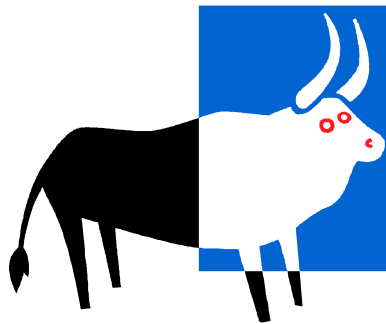




Mercosur's meat exports to the EU: Assessment of policies affecting trade flows

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Full members

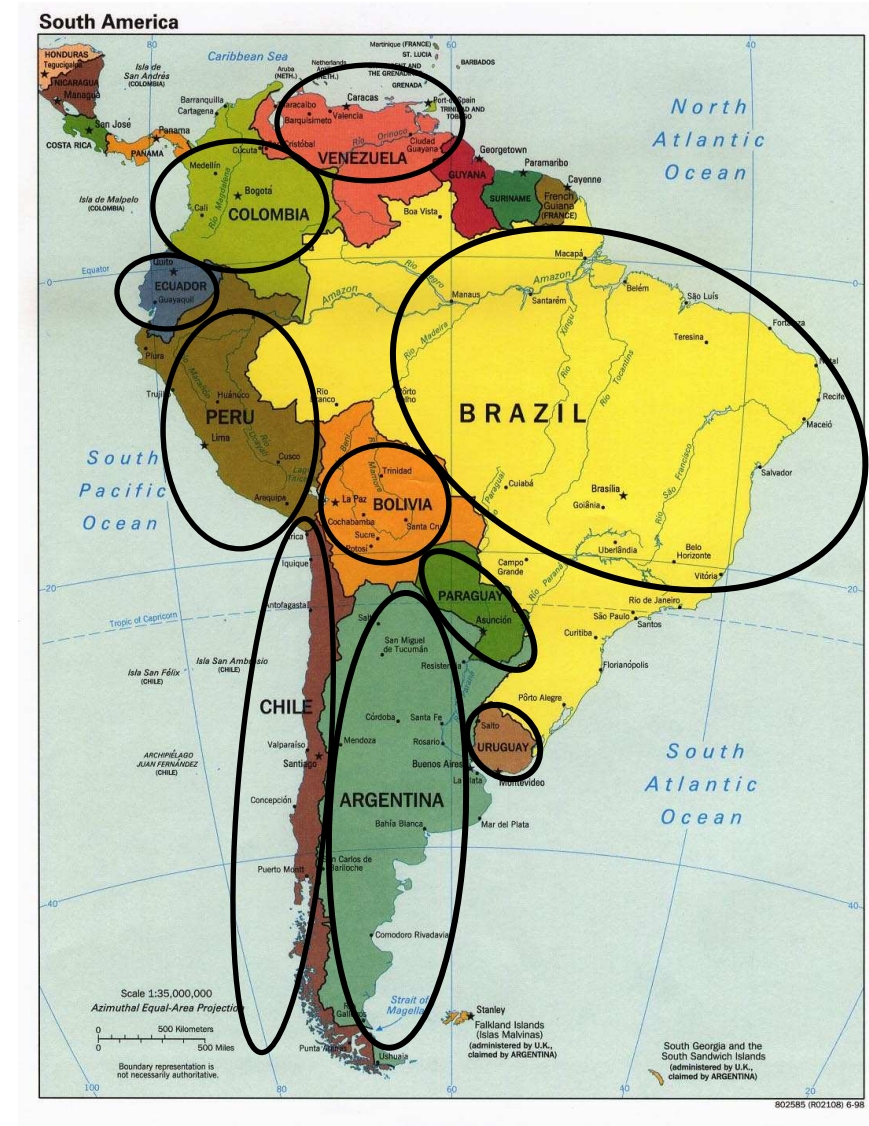
Argentina
