

Agri-food Trade Between Brazil and the EU

Les échanges agroalimentaires entre le Brésil et l'Union européenne

Der Agrar- und Lebensmittelhandel zwischen Brasilien und der EU

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Brazil and the EU have a strong bilateral trade relationship. In terms of value, the EU ranks first as a supplier of Brazilian imports overall and second (after China) as a destination for Brazilian exports (European Commission, 2016). This article examines the nature and pattern of agri-food trade between Brazil and the EU since the start of the millennium.

“ Il est plus difficile pour le Brésil de rivaliser sur les marchés européens avec les produits à haute valeur ajoutée. ”

Brazil's exports to the EU consist mainly of primary products, both agricultural and non-agricultural, and manufactures, while imports from the EU are mainly manufactures and services. Trade relations between Brazil and the EU have, at times, been antagonistic, with each partner accusing the other of fostering protection. However, future trading arrangements are currently being addressed in a number of ways: negotiations aimed at establishing an Association Agreement between the EU and MERCOSUR, a customs union in Latin America of which Brazil is a founder member; the ongoing World Trade Organisation (WTO) Doha round; the Strategic Partnership – a memorandum of understanding to establish a dialogue on agriculture between Brazil and the EU; and indirectly, the Transatlantic Trade and Investment Partnership.

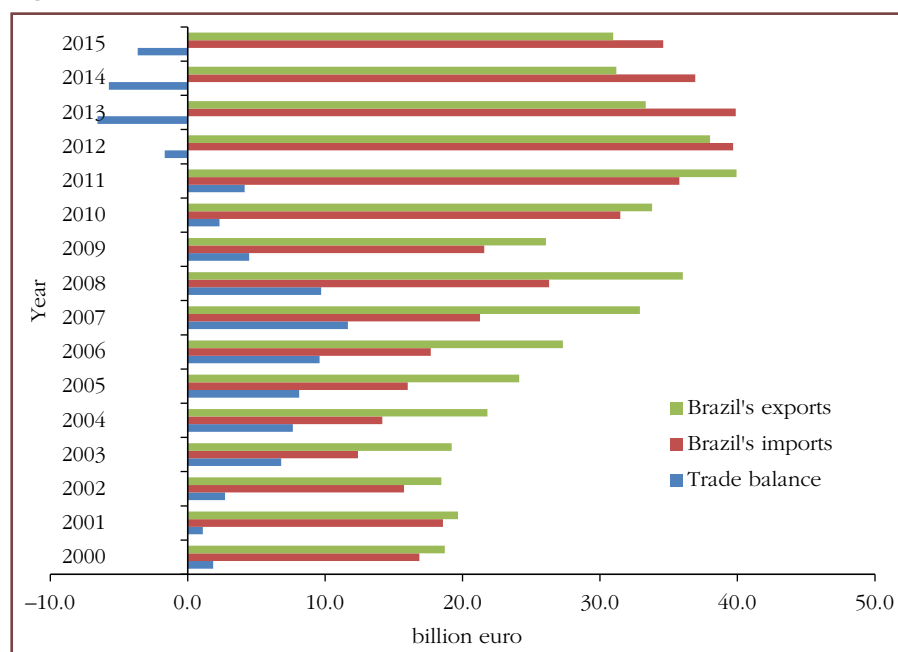
Agricultural production in Brazil and the EU differs as a result of dissimilar technological, political, cultural, geographical and climatic conditions. These differences contribute to significant trade complementarity, because of the concomitant differences in production costs, prices and products. Indeed, of all countries, Brazil is the largest exporter of agri-food products to the EU in terms of value.

