international markets and EU proved quite difficult, due mainly to sanitary and veterinary barriers;
c) the enforcement of free trade agreements with various countries and country groups facilitated the access of the Romanian agrifood products on these markets;

Table 4 – The Romanian extra-community agrifood trade: top destinations of exports and origins of imports

Rank	2003		2006		2010	
	Country	%	Country	%	Country	%
Destinations of exports						
1	Croatia	18.1	Turkey	19.6	Turkey	17.3
2	Turkey	16.0	Croatia	14.8	Korea	10.6
3	Syria	14.2	Pakistan	9.2	Syria	6.5
4	Moldova	10.4	Moldova	6.4	Israel	5.5
5	Pakistan	7.9	Russian Fed.	5.2	Saudi Arabia	5.4
6	USA	4.5	Bosnia &Herzegovina	5.1	Philippines	4.9
Origin of imports						
1	Brazil	20.6	Brazil	25.3	Brazil	21.5
2	USA	13.0	USA	12.6	Turkey	15.6
3	Russia	9.3	Turkey	8.5	USA	6.8
4	Turkey	7.5	Canada	7.6	China	6.7
5	Canada	5.6	Moldova	5.3	Argentina	5.7
6	Moldova	5.5	Ecuador	5.0	Moldova	4.4

Source: author's calculations on Eurostat data

d) the proximity of these countries allowed the increased of trade flows stimulated by the lower transportation costs as well.

The EU accession changed the rules of the game in terms of tariffs and import quotas, but the directional flows remained almost the same, even if in some cases the volume of exchanges decreased somehow (such in the case of Republic of Moldova).

CONCLUSIONS

Although it takes the leading position in the total agrifood world trade, EU-27 shows important trade deficits.

The last two enlargements (in 2004 and 2007) had a significant impact on the EU trade. The value increased in real terms, mostly due to the contribution of the NMS, through the increase in the traded goods volumes. But the NMS added as well their negative extra-community agrifood trade balances to that of the OMS, thus contributing temporarily to the increasing EU-27 trade deficit. Overall, the final result of the latest EU enlargements has been positive in the extra-community trade volume, and after the passing of the economic crisis shock, exports increased faster than imports, resulting in a diminished trade deficit from 24 million EUR in 2008 down to 4.5 billion EUR in 2012.

The absolute value of the Romanian international agrifood trade increased continuously during the last decade. The extra-community trade accounted 27% for the last three years. In the extra-EU trade hierarchy by countries, Romania ranked 19-th in exports and 14-th in imports in 2009.

As a result of the simultaneous action of the export expansion and import contraction after 2008, the Romanian extra and intra-community agrifood trade balance trade diminished continuously. As a first since 1990, the extra-community agrifood trade balance became positive in 2010: the exports exceeded the imports, and the trend continued in 2011 and 2012 as well.

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