EU Agricultural Trade Preferences for North Africa and the Near East and the EU Import Regime for Fresh Fruit and Vegetables

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Paper prepared for the FAO Regional Trade Workshop on

Recent Development in the WTO Negotiations on Agriculture and in Regional Trade Agreements and their Implications for Trade, Agriculture and Food Security in the Near East Countries

Cairo

15th to 17th November 2005

Content

This paper is a combination of results of various research projects which are largely published elsewhere, and with other authors. Parts of Sections 2.1 to 2.3 are identical with Grethe, Nolte and Tangermann (2005). Section 2.4.1 is partially identical with Grethe (2005). Section 3.2.2 draws on Chemnitz and Grethe (2005) and Goetz and Grethe (forthcoming).

Abstract

This paper focuses on EU agricultural trade policies which are especially relevant to North African and Near Eastern countries in the context of the Doha round in the WTO. First, the comprehensive agricultural trade preferences granted to them by the EU, which may be eroded in an environment of multilateral trade liberalization. And second, the specific features of the EU's import regime for fresh fruit and vegetables, especially the entry price system, and its likely adjustment at the close of the Doha round.

Under the Euro-Mediterranean Agreements (EMA), preferences granted by the EU to the MCs (Mediterranean countries) are generally limited to typical Mediterranean products. In many cases tariff reductions are limited to certain calendar periods. Tariff reduction rates range from 5 to 100% and are in many cases limited by tariff rate quotas (TRQs). In addition to tariff preferences, significant reductions of entry prices for limited quantities were negotiated for oranges with Israel, Egypt, and Morocco; and for some other products with Morocco. The economic value of tariff preferences is assessed in this paper based on the quantitative indicators product coverage (PC), which is the share of products covered by preferences in total agricultural exports from the respective MC to the EU, and the value of the preference margin (VPM). The VPM is a weighted average tariff reduction, with trade values used as weights and the result expressed in money terms rather than as a percentage tariff rate. It indicates the extent to which the EU was willing to forego (potential) tariff revenue by granting preferential access to its markets, and the potential economic gain which may accrue to the exporting country.

PC varies from about 17% for Syria to more than 80% for Morocco. On average for all MCs, product coverage is 67.2%. The VPM totals about €225 mio., varying between €0.3 mio. for Syria and €120 mio. for Morocco. In relation to the total value of agricultural exports to the EU, the VPM varies from 2.7% for Lebanon to almost 16% for Tunisia. For the MCs on average, this share is 7.4%. Generally, the preference margin is highly concentrated on a few products. For all MCs, four or fewer products at the 4-digit CN level account for more than half of the VPM. In some cases this concentration is even more pronounced.

The value of the preference margin amounts to a significant share of MC agricultural exports to the EU in all cases. But the situation looks somewhat different if the VPM is compared to the GDP of the agricultural sector. Only for Israel, Morocco and Tunisia, the VPM exceeds 1% of the agricultural GDP, for all other countries the VPM is 0.2% or less of the agricultural GDP. As a group, the VPM for the MCs is equivalent to about 0.6% of the agricultural GDP. If preference margins are compared to total GDP, they appear, of course, much smaller. On average, for all MCs, the VPM is no more than 0.06% of total GDP. Only for Morocco and Tunisia does the VPM exceed 0.2% of their total GDP. This is due to their relatively large preference margins compared to the size of their agricultural sectors, and the relatively large

shares of their agricultural sectors in the whole economy. For all other MCs the VPM is 0.03% or less of their total GDP.

In the long run agricultural trade preferences are subject to erosion as the EU is reducing its price support for agricultural products for various external and internal reasons. In addition to the preference erosion, which may stem from the reduction of the EU's domestic price level and of MFN market access barriers, preference erosion may also result from the EU granting additional preferential market access to countries that did not previously enjoy preferential treatment.

Thus, for both the preference-granting as well as the preference-receiving countries, the perceived advantages which result from preferential trade agreements are diminishing. For the preference recipients, the welfare effects resulting from higher export revenues than those that would prevail under MFN conditions are diminishing. For the EU, the incentive to narrowly control preferential market access through a system of seasonal tariff and entry price preferences, TRQs, sophisticated rules of origin, and safeguard clauses is declining.

In particular, most of the MCs have little to lose from preference erosion in the current Doha round of trade negotiations. This is because they are competitive suppliers with a comparative advantage due to climate and geographical location for most of their preferential export products such as fruit, vegetables, and olive oil. They can therefore support multilateral liberalization of these EU markets.

Given the high transaction costs of product-specific and differentiated preferences, the full inclusion of MCs' agricultural exports in a free trade area with the EU seems a worthy alternative. The effect on EU markets may be limited for many reasons. First, compared to an increasing EU market, the MCs are relatively small in terms of agricultural production. Second, natural resources, especially water, are rather scarce in most of the MCs and therefore put a limit on additional exports. Third, transportation costs and increasing quality standards applied by EU importers limit the competitiveness of many MC products on EU markets.

In the future the EU is likely to push for a higher degree of reciprocity in agricultural trade preferences. This process started with the inclusion of reciprocal preferences in the EMA and continues with the initiative of the European Commission to establish a roadmap for free trade in agricultural and processed agricultural products "with a very limited number of exceptions" (European Commission, 2005b). Therefore MCs need to be prepared for opening their markets for temperate zone products to strong international competition.

The EU import regime for fruit and vegetables is highly complex and the effectiveness of the entry price system differs widely among products. For some products, such as oranges, the system is rather redundant, as are preferential entry prices in these cases. For other products, the entry price system is restrictive, and preferential entry prices allow for significant economic gains, as, for example, for tomatoes from Morocco.

The implementation of potential market access commitments for fruit and vegetables which may result from the Doha round of multilateral trade negotiations is complex. Points of special importance include:

- The potential continuation of the Special Safeguard Provision (SSG) endangers the trade creating effects of a reduction of tariffs and entry prices.
- The mechanism used to translate tariff reductions into entry price reductions is crucial. The replication of the Uruguay Round approach leads to very heterogeneous results among products. Alternatively, entry price reductions could be negotiated separately.
- Due to the variation of effectiveness of the entry price system among products, any agreement on reduction rates needs to be assessed on a product-specific basis.
- Should the EU declare any fresh fruit and vegetables as “sensitive”, the precise rules for this still-to-be-negotiated product category are of relevance. In particular, TRQs should be designed such that market access is a real option. Therefore, TRQs should also imply reduced entry prices for some products.

1 Introduction

This paper is a background paper written for the FAO Regional Trade Workshop held in Cairo from 15 to 17 November 2005. The main purpose of the workshop is to discuss developments in the ongoing WTO round of multilateral agricultural trade negotiations and their implications for North African and Near Eastern countries. This overall aim also determines the topics covered by this paper, which focuses on EU agricultural trade policies.