Pattern and types of trade

Trade in all goods and services between Brazil and the EU almost doubled in value since the turn of the century, to reach €65 billion in 2015 (Figure 1). During this time the overall trade balance was positive for Brazil until 2011, since when it has been positive for the EU. Agri-food

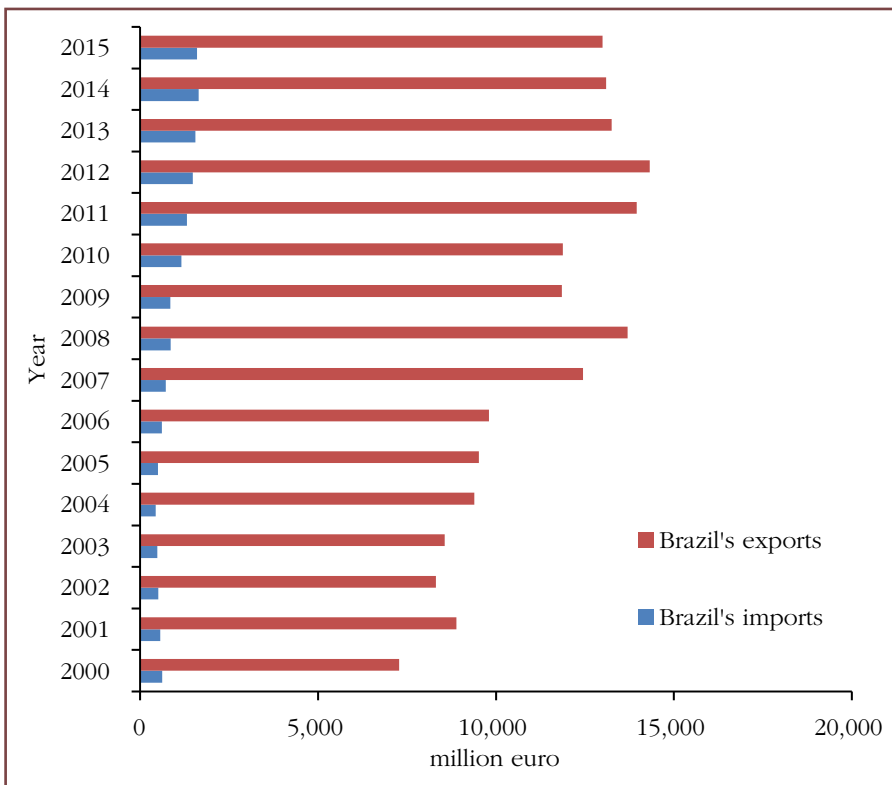
trade between Brazil and the EU accounts for around one-fifth of this total trade. In 2015, Brazil's agri-food exports to the EU were valued at €13 billion and those from the EU to Brazil at €1.6 billion (Figure 2). The main exports from Brazil are animal feed preparations, coffee, soya beans, orange juice and various meats (in particular beef and poultry). The importance of these products in the composition of Brazilian exports to the EU has remained fairly constant over the last 16 years. As for EU exports to Brazil, the most important products in 2015 were whisky, olive oil, potato and other food preparations, and fresh fruit. (Ninety-nine per cent of EU whisky exports were from the United Kingdom. Clearly, Brexit is likely to have an impact on this and other bilateral trade flows between Brazil and the EU).

Figure 1: Brazil's total trade with the EU



Source: Authors' calculations based on Eurostat data.

Figure 2: Brazil's agri-food trade with the EU



Source: Authors' calculations based on Eurostat data.

Economists like to categorise international trade as either *inter*-industry or *intra*-industry. Inter-industry trade is based on the traditional theory of comparative advantage, whereby countries export and import products that are markedly different, while *intra*-industry trade is based on more recent theories centred on economies of scale, imperfect competition and 'love of variety', whereby countries export and import products that are

the same or very similar. The literature shows that intra-industry trade has expanded significantly since the 1960s, especially in Europe. At the global level, around 40 per cent of total trade is intra-industry, although for trade in primary products it is much less at around 15 per cent. However, inter-industry trade made something of a comeback after 2000, due to the increasing participation of emerging economies,

like Brazil, in world trade (Fontagné *et al.*, 2006).