Brazil
Paraguay
Uruguay

Becoming full members

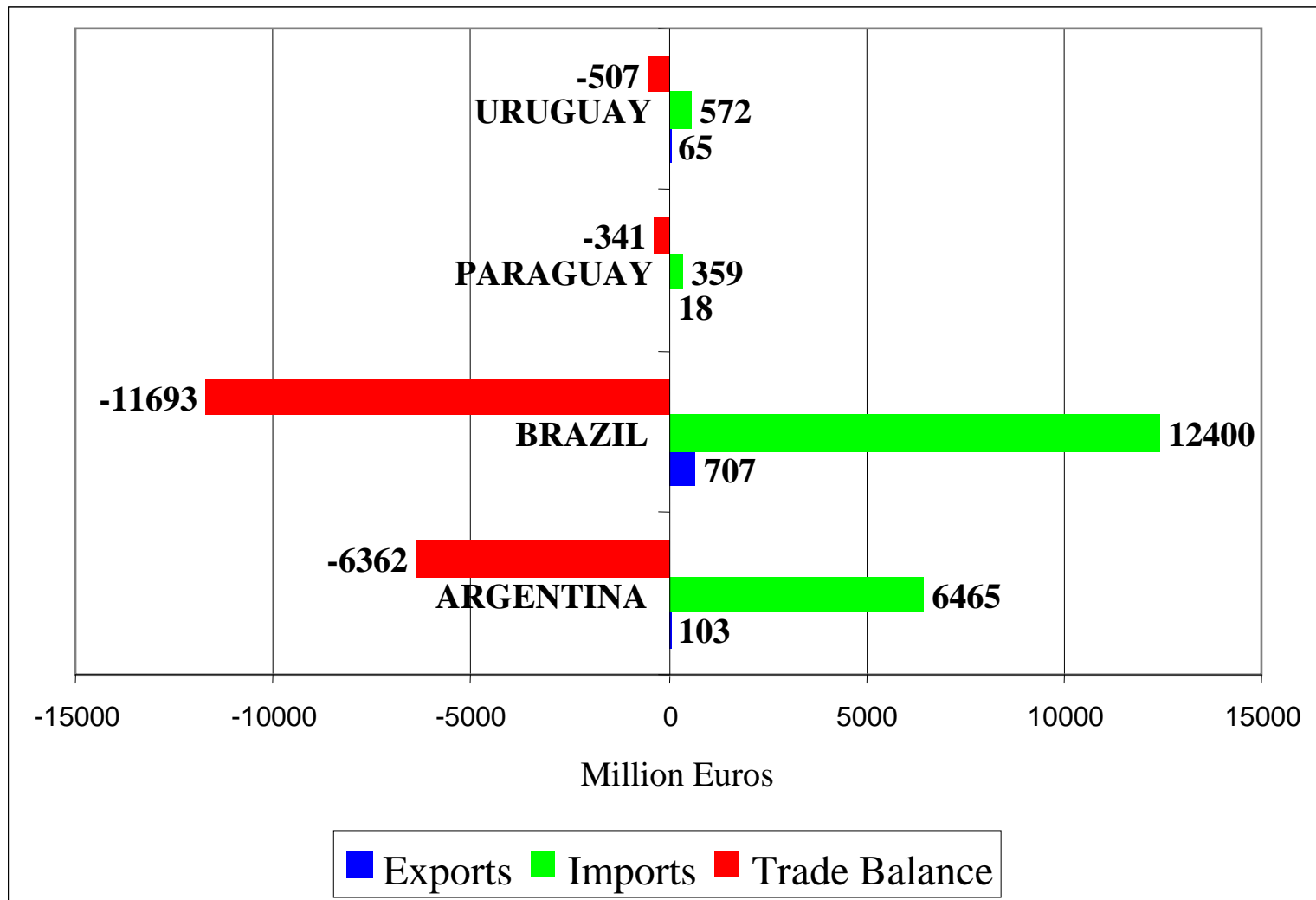
Venezuela

Associate members

Bolivia
Chile
Colombia
Ecuador
Peru



EU-27 agricultural trade with Mercosur countries in 2007

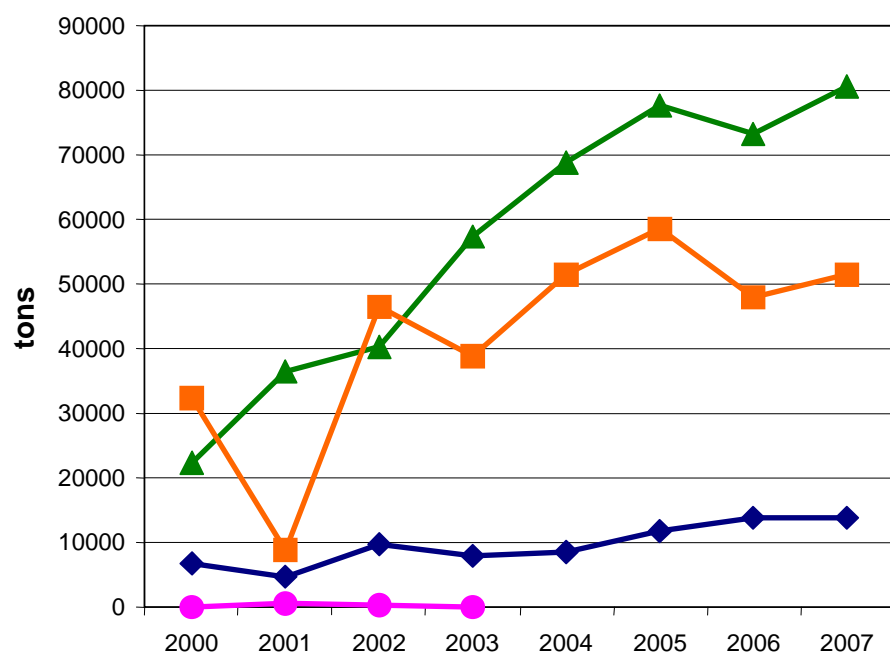