Two fields of EU agricultural trade policy are especially relevant to North African and Near Eastern countries. First, the comprehensive agricultural trade preferences granted to these countries may be eroded in an environment of multilateral trade liberalization. Second, the specific features of the EU's import regime for many fresh fruit and vegetables, the entry price (EP) system, and its likely adjustment at the close of the Doha round.

Section 2 of this paper describes in some detail the agricultural trade preferences which the EU grants to the North African and Near Eastern countries under the Euro-Mediterranean Agreements (EMA). The countries covered by these agreements are different from the group covered by the FAO workshop and are referred to in this paper as the Mediterranean Countries (MCs).[1] The significance of preferences is assessed quantitatively by presenting calculations of the indicators product coverage and the value of the preference margin (VPM) for each of the countries concerned, as well as for disaggregated product groups. The future of agricultural trade preferences granted by the EU is described generally and those granted to the North African and Near Eastern countries are looked at specifically.

Section 3 of this paper discusses the EU import regime for fresh fruit and vegetables, a product group which is of special importance in the exports from the Near East and North Africa to the EU. After a technical overview of import policies and, especially, the entry price system, EU trade preferences for fruit and vegetables are looked at in detail. Based on two examples (tomatoes and oranges), it is shown that preferential entry prices may be of very different relevance to the North African and Near Eastern countries. At the conclusion of Section 3, some thoughts are offered as to the future development of the entry price system at the conclusion of the Doha Round negotiations. Finally, Section 4 of the paper draws some conclusions.

[1] The group of MCs includes Morocco, Algeria, Tunisia, Egypt, Jordan, Lebanon, Syria, and Israel, as well as the Palestinian territories, and the term "country" used in this paper also refers to them.

2 Agricultural Trade Preferences for North Africa and the Near East

2.1 Historical Background

Since its foundation, the European Union[2] has maintained special political and economic relations with the countries of the Mediterranean Basin. Arrangements for preferential trade have been core elements of various Agreements. Under its "Global Mediterranean Policy" the EU harmonized the various bilateral agreements which prevailed at that time. This process resulted in a series of Cooperation Agreements with the Maghreb and Mashrak countries of Morocco, Algeria, Tunisia, Egypt, Jordan, Lebanon and Syria and a Trade Agreement with Israel, all concluded in the years 1975 to 1978.

The EU agreements with the MC were amended by Additional Protocols from 1986 to 1988, which included substantially extended trade preferences for agricultural products. In the 1990s, the EU began to negotiate the EMA with all MCs as well as an interim agreement with the Palestinian Authority. Although not all of the agreements are yet in force, the EMA will eventually replace all former arrangements in the area of trade. In addition, Tunisia, Morocco, Israel and the Palestinian Authority have negotiated an amendment of the agricultural protocols in the EMA to further liberalize trade with the EU.

The establishment of EMA is part of the "Barcelona Process", which was launched in November 1995 and aims at "political stability and security" (political chapter), "shared prosperity" (economic chapter), and "understanding between cultures and exchanges between civil societies" (social chapter) (European Commission, 2005a). The implementation of the political and cultural dimensions of the EMA and their contribution to achieving the aims of democratization and stabilization of the MC region are widely assessed as rather weak for a variety of reasons (Jünemann, 2002; Attina, 2003). As far as economic aspects are concerned, the core element of the new agreements is the creation of bilateral free trade areas between each of the MCs and the EU. Tunisia is the first country with which an EMA was concluded in 1995, and the time schedule foresees a full opening of Tunisian markets for industrial products from the EU in 2008, although domestic pressure for a postponement is increasing (Riess et al., 2001). Although agricultural goods are exempted from the establishment of bilateral free trade areas, they are subject to preferential trade rules, as under the former agreements. This exclusion of agriculture from future bilateral free trade areas reflects interests at both sides. The EU considers many of its Mediterranean products such as olive oil, fruits and vegetables, wine, and tobacco as "sensitive", and does not want to open its markets fully for competition from the MCs. The MCs, on the other hand, often extend greater protection to temperate zone products such as cereals and animal products than does the EU and would thus experience decreasing prices for these products with a free trade area in agriculture (Radwan and Reiffers, 2003; Garcia-Alvarez-Coque, 2002). The recent initiative

[2] The term European Union (EU) is used throughout, even when referring to the earlier entities the European Economic Community (EEC) or European Communities (EC).

of the European Commission to establish a roadmap for free trade in agricultural and processed agricultural products “with a very limited number of exceptions” (European Commission, 2005b) may be a step towards the further extension of agricultural trade preferences.

2.2 Structure of Preferences

Current preferential trade rules between the EU and the MC in the area of agriculture are laid down in a series of EMAs. EMAs are in force with Tunisia (1998), Israel (2000), Morocco (2000), Jordan (2002) and Egypt (2004). An Association Agreement also was concluded with Lebanon in 2002, however, only the trade and trade related measures are as yet applied. An Association Agreement was signed with Algeria in 2001, but has not yet entered into force. An interim agreement was concluded with the Palestinian Authority in 1997. Negotiations with Syria were concluded in October 2004.

Under the EMA, preferences that existed under the former agreements were usually consolidated and, in some cases, extended. In contrast to the situation before the EMA, agricultural trade preferences are mutual, i.e. for the first time, preferences are granted to the EU by the MC. Preferences to the MC are generally limited to typical Mediterranean products. In many cases tariff reductions are limited to certain calendar periods. Tariff reduction rates differ between 5 and 100% and are 100% in most cases where the tariff reduction is limited by a tariff rate quota (TRQ) or a reference quantity (RQ). As under the additional protocols to the old Cooperation Agreements, exports in excess of reference quantities are not immediately subject to MFN tariffs instead of preferential tariffs, but the EU reserves the right to convert reference quantities to TRQ in the future. In some cases exports in excess of TRQ, or future TRQ resulting from the conversion of reference quantities, are not eligible for any tariff reductions. In other cases lower tariff reductions apply to exports exceeding the TRQ. Some of the TRQ and reference quantities are increased by four equal steps of 3% annually from the conclusion of the agreement. Finally, for some products the EU reserves the right to define reference quantities at any level if the volume of imports "threatens to cause difficulties on the Community market".

In addition to tariff preferences, significant reductions of entry prices for limited quantities were negotiated for oranges with Israel, Egypt and Morocco, and some other products, too, with Morocco. The effects of reduced entry prices are complex to assess and are therefore not included in the analysis in this section. For the discussion of some product specific examples of reduced entry prices see Section 3 of this paper.