The data in Figure 2 suggest that most of the agri-food trade between Brazil and the EU is inter-industry or 'one-way', because of the extent to which Brazil's exports predominate. For example, Brazil exports soya beans to the EU, but the EU does not export soya beans to Brazil. However, there is also some intra-industry or 'two-way' trade, whereby, for example, both Brazil and the EU export apples simultaneously to each other.

“ Es ist nicht leicht für Brasilien, im Wettbewerb mit der EU auf Märkten mit höherer Wertschöpfung zu bestehen. ”

To quantify the trade types and investigate whether their relative importance has changed over time requires a more detailed analysis using sufficiently disaggregated bilateral trade data such that product definitions can be considered as similar. The approach undertaken here categorises the two types of trade using the method of Fontagné and Freundenberg (1997), an important feature of which is that an *entire* trade flow for a specified product is classified as either 'one-way' or 'two-way' (see Hubbard *et al.* (2014) for a discussion of methods of categorisation of the trade types). The analysis uses Eurostat trade data at the 6-digit level of the Harmonised System and identifies approximately 800 agri-food products traded between Brazil and the EU over the period 2000–12.

Before focusing on results for the agri-food trade flows, we briefly examine results for total trade between the EU and Brazil. In 2000, 26 per cent of the total trade between these partners was 'two-way'; by 2012 this share had fallen to 19 per cent (Table 1). This accords with



Brazil is the largest exporter of agri-food products to the EU in terms of value.



Tariff ‘escalation’ is reinforcing the North–South nature of Brazilian–EU agri-food trade. A case in point is soya beans.

the observation of Fontagné *et al.* (2006) relating to the apparent reversal, since the start of the new millennium, of the global trends of inter- and intra-industry trade. In the case of the EU and Brazil, the increasing share of inter-industry trade reflects an increase in the importance of non-agri-food primary products (for example, iron and copper ores and oil) whose share has more than doubled. However, agri-food trade, as a share of total trade, actually declined slightly between 2000 and 2012 (Table 1).

Results for Brazil–EU agri-food trade show that 97 per cent by value, pertaining to around 700 products, can be categorised as one-way trade. Two-way trade accounts for the remaining 3 per cent, of around 100 products. These shares have been fairly stable over time.

Two-way trade can be further categorised into horizontally differentiated and vertically differentiated products. The former occurs when varieties of a product exhibit different characteristics but are of similar quality and the latter when products are of different qualities. Of the two-way trade in agri-food products between Brazil and the EU, 80–90 per cent is classified as ‘vertical’, reflecting differences in product quality, which in turn likely reflects differences in factor inputs, supporting the notion that trade complementarities between Brazil and

the EU are based on comparative advantage.

Some of the important agri-food products in trade between Brazil and the EU are shown in Table 2. Important products of one-way trade include exports of coffee, oilcake, soya beans, orange juice and tobacco from Brazil, and whisky, wine, malt and olive oil from the EU. The most important products in two-way trade are not as concentrated as for one-way trade, but include specific animal products, vegetable saps and extracts,

chocolate confectionery, bulbs and tubers, and food preparations.

Trade and protectionism

International trade between the EU and Brazil has a typical North–South composition and, in general, would appear to reflect the principle of comparative advantage. In agri-food trade, Brazil is an exporter of primary agricultural products, while the EU exports mainly processed products with higher value-added. Over time, increases in Brazilian exports of soya beans, tobacco, orange juice and meat are mainly related to greater concentration in the agro-food industry, stimulated by the injection of Foreign Direct Investment during the 1990s (Jank, 2000). The Brazilian agro-food sector is characterised by relatively low costs at the farm level, high soil productivity, and an export strategy focused on primary commodities. However, protectionism and trade barriers that exist between Brazil and the EU also play a key role in the trading relationship.

