US Food and Agri trade deficit still key in future talks with EU

America's 90-day higher tariff pause may be good news, but the EU has many red lines in negotiations on Food & Agri trade, notably on health. Don't expect any talks to do much to reduce the current trade deficit. The base 10% charge and market conditions are far more important

A chicken farm in Georgia, USA.

The EU's Food & Agri surplus with the US is key

When you look at the sheer size of the Food & Agri trade between the US and Europe, you soon realise why there's never going to be a quick fix in terms of any trade deal. And the EU's trade surplus here is key.

12% of the EU's food, animal, beverage, and tobacco exports were destined for the US. That's worth €25.8bn, making the US the second largest export destination for Europe for these goods after the UK.

Breaking it down, America received 9.5% of the EU's food and live animal exports. And it has even more exposure when it comes to the beverage sector: 27% of EU beverage exports went to the United States last year. And where does the US get most of its foreign cheese, wine and olive oil? The European Union. It all accounts for some 72% to 78% of US imports in these products, according to WITS data from 2023.

As for what Europe imports, 17% of its beverage imports came from America last year. And 4.5% come from the food and live animal category. That totals some €8bn. But here's the kicker: Food & Agri account for 9% of the EU's trade surplus with the United States.

The EU's food regulations are a major sticking point

The strict regulations for food imports into the EU have long been a thorn in the side of the US. Be it certification requirements for several bovine diseases, or the correct wine labelling hindering US exporters by differing interpretations of EU guidance among member states. Here are some more:

- Traditional terms for wine labelling are restrictive, complicating US wine exports.
- Hormone-treated meat, which centres on the use of growth hormones in beef production and the infamous chlorinated chicken - poultry meat that's been cleaned in chlorine to remove bacteria- are banned altogether.
- Genetically engineered crops are strongly regulated under the Genetically Modified Organisms (GMO) Directive. In fact, beef, GMO crops and poultry have all been subject to long-standing WTO disputes between the EU and the US.

Gaining better market access for US agricultural and food products will feature on the agenda in the upcoming negotiations. While the US is pondering getting more market access for its agricultural products, such as beef, poultry, grains and soybeans, EU non-trade barriers continue to complicate and restrict entry, making it challenging for American producers to compete in the European market.

And we do not expect the EU's hard stance on food imports to change anytime soon. The European Commission Spokesperson Olof Gill recently reemphasised during a press briefing on tariffs and the US that there would be no compromises regarding the EU's food, health and safety standards. Additionally, the recent EU Vision on Agriculture and Food highlights the EU's commitment to aligning production standards for imported products, particularly regarding pesticides and animal welfare.

Frankly, compromise is, and always has been, the big problem between the two sides when it comes to food and agricultural products.

Why the EU-US trade deficit is likely to shrink

This also means that if the Food & Agri trade deficit with the US were to shrink, we believe it is not because of more American exports to the EU, but because of fewer European exports to the US, given that a base tariff of 10% makes EU exporters less competitive. Overall, it is hard to see this bringing the EU and US any closer on Food & Agri trade in the longer run.

Still, EU officials will point out that US corn exports to the EU have surged to record levels recently, showing that there is potential there. Whether that situation can be sustained remains to be seen, given that a poor corn harvest in Europe has led to the need for stronger imports. Historically, the US has not been a big supplier of corn to the EU due to strong competition from other exporters such as Brazil and Ukraine.

And this all brings back memories of the trade war back in 2018 when EU imports of US soybeans went up amid trade talks between the two. Nevertheless, they primarily went up due to market conditions. Back then China turned to Brazil due to tariffs on US soybeans and this move made US soybeans more competitive for EU buyers. While US soybean flows into the EU have been fairly consistent in recent years, they're much lower compared to the 2018/19 season.

Potential for stronger Mercosur relations

In the meantime, we see the potential for intensified Food & Agri trade relations with Mercosur countries like Brazil and Argentina. Although the ratification process could still fail as we have laid out here, a trade deal between the EU and Mercosur, the 'southern common market', would be welcome amid a global climate engulfed by a new era of protectionism.

Such an agreement would be a significant step towards ongoing trade liberalization, facilitating trade growth through larger import quotas and reduced tariffs on products like beef, poultry, sugar, and soybeans. It would be a welcome diversification which would enhance trade resilience and provide new opportunities that the EU so eagerly seeks.

Author

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com