2.3 Assessment of the Value of Preferences

2.3.1 Quantitative Indicators of the Evolution of Preferential Treatment: Product Coverage and Preference Margin

Various indicators can provide an impression of the significance of agricultural preferences which the EU grants to the MC. One such indicator is product coverage (PC), i.e. the share of

products covered by preferences in total agricultural exports from the respective MC to the EU, defined as

(1)

In this definition, is the value of exports from MC A to the EU of all agricultural products receiving preferences granted by the EU, irrespective of the magnitude of the preference. is the value of all agricultural exports from country A to the EU, i.e. including exports of products that do not qualify for preferential treatment. Product coverage will thus be between 0 and 1. It indicates the extent to which the EU was prepared to structure its preferences such that products of particular export interest to the MC concerned could (at least potentially) benefit from preferential treatment. Product coverage is a useful indicator to compare the extent of preferences granted to different countries with similar export products under similar agreements. Product coverage for one country, however, does not say much by itself. Suppose, for example, that the EU has high most favored nation (MFN) tariffs, which are prohibitive for all potential imports from exporting country A. If the EU then grants a preference to A for one unit of a single good that enables actual export of this unit, product coverage would be shown to be 100%, as no trade occurs in all other products. In order to avoid this problem, a much more telling indicator would be the share of products qualifying for preferential treatment in all potential exports to the EU. However, estimating this indicator would require a model that estimates trade flows in the absence of all trade restrictions in the EU, an effort beyond the analyses presented here.

Along with information on product coverage, an indicator of the depth and evolution of tariff cuts would also be needed. One method of doing so would be to simply compare preferential and MFN tariffs, and to calculate a (simple or weighted) average of the preferential reduction in tariff rates, expressed in percentage ad valorem terms. An alternative approach is to express the depth of tariff reductions in absolute money terms, taking into account the value of trade in individual products and the respective magnitudes of tariff reductions. Essentially this indicator is a variant of a weighted average tariff reduction, with trade values used as weights and the result expressed in money terms rather than as a percentage tariff rate. Such an indicator of the depth of tariff cuts is the preference margin, which also indicates the extent to which the EU was willing to forego (potential) tariff revenue by granting preferential access to its markets.

Estimation of the preference margin starts with the assumption that both MFN exporters and preferential exporters of a given product earn the same price on the domestic EU market, which implies homogeneous goods. The relationship between the export prices received by the MFN supplier (p_w) and the preferential supplier (p_p) is described in equation (2).

$p_w (1 + t_{MFN}) = p_p (1 + t_p)$ (2),

with t_{MFN} being the (*ad valorem*) tariff rate for exports to the EU market, and t_p being the preferential tariff rate.

The VPM for the product concerned is then the difference between p_p and p_w, multiplied by the quantity exported to the EU. In using trade statistics, it is more convenient to work with export values rather then export quantities and prices. Hence in the estimates presented below, the VPM is calculated as a share of the export value of the product concerned (V), as defined in equation (3), which is easily derived from (2).

VPM = (3)

The VPM is estimated in this way for each product receiving preferential treatment in the EU, and then aggregated across all products, to yield the total VPM for the exporting country concerned. Of course the VPM can also be expressed as a percentage of the export value, in which case it will be referred to as the percentage preference margin throughout this article.

While the preference margin is estimated here primarily as an indicator of the depth of tariff cut, it can also give some indication of the value of preferences for the beneficiary countries. It should be noted, though, that the VPM estimated in this way and presented below is not necessarily equivalent to a direct economic gain to the exporting country. The preference margin essentially is equivalent to a price difference, which can take either of two forms (or some combination of them). One possibility is that the preferential tariff reduction can be used to sell at a lower price on the domestic market of the EU, in an effort to expand the quantity of exports. Alternatively, a given selling price on the domestic market of the EU can mean that the preference margin can result in an increase of the price received for a given quantity. However, even in the latter case, which is assumed in equation (3), it is not necessarily clear who captures the higher price. Depending on the distribution of negotiating power between the export and import side, which depends heavily on the institutional framework, e.g. license allocation in connection with tariff rate quotas (TRQ; Skully, 2001), or the existence of minimum import price systems, the price differential may accrue to the exporting or to the importing companies, and hence to the exporting country (MC) or the importing country (EU).

Unfortunately an analysis of the actual distribution of the preference margin can be rather complex and inconclusive, not the least as a result of the way EU market regimes for some of the products of interest to the MC are administered. In the case of a binding TRQ, where no minimum import price system is in operation, the result strongly depends on the method chosen for allocating licenses for trade under the TRQ. This is because the "owner" of the license is likely to attract (most of) the preference margin as he is in a quasi-monopolist position. Like other countries, the EU has decided to issue all licenses under the preferential regimes, to trading companies registered in the EU. This would suggest that in such cases most of the price advantage resulting from the preference margin accrues to importing EU

companies. As far as EU preferences for the MCs are concerned, these cases are infrequent as many of the major products concerned fall under the entry price regime. Under this regime, price formation in trade differs from that under a pure tariff regime. In particular, the entry price regime acts as an invitation to the exporting countries to establish monopoly export agencies. These agencies have a much stronger negotiating position *vis-à-vis* EU importing companies than would a multitude of individual exporting companies. As a result they may be able to attract at least some part of the preference margin which otherwise might accrue to the EU importing company.

In the case of fruits and vegetables, preferential TRQs are administered on a first come first serve basis, i. e. no licenses are issued and the full MFN tariff is charged from that moment on when the TRQ is fully exploited. This system may also tend to let part of the preference margin end up with the importing company, as no information is published by the EU on the extent to which quotas are used at any particular time. Hence the importing companies tend to base their price negotiations with exporters on the worst-case assumption that the full MFN tariff will be charged, at least towards the end of the import period when the risk of exceeding the TRQ increases.

There are two other reasons why the economic gain accruing to the exporting country can differ from the value of the preference margin. First, the MFN tariff may be prohibitive, in which case part of the preference just reduces the redundant part of that prohibitive tariff, and the potential economic gain to the exporting country is less than the preference margin (as the estimates of preference margins presented below are based on actual (i.e. non-zero) trade flows, a case in which the preference is no more than the redundant part of the prohibitive tariff is not relevant here). Second, tariff preferences usually result in an expansion of the quantities traded (i.e. if not subject to TRQs or minimum import price systems). Therefore the potential economic gain tends to be somewhat higher than the preference margin calculated based on trade figures before the implementation of the preferences concerned.

In summary, because of the complexity of the trading regimes involved in EU agricultural trade with the MCs, it is impossible to make any general statements about where the preference margins end up, and hence about the actual economic gain for the exporting countries. Furthermore the actual economic gain resulting from trade preferences is not necessarily the same size as the preference margin, no matter to whom it accrues. Only detailed product- and country-specific empirical analyses of price formation can shed light on this issue. As a consequence, the value of the preference margin estimated here must be interpreted as an indicator of the potential loss in EU tariff revenue and potential benefits to the exporting countries.

