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Linking U.S. Agriculture to the World FAS

International Agricultural Trade Report

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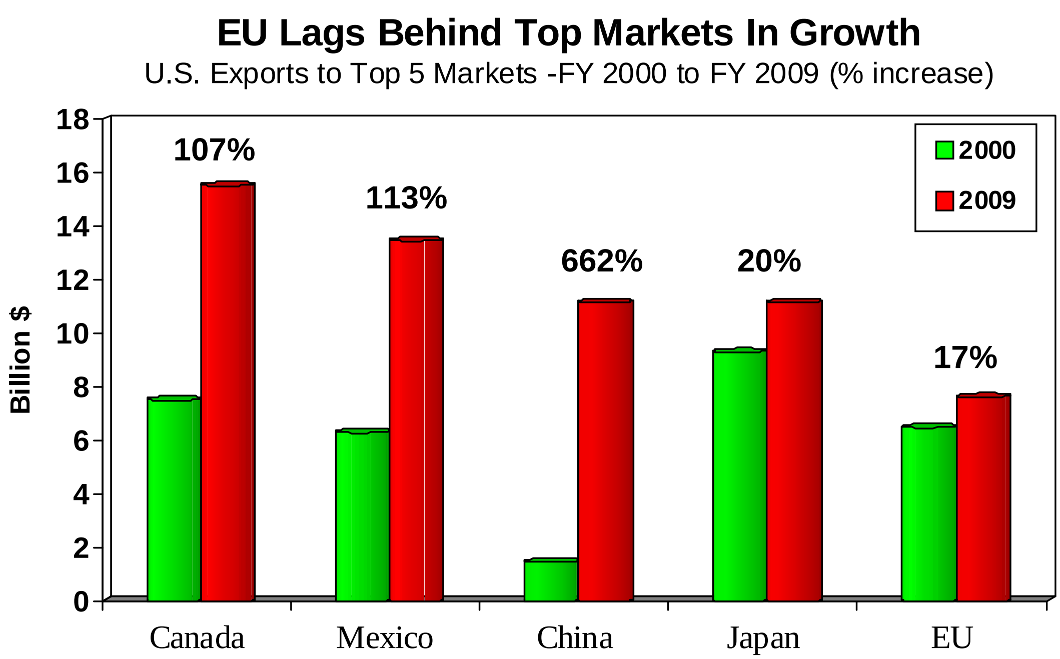
After Years of Stagnation U.S. Exports to the EU Strong in 2010

Summary

After several years of slow growth, U.S. agricultural exports to the EU are on the rebound. Shipments have been strong through the first seven months of fiscal 2010 and are forecast for the year at $8.3 billion, up 9 percent over last year. This is welcome news for a market that has seen slow growth in U.S. exports for many years due to trade barriers and intensified competition. Exports over the second half of the year will be influenced by the European financial situation, strength of the dollar, and competitor supplies.

EU Lags Top Markets in Growth

Exports of agricultural products to the EU have trailed growth in overall U.S. agricultural exports to the world. From 2000 to 2009, U.S. exports to all destinations increased by 90 percent (from $52.7 billion to $96.6 billion). However, over the same time period exports to the EU increased only 17 percent making it one of the slowest growing markets. In comparison to the increase in the other top five U.S. markets, the anemic growth to the EU is especially evident. As seen in the chart below, the EU had the lowest growth, even trailing Japan. Whereas the entire agricultural import market in Japan increased little this decade (33 percent), the EU market nearly doubled (up 98 percent), indicating that the weak U.S. performance was due to lost market share rather than simply a slow growing market.