The Brazilian economy overall is subject to relatively high protection, with an average applied tariff of 13.5 per cent (European Commission, 2016). However, support for the

Table 1: Brazil–EU Trade, 2000 and 2012

Year	2000	2012
Total trade (€ billion nominal)	35.5	76.9
Two-way trade; intra-industry (% of total trade)	25.7	19.2
One-way trade; inter-industry (% of total trade) of which:	74.3	80.8
- agri-food products*	21.5	19.8
- non-agri-food primary products**	6.6	15.0

Notes: *HS6 groups 1–24; **HS6 groups 25–27.

Source: Authors’ calculations based on Eurostat data.

Table 2: Important products in Brazil–EU agri-food trade

Brazil ‘one-way’ exports	‘Two-way’ trade	EU ‘one-way’ exports
Coffee	Vegetable saps and extracts	Whisky
Soya beans	Specific animal products	Wine
Oilcake	Chocolate confectionery	Malt
Orange juice	Bulbs and tubers	Olive oil
Tobacco	Food preparations	Fish oils and fats

Source: Authors’ calculations based on Eurostat data.



Brazil is the largest of all exporters of agricultural products to the EU, but EU protectionism and trade barriers are a concern.

agricultural sector is considerably lower, and below that applied by the EU. As measured by the Nominal Protection Coefficient (NPC), prices received by Brazilian farmers are close to border or world prices (NPC=1.00), whereas those received by their counterparts in the EU are, on average, 6 per cent higher (NPC = 1.06) (OECD, 2016). Brazil has long been critical of the Common Agricultural Policy and has sought (along with others) in the international arena to have the level of protection afforded to EU farmers reduced.

“ It is more difficult for Brazil to compete in the EU markets for higher value-added products. ”

Two aspects of the overall structure of tariffs that affects Brazil–EU agri-food trade are worthy of special note, namely tariff peaks and tariff

escalation. Tariff ‘peaks’, when applied tariffs on certain products are judged to be particularly high, have been far more prevalent in the EU than in Brazil (Nassar *et al.*, 2007). But perhaps of more importance is the effect of tariff ‘escalation’ in reinforcing the North–South nature of Brazilian–EU agri-food trade. Tariff escalation is where the tariffs are higher the greater the degree of processing. A case in point is soya beans, a major export from Brazil to the EU. Soya beans enter the EU tariff-free, but a tariff on processed soya oil affords protection to EU crushers and refiners (Nassar *et al.*, 2007). A similar story applies to coffee, where the raw product enters the EU tariff-free, but roasted coffee is subject to a 7.5 per cent tariff. In short, low value-added agricultural commodities exported from Brazil to the EU face much lower tariffs than those that apply to the processed derivatives. This encourages the exporting of agricultural commodities, but makes it more difficult for Brazil to compete in the EU markets for higher value-added products.

Current negotiations between Brazil and the EU suggest that both regions are looking to facilitate liberalisation of their bilateral trade. Given the complementarities that exist between the production activities of both partners, mutual gains would result from greater trade flows. However, differences in agricultural, environmental and foreign trade policies often hinder trade expansion possibilities. Additionally, Brazil faces domestic problems, such as the structure of transportation, the poor road network and customs procedures at frontiers and ports, which restrict an increase in international trade. A better understanding of the nature and pattern of agri-food trade between Brazil and the EU in the global arena should help to inform and potentially lead to better outcomes in the various ongoing trade negotiations. Tariff-free entry for agricultural commodities encourages Brazilian exports of these products to the EU, but EU tariffs on processed products make it difficult for Brazil to



EU tariffs on processed products make it difficult for Brazil to compete in the higher value-added markets.

compete in the higher value-added markets. However, EU protectionist policies should not discourage the

Brazilian agri-food industry from developing such products, as it is to be hoped that the ongoing

negotiations will result in greater opportunities for this type of trade in the future.