2.3.2 Product Coverage and Preference Margin: Empirical Results

Calculations of product coverage and the value of preference margins are based on trade flows of the years 2001 through 2003. Preferential tariff reduction rates are applied to 2004

applied MFN tariffs, which are equal to the final WTO bound tariffs in the year 2000 for all products of relevance here except rice. The scheduled increase in some TRQ and reference quantities and the subsequent extension of preferences for Israel, Morocco, the Palestinian territories, and Tunisia are fully considered. Because of seasonal MFN tariff variation and seasonal preferences, much of the analysis is based on monthly trade data and on EU import unit values rather than export unit values of preference-receiving countries due to the much better availability of disaggregated trade data. Results of these calculations are presented in Table 1.

Table 1: PC and VPM under the EMA (Trade Data 2001-2003)

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palestine	Syria	Tunisia	Total MC
Agr. ex., mio. €	40.4	781.1	1,101.9	392.9	196.6	1,125.9	62.1	794.4	445.3	4,940.5
Agr. ex. to EU, mio. €	39.9	306.7	860.9	7.2	32.8	1,384.3	5.1	137.3	293.8	3,068.0
Product coverage	52.7%	44.1%	55.4%	52.0%	22.0%	84.2%	79.9%	17.4%	76.0%	67.2%
VPM, mio. €	1.8	11	36.6	0.3	0.9	122.3	0.4	5.7	46.6	225.5
In % of agr. ex.	4.5%	1.4%	3.3%	0.1%	0.5%	10.9%	0.6%	0.7%	10.5%	4.6%
In % of agr. ex. to EU	4.5%	3.6%	4.3%	4.2%	2.7%	8.8%	7.8%	4.2%	15.9%	7.4%

Sources: Grethe, Nolte and Tangermann (2005), own calculations.

PC varies from about 17% for Syria to more than 80% for Morocco. On average for all MCs, product coverage is 67.2%. The VPM totals about €225 mio., varying between €0.3 mio. for Syria and €120 mio. for Morocco. In relation to the total value of agricultural exports to the EU, the VPM varies from 2.7% for Lebanon to almost 16% for Tunisia. For the MCs on average, this share is 7.4%.

One should keep in mind that the VPM resulting from some of the EMA is underestimated compared to others. This is because new trade flows induced by new preferences are not accounted for in all cases as calculations are based on 2001-2003 trade flows. This is the case for Lebanon, where the trade part of the EMA was in force only since 2002, Egypt where the trade part entered into force only in 2004, the Palestinian territories where preferences have been extended in January 2005, and Algeria and Syria where the agreement is not yet in force.

It is also interesting to look at the product composition of the total VPM for the individual MCs. For Morocco about half of the VPM results from fish (fresh and processed), and more than 10% from oranges and mandarins. More than 70% of the VPM of Tunisia results from preferential treatment of olive oil and another 20% from fish. In the case of Jordan, cucumbers and gherkins are the most important product which account for about 23% of the VPM, and for Palestine fresh flowers and strawberries are the only relevant products. Cut flowers make up for about 24% of the VPM for Israel.

Generally, the preference margin is highly concentrated on a few products. For all MCs, four or fewer products at the 4-digit CN level account for more than half of the VPM. In some

cases this concentration is even more pronounced. Syria for instance obtains 86% of its VPM from only one product (CN 1509, olive oil). Table 2 displays the distribution of the VPM for each MC and the MCs as a group.

Table 2: Distribution of VPM under the EMA by Product Groups

	Algeria	Egypt	Israel	Jordan	Lebanon	Morocco	Palestine	Syria	Tunisia	Total MC
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
of which:										
Meat and live animals	-	-	0.7%	-	0.0%	0.0%	-	0.0%	0.0%	0.1%
Fish	55.0%	-	-	-	0.5%	32.2%	-	0.0%	19.3%	21.9%
Dairy and eggs	0.1%	-	0.0%	-	1.2%	-	-	0.2%	-	0.0%
Flowers and live plants	-	1.0%	29.5%	0.4%	0.1%	0.3%	60.8%	0.2%	0.0%	5.1%
Vegetables	1.4%	64.1%	19.4%	41.0%	2.0%	18.5%	4.4%	9.2%	0.4%	16.8%
Fruit	25.4%	29.5%	28.6%	52.8%	1.2%	21.0%	34.8%	0.3%	6.6%	19.2%
Cereals & mill. ind. products	-	4.4%	-	-	0.8%	-	-	-	-	0.2%
Oilseeds & oleag. fruit	0.6%	0.1%	-	-	0.4%	0.1%	-	0.1%	0.0%	0.1%
Fats and oils	-	-	-	-	11.3%	0.1%	-	86.4%	71.2%	17.0%
Prep. of meat and fish	1.5%	-	2.0%	-	0.6%	18.2%	-	-	0.4%	10.3%
Sugars	-	0.0%	-	-	0.1%	-	-	0.2%	-	0.0%
Preparations of cereals	-	-	-	-	-	-	-	-	-	-
Prep. of veg. and fruits	0.5%	0.6%	18.9%	5.8%	42.2%	8.8%	-	2.4%	0.2%	8.2%
Tobacco	-	-	-	-	34.4%	-	-	0.8%	-	0.2%
Cotton	-	-	-	-	-	-	-	-	-	-
Other	15.6%	0.3%	0.8%	-	5.3%	0.7%	-	0.1%	1.8%	0.9%