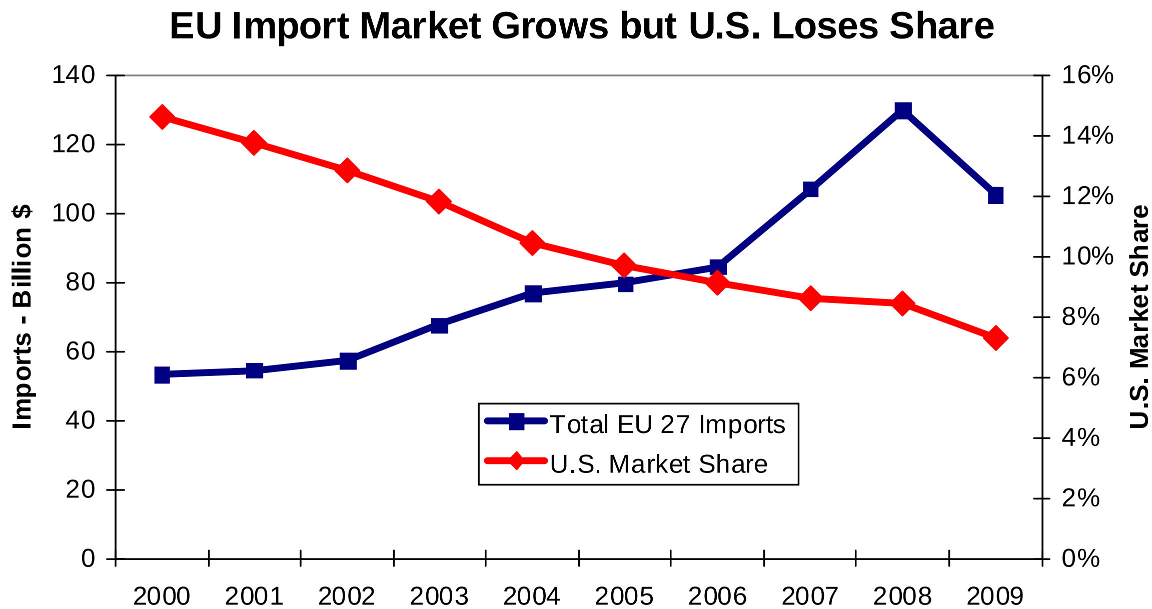
Market Share Falls with Intensified Competition

Market share for U.S. agricultural products to the EU has been cut in half over the past decade from 14.6 percent in 2000 to just 7.3 percent last year. Almost three quarters of the loss in U.S. market share is due to unfavorable market developments in soybeans, feeds and fodders, tobacco, and consumer oriented high value products. During the same period, Brazil and Argentina overtook the United States as top suppliers to the region with their combined market share increasing from 18.6 percent to 22.5 percent. Much of this increase was due to greater soybean and soybean meal exports which soared from $4 billion in 2000 to $12 billion in 2009. Meanwhile, U.S. exports of soybeans and meal were stagnant and totaled less than $1 billion in 2009. Over the past decade, China and Chile also increased market share in the EU due, in part, to greater fruit and vegetable exports. Exports from the Ukraine surged from less than half a billion dollars at the beginning of the decade to $2.4 billion in 2009 due primarily to greater wheat shipments along with more mustard and sunflower seed, meal, and oil exports. Finally, Indonesia also saw impressive growth due to palm and coconut oil exports.

U.S. Soybeans, Feeds and Fodders, and Tobacco Exports Stumble

Fewer U.S. soybean exports accounted for much of the overall lost market share but falling feed and fodder exports along with tobacco were also major contributors. To a lesser extent, some of the roughly 7 percent drop in share occurred as the United States lost out in the EU markets for pet food, wheat, rice, fresh fruit, and wine and beer. For each of these products U.S. share was cut at least in half and for rice, wheat, and pet food the share in 2009 was less than one-third that of 1999. The only major category that performed well was tree nuts as U.S. share increased over the period from 36 percent to 41 percent.

As mentioned above, stronger competition from South America was responsible for much of the lost share in soybean exports. Soaring production coupled with off-season availability has enabled Brazil and Argentina to fill much of the increased demand seen in the EU over the past decade. Meanwhile, exports of feeds and fodders from the United States fell sharply as did overall EU feed imports from all suppliers. Adjustments under the Common Agricultural Policy reform early in the decade further brought down intervention support prices, and subsequently market prices for feed grains. The fall in prices stimulated feed grain use while dampening demand for other feed ingredients such as corn gluten feed and meal. This reduced demand, coupled with restrictions on U.S. biotech corn products, resulted in a dramatic fall in U.S. feed ingredient exports. Finally, tobacco exports fell 50 percent as the overall EU tobacco import market saw virtually no growth over the past decade, but Brazilian exports soared at the expense of U.S. shipments. Brazil has emerged as the second largest tobacco producer and top global exporter while becoming a price-competitive supplier to the EU.