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Summary


Agri-food Trade Between Brazil and the EU

 International trade between the EU and Brazil has a typical North–South composition and, in general, would appear to reflect the principle of comparative advantage. Most of the agri-food trade between the two is inter-industry or one-way in nature. Brazil is the largest of all exporters of agricultural products to the EU, but EU protectionism and trade barriers are a concern. Nominal Protection Coefficients indicate that producers in Brazil face prices that are close to border or world prices, and therefore are less protected than their counterparts in the EU. In terms of tariffs, ‘peaks’ are far more prevalent in the EU than in Brazil, and tariff ‘escalation’ reinforces the North–South nature of the trade flows. Low value-added agricultural commodities exported from Brazil to the EU are, in general, subject to much lower tariffs than the processed derivatives with higher added value. Soya beans and coffee are prime examples. This makes it more difficult for Brazil to compete in the markets for higher value-added products. A better understanding of the nature and pattern of agri-food trade between Brazil and the EU should help to inform and potentially lead to better outcomes in the various ongoing trade negotiations.

Les échanges agroalimentaires entre le Brésil et l’Union européenne

 Le commerce international entre le Brésil et l’Union européenne (UE) a une structure typiquement nord-sud et, en général, il semble conforme au principe de l’avantage comparatif. La plupart des échanges de produits agroalimentaires entre ces deux partenaires se font au sein de l’industrie et dans une seule direction. Le Brésil est le plus important de tous les exportateurs de produits agricoles à destination de l’UE, mais le protectionnisme et les barrières douanières de l’UE le préoccupent. Les coefficients nominaux de protection montrent que les producteurs brésiliens perçoivent des prix proches de ceux enregistrés à la frontière ou sur le marché mondial, et sont donc moins protégés que leurs homologues européens. En ce qui concerne les droits de douane, les “pics” sont bien plus fréquents dans l’UE qu’au Brésil, et l’“escalade” des tarifs renforce le caractère nord-sud des flux commerciaux. Les produits agricoles à faible valeur ajoutée que le Brésil exporte vers l’UE sont en général soumis à des droits de douane plus faibles que ceux imposés aux produits transformés dérivés à plus forte valeur ajoutée. Les graines de soja et de café en sont les principaux exemples. Le Brésil a ainsi plus de difficulté à rivaliser sur les marchés des produits à plus forte valeur ajoutée. Une meilleure compréhension de la nature et de la structure des échanges de produits agroalimentaires entre le Brésil et l’UE devrait contribuer à éclairer les diverses négociations commerciales en cours, qui pourraient aboutir ainsi à de meilleurs résultats.

Der Agrar- und Lebensmittelhandel zwischen Brasilien und der EU

 Der internationale Handel zwischen der EU und Brasilien zeigt ein typisches Nord-Süd-Muster und scheint insgesamt dem Prinzip der komparativen Vorteile zu folgen. Ein Großteil des Agrar- und Lebensmittelhandels zwischen den beiden Regionen ist branchenübergreifend oder unilateral. Brasilien ist der bedeutendste Agrarexporteur in die EU, aber der EU-Protektionismus und Handelsbeschränkungen stellen ein Problem dar. Die nominalen Protektionskoeffizienten weisen darauf hin, dass Produzenten in Brasilien Preisen gegenüberstehen, die denen an der Grenze oder den Weltmarktpreisen ähneln und sie damit weniger geschützt werden, als ihre Handelspartner in der EU. In Bezug auf die Zölle sind Zollspitzen in der EU viel weiter verbreitet als in Brasilien und die Zolleskalation verstärkt das typische Nord-Süd-Muster der Handelsströme. Landwirtschaftliche Erzeugnisse mit niedriger Wertschöpfung, die von Brasilien aus in die EU exportiert werden, unterliegen normalerweise sehr viel niedrigeren Zöllen als verarbeitete Produkte mit höherer Wertschöpfung. Wichtige Beispiele hierfür sind Sojabohnen und Kaffee. Das erschwert Brasiliens Wettbewerbsfähigkeit in Märkten mit hoher Wertschöpfung. Ein besseres Verständnis der Besonderheiten des Agrar- und Lebensmittelhandels zwischen Brasilien und der EU würde zu einem Informationsgewinn und eventuell zu besseren Ergebnissen der laufenden Handelsgespräche führen.

summary