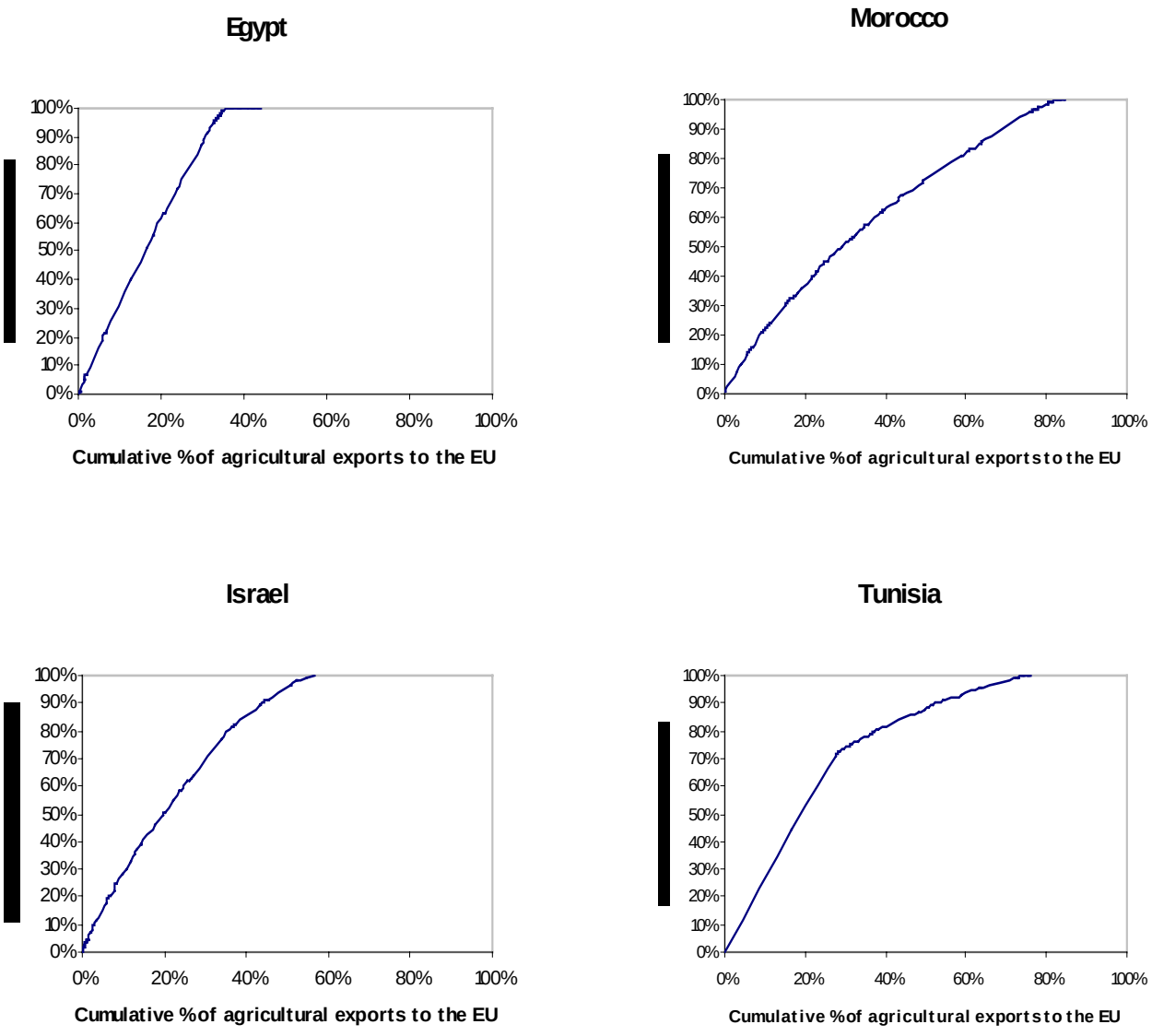
Sources: Grethe, Nolte and Tangermann (2005).

Table 2 shows that for the MCs as a group about 83% of the preference margin is concentrated on the product groups of fresh and processed fruit and vegetables as well as fish and fats and oils (mainly olive oil). The composition, however, varies strongly among countries.

A directly related aspect that throws light on the nature of the EU's agricultural trade policies vis-à-vis the MCs and on pressure for future change, is the extent to which the overall size of the VPM is evenly (or unevenly) spread over all agricultural exports to the EU from the MC concerned. Figure 1 presents information on this issue in graphical form for four selected MCs. In the country graphs, the cumulative size of the VPM under the EMA as a% of the total VPM (on the vertical axis) is plotted against the cumulative value of the respective country's agricultural exports to the EU in percent of total agricultural exports to the EU (on the horizontal axis), and products are arranged by increasing size of their percentage

preference margin. Clearly, product coverage as defined above is where the upward sloping line hits 100% of the total VPM and becomes flat (compare graphs with Table 1). The most interesting feature of the graphs, then, is the curvature of the lines. Where the upward sloping line is linear, the product-specific preference margins make up the same percentage of the export value of all products covered by preferences. On the other hand, the more curvature there is in a line, the more unequal is the percentage margin among products.

Figure 1: Cumulative VPM and Export Values for Selected MC under the EMA



Source: Grethe, Nolte and Tangermann (2005).

In the case of Egypt, the line is rather steep (showing that product coverage is relatively low), but nearly linear, which indicates that products that receive preferences experience nearly equal preferential margins in terms of their share in the export value. The average percentage preference margin for preferential products exported by Egypt to the EU is 9.9%. Some products, mainly preserved fruit and vegetables and fruit juices, have a higher percentage

preference margin of up to 53%. These products, however, matter little compared to total preferential trade. Products with a percentage preference margin of above 15% have only a 0.1% share in total preferential trade. In absolute terms, the bulk of the VPM accrues to very few products. Potatoes, green beans, onions, table grapes, lemons and strawberries, all of which have a percentage preference margin very close to the average of 9.9%, make up 73% of Egypt's VPM.

For Morocco, the line is much flatter (larger product coverage) but still close to linear, again indicating essentially equal treatment of all preferential products. The average percentage preference margin here is 10.7%. Products with higher individual percentage preference margins include olive oil, preserved strawberries and mushrooms with up to 35%. Preparations of fish and aquatic animals also have a higher percentage preference margin of up to 20%. While the plant products mentioned before do not contribute significantly to the total VPM of Morocco, fish and preparations are by far the most important products for Morocco and make up for more than 50% of Morocco's VPM. Among crop products, tomatoes with 9%, mandarins with 7% and oranges with 5% of the total VPM are the most important products. The latter, as well as most fishery products, has an individual percentage preference margin rather close to the average one.

For Israel and particularly Tunisia, there is more curvature in the lines, indicating that the percentage preference margins differ significantly among products, either due to differing MFN tariff rates or different magnitudes of the preferential tariff cuts. In such cases, not only is there a difference between products receiving preferences and those not benefiting from preferences, but also among the products covered by preferences. The average percentage preference margin for Israel is with 7.7% lower than those of the above-treated countries. Israel is, however, exporting quite a lot of products to the EU with preference margins above 10% and below 5%, making up for 37% and 10% of the total VPM and for 24% and 22% of preferential trade. The products with the highest percentage preference margin are various types of fruit juices with up to 35%, not, however, importantly contributing to the total VPM. The case is different for Tunisia, where olive oils make up 71% of that country’s total VPM, at up to 42%. This stems from the high MFN tariffs as well as substantial reduction rates. As a result of the tariff preference for olive oils, at 21%, the average percentage preference margin of Tunisia exceeds that of all other MCs. Excluding olive oils from the analysis, the average percentage preference margin and the distribution over preferential products would be very similar to the other countries analyzed in this section. Apart from olive oil, fish, dates and oranges contribute most to Tunisia's VPM.

In the latter two cases, the benefits resulting from preferential treatment by the EU are distributed unevenly across product sectors, so producers in different product sectors may tend to be happy about EU preferences to rather different degrees. More generally, the larger the area below the lines and above the diagonal, the more unequal are the effects of

preferential treatment for different product sectors, and the more potential there is for split opinions among different producer groups about the benefits of the arrangements with the EU.