Source: European Commission's Directorate General for Trade

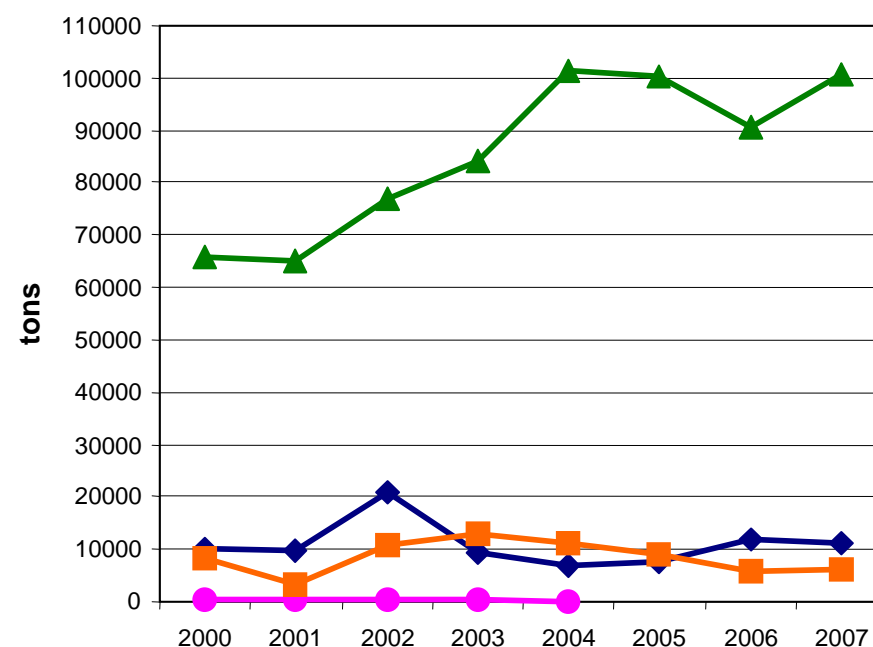
EU-25 beef imports from Mercosur countries



EU-25 imports of bovine meat (fresh or chilled)



EU-25 imports of bovine meat (frozen)