Data Source: GTA

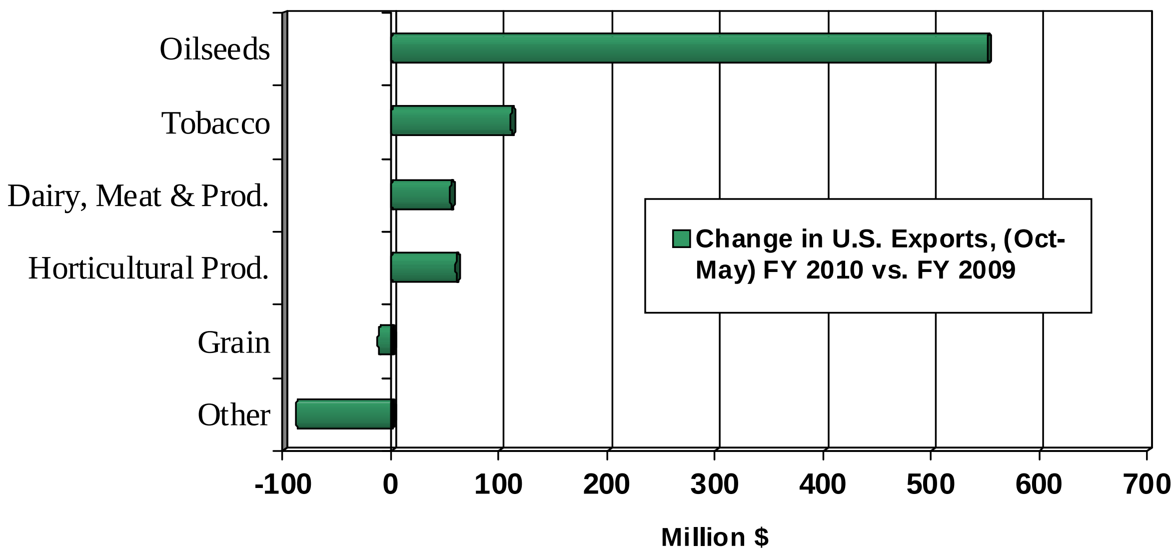
Barriers Hinder U.S. Exports

In addition to this significant increase in export competition, the United States faced, and continues to face, many import barriers that restrain market share in the region. Restrictions in dairy, meats, grains, oilseeds, and other products have allowed competing exporters to gain a foothold in the region. The detection of unapproved biotech corn events in soybean shipments in 2009 coupled with lower demand in the EU for high value products, due to the economic slowdown, contributed to the fall in U.S. exports by $3 billion ($10.7 in fiscal 2008 to $7.6 in fiscal 2009). However, things appear brighter in 2010 as U.S. exports rebound.

Export Picture Improves in 2010

For the first eight months of the year (October to May) exports to the EU increased 12% over the same period last year. Most of the growth is due to greater soybean shipments, which are up 45 percent over last year, as reduced exportable supplies in South America combined with a record U.S. crop allowed for strong early season shipments. Exports of meat and tobacco are also up compared to 2009. Horticultural product exports are up slightly from last year and will be vital to export growth in the region for the remaining months of the year as horticultural exports are the top U.S. export category. While a slowdown in soybeans and meal is expected in the coming months due to increased South American competition, the actual level will be key in meeting the current total agricultural export forecast of $8.3 billion. The current financial situation in Europe will also be a major factor for the remainder of the year as a deteriorating situation could reduce demand, particularly for high value U.S. products. Furthermore, the strength of the dollar will impact U.S. competitiveness as the dollar has seen gains against the Euro over the past several months.

Growth in Exports Led by Soybeans



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