Finally, in order to make an attempt at saying something about the importance and size of the overall VPM for the individual country, the VPM is compared to the size of several economic indicators. In Table 3, VPM under the EMA are related to total agricultural exports to the EU and to the agricultural GDP of the countries concerned (to indicate the relevance of EU preferences for the agricultural sector) and to their total GDP (to indicate the significance of EU agricultural preferences for the whole economy). The value of preference margins amounts to a significant share of MC agricultural exports to the EU in all cases. But the situation looks somewhat different if the VPM is compared to the GDP of the agricultural sector. For Israel, Morocco, and Tunisia, the VPM exceeds 1% of the agricultural GDP, for all other countries the VPM is 0.2% or less of the agricultural GDP. As a group, the VPM for the MCs is equivalent to about 0.6% of the agricultural GDP. If preference margins are compared to total GDP, they appear, of course, much smaller. On average for all MCs, the VPM is no more than 0.06% of total GDP. Only for Morocco and Tunisia does the VPM exceed 0.2% of their total GDP. This is due to the combination of their relatively large preference margins compared to the size of their agricultural sectors and the relatively large shares of their agricultural sectors in the whole economy. For all other MCs the VPM is 0.03% or less of their total GDP.

Table 3: Size of the Value of the Preference Margin

	Value of preference margin			
	in mio. €	**% of agr. ex_{EU}**	**% of $GDP_{agr.}$**	**% of $GDP_{total.}$**
Algeria	1.75	4.39%	0.03%	0.00%
Egypt	10.98	3.58%	0.07%	0.01%
Israel	36.55	4.25%	1.23%	0.03%
Jordan	0.33	4.56%	0.16%	0.00%
Lebanon	0.92	2.80%	0.04%	0.00%
Morocco	122.34	8.84%	1.91%	0.32%
Palestine	0.35	7.00%	0.13%	0.01%
Syria	5.72	4.16%	0.12%	0.03%
Tunisia	46.60	15.86%	1.83%	0.21%
Total MC	225.52	7.35%	0.55%	0.06%

Source: Grethe, Nolte and Tangermann (2005).

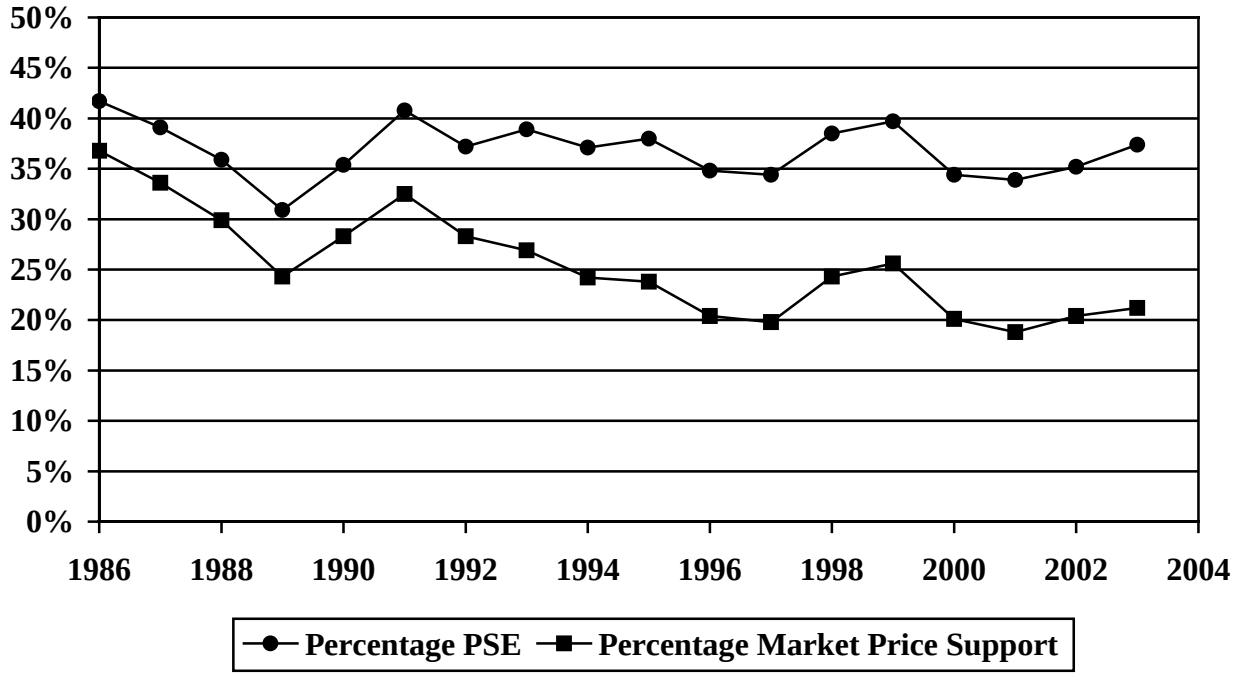
One element which is completely new in the EMA, but not covered here, is the reciprocity of agricultural preferences. Considerable preferences are also granted by the MC for imports of temperate zone products originating from the EU.

2.4 Future of Preferences

2.4.1 Future of EU Agricultural Trade Preferences for Developing Countries in General

The future erosion of agricultural trade preferences granted by the EU logically follows from the path of the reduction of agricultural price support which the EU has pursued since the early 1990s. Figure 2 displays the total PSE as well as market price support of the EU as a percentage of total agricultural production value, including direct payments to producers.

Figure 2: EU Percentage PSE and Market Price Support 1986-2003



Sources: OECD (2004), own calculations.

Although the percentage PSE was rather constant, around 35 to 40% between 1986 and 2003, the percentage market price support declined from more than 37% in 1986 to about 20% in recent years. This process, which mainly reflects the ongoing process of the replacement of price support by direct payments since the McSharry reform in 1992, is likely to continue. Some reforms not yet reflected in Figure 2 are already implemented such as the abolishment of rye intervention and the reduction of the intervention price for rice by 51% in 2004. Others are already decided upon and are in the process of implementation, for example the reduction of the intervention prices for butter and skim milk powder until 2007. Furthermore, a proposal for a substantial cut in the intervention price for sugar by 39% is on the table. Finally, a successful conclusion of the Doha Round will probably lead to further cuts in MFN access to the EU's agricultural markets.

In addition to the preference erosion which results from the reduction of the EU's domestic price level and of MFN market access barriers, preference erosion may also result from the

EU granting additional preferential market access to countries that did not previously enjoy preferential treatment. For example, in the negotiations over a Regional Trade Agreement between MERCOSUR and the EU, MERCOSUR countries are pushing for the inclusion of substantial parts of the agricultural sector.