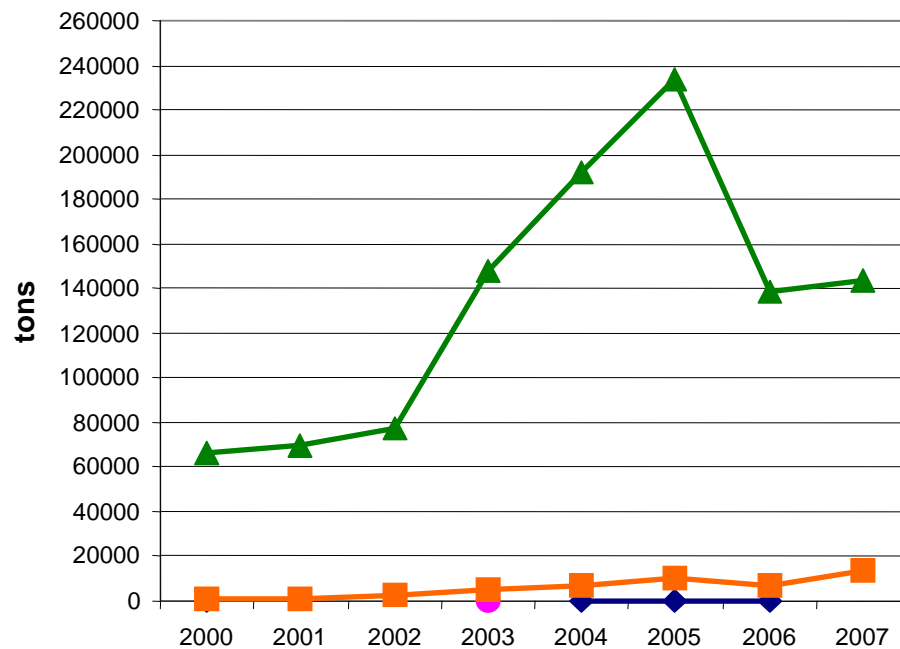


Source: Eurostat Comext

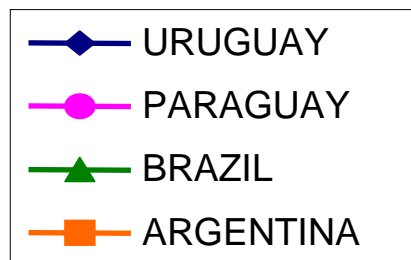
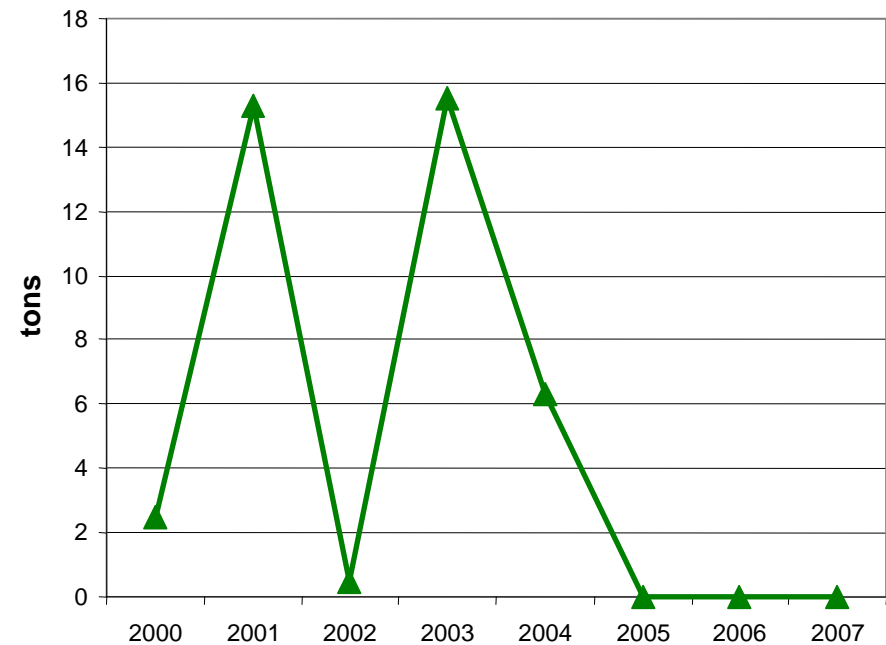
EU-25 poultry & pig meat imports from Mercosur countries



EU-25 imports of poultrymeat (fresh, chilled or frozen)



EU-25 imports of pigmeat (fresh, chilled or frozen)



Source: Eurostat Comext

Methodological Framework

theory

- international trade theory (Armington-assumption)



model specification

- theory-based econometric time-series model



estimation

- ordinary least squares



validation

- tests of legitimacy of the theoretical and empirical interpretation



policy analysis

Income and Price



Income and price elasticities of import demand in the EU for beef and poultry meat

Commodity	Income elasticity	Price elasticity
Beef	1.42	-0.54
Poultry meat	2.67	-0.70