Thus, for both the preference-granting as well as the preference-receiving countries, the perceived advantages which result from preferential trade agreements are diminishing. For the preference recipients, it is the welfare effects resulting from higher export revenues than those that would prevail under MFN conditions that are diminishing. For the EU, the incentive to narrowly control preferential market access through a system of seasonal tariff and entry price preferences, TRQs, sophisticated rules of origin and safeguard clauses is declining. After all, such systems are costly to negotiate and to administer, and with decreasing MFN barriers there is less and less of a domestic market price level to protect.

A further point along this line is that for preference-recipient countries, it is mainly the comparative static welfare gains from trade that are reduced through preference erosion. But these gains may not be at the forefront in determining welfare gains from RTAs (Robinson and Thierfelder, 1998). Some of the dynamic or non-traditional gains from trade, however, may be as well or even better realized for developing countries in a multilateral framework. Certainly this holds for the effects resulting from own market liberalization in case of reciprocal preferences: efficiency gains from increased competition as well as locking in domestic reforms do not depend on opening an exclusive market under a RTA. The greater predictability of the future potential of export sectors due to secured market access would be even better served under multilateral liberalization: market access would be more secure and not subject to erosion. Other dynamic gains, such as the attraction of FDI or the realization of economies of scale and increased productivity through trade, however, may be more exclusive and thus an incentive exists to realize them under RTAs or nonreciprocal preferences, as well as it exists for the realization of comparative static welfare gains.

In summary, in light of diminishing perceived benefits from preferential trade agreements, coupled with persistently high costs of such agreements, from a rational perspective the incentive to invest in the “spaghetti bowl” of agricultural trade policies (Bhagwati, 1995) should decline. This, however, is not observed in reality: the number of RTAs the EU is involved in is increasing and the agricultural parts of these agreements continue to be highly complex and detailed in structure, even increasingly so in case of the EMA.

2.4.2 Specific Issues in the Future of Agricultural Trade Preferences for North Africa and the Near East

The issue of preference erosion may be less of a topic for the MCs than for many other developing countries, especially the LDC and the signatory countries of the sugar, beef and banana protocols of the ACP agreements. This is because the sugar, beef and banana protocols have resulted in significant trade diversion. Countries have been sucked into the

exportation of products to the EU for which they do not have a comparative advantage and exports are not sustainable in case of multilateral trade liberalization. This holds especially for sugar, which accounts for a large share of potential preference erosion (Grethe, 2005).

EU agricultural trade preferences for the MCs, on the other hand, may have resulted in quite some trade creation rather than trade diversion. As shown above, more than 50% of EU agricultural trade preferences for the MCs are for fresh fruit and vegetables and for olive oil. These are products for which MCs often have a clear comparative advantage compared to other suppliers because of climate and short distances for transportation of fresh products.

Another aspect in the development of agricultural trade preferences between the MCs and the EU is the aspect of reciprocity. From a WTO point of view, trade preferences are a deviation from the MFN principle. Some of these preferences, which are granted in a non-discriminatory manner and non-reciprocally to developing countries, are covered by the Enabling Clause. But preferences which the EU grants to the MCs are clearly not covered by this provision because they are discriminatory in nature as they only apply to a subset of developing countries which is solely defined by its historical ties to the EU.

Therefore, the preferences granted under the EMA are subject to the conditions defined in GATT Article XXIV on the formation of customs unions and free trade areas. But the legal WTO status of the EMA is unclear, mainly because the lack of clarification of the requirement of GATT Article XXIV that free trade areas or customs unions should include "substantially all the trade" between the members, which raises the question of whether the exclusion of large parts of agricultural sectors is in conformance.[3] This may be one of the drivers for the EU to start to include agriculture to a larger extent in its Free Trade Agreements, also for trade flows from the EU to developing countries.

Preferences which are currently granted under the EMA by the MCs for imports of temperate zone products originating from the EU are considerable: for example, for wheat the TRQ agreed upon by the MCs in the EMA to date add up to more than 1.8 mio. tons, equivalent to about 13 per cent of all wheat exports of the EU in 2001-2003. The EU's preferential access to the wheat markets of Jordan and Syria is not limited by TRQs. Wheat exports by the EU to Jordan have been minor in the past, but have risen twenty fold to about 100,000 tons after the EMA entered into force in 2003. The quantities of wheat exported to Syria are small as well. In addition, Syria usually applies MFN tariffs of less than 10% to wheat products. Therefore, Syria is not expected to become an important destination for EU wheat exports as a result of the EMA. It is expected that the EU will demand an extension of preferential market access to the MC agricultural markets in further negotiations on mutual extension of preferences.

The future of preferential entry prices is discussed in Section 3 of this paper.

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[3] For a detailed discussion of the WTO-conformance of EU free trade agreements with Article XXIV see Grethe and Tangermann (1999a). For a recent EU position see European Commission (2002).

3 The EU Import Regime for Fresh Fruit and Vegetables

3.1 EU MFN Policies for Fresh Fruit and Vegetables

3.1.1 Tariffs and Entry Price System

Fruit and vegetables in the EU are typically protected by ad valorem tariffs of up to 20%. However, tariffs are only one element in the protective trade regime the EU applies to this sector. More important is the entry price system, which applies to a subset of fruit and vegetables considered particularly "sensitive" in the EU, and which effectively establishes minimum import prices. The fruit and vegetables concerned as well as MFN import policies applying to them are listed in Table 4.

Table 4: Fruit and Vegetables Covered by the EU Entry Price System

	MFN ad valorem tariff (%)	MFN entry price		Specific tariff	
		Level	Period of application	MTE (€/t)	In % of MFN entry price
Tomatoes	8.8 - 14.4	526 - 1,126	01.01. - 31.12.	298	26.5 - 56.7
Cucumbers	12.8 - 16.0	481 - 1,105	01.01. - 31.12.	378	34.2 - 78.6
Artichokes	10.4	654 - 826	01.11. - 30.06.	229	27.7 - 35.0
Courgettes	12.8	413 - 692	01.01. - 31.12.	152	22.0 - 36.8
Oranges	3.2 - 16.0	354	01.12. - 31.05.	71	20.1
Clementines/mandarins	16.0	286 - 649	01.11. - 28.02.	106	16.3 - 37.1
Lemons	6.4	462 - 558	01.01. - 31.12.	256	45.9 - 55.4
Table grapes	8.0 - 17.6	476 - 546	21.07. - 20.11.	96	17.6 - 20.2
Apples	4.8 - 11.2	457 - 568	01.01.- 31.12.	238	41.9 - 52.1
Pears	4.0 - 10.4	388 - 510	01.07.- 30.04.	238	46.7 - 61.3
Apricots	20.0	771 - 1,071	01.06.- 31.07.	227	21.2 - 29.4
Cherries	12.0	916 - 1,494	21.05.- 10.08.	274	18.3 - 29.9
Peaches	17.6	600 - 883	11.06. - 30.09.	130	14.7 - 21.7
Plums	6.4 - 12.0	696	11.06. - 30.09.	103	14.8

Sources: European Commission (2005c), own calculations.