- Poultry meat imports have a stronger growth potential in EU than beef due to improvement in their real incomes
- Poultry meat imports are more susceptible to demand swings of business cycles
- On average a 1 percent decrease (increase) in the real price of beef would increase (decrease) EU imports of beef by 0.5 percent and poultry meat by 0.7 percent in the long-run
- Exchange rate policies and commercial policy intervention measures in the form of tariff barriers to trade would change the quantity of imports demanded, but less than the percentage change in price

EU demand for Mercosur meat



The long-run responsiveness of EU meat imports from the Mercosur countries to changes in relative prices and EU total imports

Product	Elasticity of export demand to changes in relative prices		Market share in the EU (%)	
		EU total imports	1988-1999	2000-2008
Beef				
Argentina	-1.58	0.80	26.1	15.9
Brazil	-1.82	1.47	21.1	41.5
Uruguay	-1.62	0.90	10.0	7.9
Poultry meat				
Argentina	-	2.41	1.3	1.3
Brazil	-0.69	1.57	18.4	36.6

- Brazilian beef exports to the EU is the most sensitive to relative price changes. If the relative price of the product decreases by 1%, EU imports of Brazilian beef will increase by 1.8 percent, but EU imports of Brazilian poultry meat will increase by only 0.7 percent.
- The EU does not distinguish beef between the individual Mercosur countries, i.e. beef products from different Mercosur countries are close substitutes within the EU market, however, the EU distinguishes beef imports Mercosur countries from non-Mercosur countries.
- Higher proportional expansion for exports: A one percent increase in the growth of EU beef imports leads to a 1.5 percent increase in the beef exports from Brazil. A one percent increase in EU poultry meat imports leads to a 2.4 percent increase in poultry meat exports from Argentina and 1.6 percent from Brazil.
- Less than proportional expansion for export: A one percent increase in the EU beef imports leads to only 0.8 percent increase in the Argentinean beef exports and 0.9 percent increase for the Uruguayan beef exports.

Impact of tariff reductions



The impact of the WTO Draft Proposal on EU total meat imports and EU meat imports from the individual Mercosur countries

Product	Percentage change (%)		Market share (%)	
	Import price	Import volume	Initial	After
Beef, total	-47.4	+25.6		
Argentina		+20.5	15.9	15.3
Brazil		+37.6	41.5	45.5
Uruguay		+23.0	7.9	6.7
Poultry meat	-37.6	+26.3		
Argentina		+63.4	1.3	1.7
Brazil		+37.1	36.6	39.7

- Fresh or chilled “skirt” of beef has an ad valorem equivalent (AVE) of 210%, and boneless poultry meat has an ad valorem equivalent (AVE) of 116% . Thus, these products would be subjected to 70% tariff reduction in the forth-coming Doha Round, if these products are not declared as sensitive products.
- The tariff reduction would decrease the import price of beef by 47% and the import price of poultry meat by 38%. The EU will increase its beef imports by 26%, 60% represents additional exports by Brazil, 13% by Argentina, 7% by Uruguay. The EU will increase its poultry meat imports by 26%, 67% of these additional imports from Brazil and 3% from Argentina.
- A 70 percent reduction in tariffs for beef would probably force the least competitive EU beef producers to stop cattle-raising for beef. Currently, Brazilian high quality beef is able to enter the EU at full tariff; hence a huge tariff-cut would as well give a strong advantage to the exports of Brazilian lower quality beef to the EU and that would directly have a substantial impact on EU domestic prices for beef.

Conclusions



- Poultry meat imports have a stronger growth potential in EU than beef because of a strong response from consumers in the EU due to improvement in their real incomes.
 - The Brazilian beef exports to the EU is the most sensitive to relative price changes, followed by beef exports from Uruguay and Argentina.
 - The policy implication of the estimated price elasticities is that exchange rate policies and commercial policy intervention measures in the form of tariff barriers to trade would change the quantity of imports demanded, but less than the percentage change in price.
 - The competitiveness of the EU meat industry is weak. Brazil and Argentina have competitive advantages due to large and reliable livestock supplies, low costs of labour and feed cultivated from the abundance of land in conjunction with economies of scale.
 - Overall, tariff barriers are not as obstructive to trade compared to non-tariff barriers such as food safety. Due to recurrent outbreaks of animal diseases and the fact that outbreaks are difficult to foresee, global meat trade is and will be restricted and less structured. Food safety and assured standards of quality combined with environmental compliance are the main strives for the Mercosur countries to tackle currently and in the future.
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