If the c.i.f. import price of a shipment is below the entry price, the entry price system provides the opportunity to gradually invoke specific tariffs, in addition to ad valorem tariffs. If the imported good comes in at an import price not more than 8% below the entry price, the additional tariff will equal the difference between import price and entry price. If the import price is more than 8% below the entry price, the full WTO-bound specific tariff (abbreviated as MTE, maximum tariff equivalent, in Table 4), which is much higher than the ad valorem tariff, will be charged. This "eight percent rule" is a prohibitive import barrier for most imports below 92% of the entry price because of the high level of the maximum specific

tariffs. Table 4 shows that MTEs are in the range between 14.7 and 78.6% of the entry price level.

The entry price system is administered on a shipment-by-shipment level. The additional specific tariff is charged per individual shipment if the c.i.f. price of that shipment undercuts the entry price. In practice importers would not tend to declare a c.i.f. price below entry price level, intending not to pay any specific tariff. In addition, much of the fruit and vegetable trade is on consignment and no agreed upon c.i.f. price exists at the moment of importation. Hence compliance with entry prices cannot really be monitored on the basis of c.i.f. prices as theory would suggest. Therefore price formation is monitored on the domestic EU market, where wholesale prices are monitored by origin. Based on these prices, the Commission calculates "standard import values" (SIVs) on a daily basis for each country that actually exports to the EU. Importers are given three options to check compliance with the entry price:

(1) SIV method. The import charge is based on the SIV.

(2) Customs clearance by invoice. The import charge is based on a f.o.b. invoice, adjusted for insurance and freight costs. If the resulting c.i.f. price exceeds the standard import value by more than 8%, a final selling price of that level must be proved. In this case the importer must lodge a security as high as the difference relative to what tariff he would have paid if he had imported by using the SIV method.

(3) Deductive method. The import charge is based on the effective selling price of the shipment concerned. The importer must lodge a security as high as the tariff he would have paid if he had imported by using the SIV method.

If the SIV is above entry price level, the importer will pay no additional specific duty simply by opting for (1). If the standard import value is below the entry price, the importer can try to avoid paying an additional duty by opting for (2) or (3).

3.1.2 The Special Safeguard Provision

Another element in the EU import regime for fruit and vegetables is the Special Safeguard Provision (SSG) which originates from the Uruguay Round and can only be applied to products which have undergone tariffication. In the case of fruit and vegetables, in the EU, only the reference price system has been tariffied, but not the ad valorem tariffs that had been previously bound under the "old" GATT. The SSG therefore applies only to products which were subject to the reference price system before the Uruguay Round. The EU has indicated in its Schedule that it reserves the right to invoke the SSG for imports that come in below the entry price, but not for imports that respect the entry price.[4] Based on the SSG, an additional

[4] Importing countries (in this case the EU), however, can still invoke the general safeguard provisions under the GATT 1947 and the UR Agreement on Safeguards.

tariff can be charged by the importing country if i) the import price undercuts a specified "trigger price" or ii) the quantity imported exceeds a specified "trigger volume".

For the price-triggered SSG the EU has submitted to the WTO a list of trigger prices it intends to use. Table 5 compares these trigger prices to the entry prices.

Table 5: SSG Trigger Prices Compared to Entry Prices for Fruit and Vegetables

Product	Trigger price	Entry price for the year 2000
Tomatoes from 1 November to 14 May	690	625-1126[a]
Tomatoes from 15 May to 31 October	604	526-726
Cucumbers from 1 November to 15 May	682	442-1105
Cucumbers from 16 May to 31 October	290	481-663
Artichokes from 1 November to 30 June	836	825-943
Courgettes all year	637	413-692
Oranges from 1 to 30 April	372	354
Oranges from 1 to 15 May	380	354
Oranges from 16 to 31 May	396	354
Oranges from 1 December to 31 March	341	354
Clementines from 1 November to 28 February	540	649
Mandarins from 1 November to 28 February	611	286
Lemons all year	442	462-558
Table grapes from 1 to 20 November	1284	476
Table grapes from 21 July to 31 October	993	546
Apples from 1 August to 31 December	500	457
Apples from 1 January to 31 March	508	568
Apples from 1 April to 31 July	593	457-568
Pears from 1 January to 31 March	669	510
Pears from 1 to 15 July	665	465
Pears from 16 to 31 July	570	465
Pears from 1 August to 31 December	380	388-510
Apricots from 1 June to 31 July	664	771-1071
Cherries from 21 May to 15 July	626	1254-1494
Cherries from 16 July to 10 August	717	916-1254
Peaches and nect. from 11 June to 30 September	1481	600-883
Plums from 1 July to 30 September	399	696
Plums from 11 to 30 June	1201	696

Source: Grethe and Tangermann (1999b).

In general, the order of magnitude of the trigger prices, which are import unit values calculated by the Commission, is the same as that of the entry prices, although some notable differences do exist. For example SSG trigger prices for plums, peaches, pears, grapes and mandarins significantly exceed entry prices during certain periods of the year. This does not open up the possibility of charging an additional tariff if the entry price is not undercut because the EU has committed itself not to invoke the SSG if the entry price is respected.

Still, in some cases the SSG allows for high additional tariffs once the entry price has been undercut because the magnitude of the additional tariff under the SSG depends on the difference between the c.i.f. price and the trigger price. As discussed above, MTEs will often be prohibitive and there would be little need for the EU to also invoke the SSG. This situation could change, however, if MTEs are further reduced in the future to an extent that they lose their prohibitive character. However, up to February 2002 no additional tariffs were charged for fresh fruit and vegetables based on the price trigger mechanism of the SSG (WTO, 2002).

The volume-triggered SSG allows for additional duties to be charged if the volume of imports exceeds the average import quantity of the three preceding years for which data is available by a certain percentage. This percentage depends on the ratio between domestic consumption and imports and varies from 5 to 25%. From 1996 to 1999, the volume trigger was invoked for several fruits and vegetables subject to the entry price system. In 2000 and 2001, the quantity trigger was not invoked (WTO, 2002).

3.2 EU Trade Preferences for Fresh Fruit and Vegetables from the MC

3.2.1 Tariff Preferences

Various tariff preferences are granted for fruit and vegetables under reciprocal and non-reciprocal arrangements. For the MCs, the value of preference margins for fresh fruit and vegetables under the EMA amounts €81 mio., or about 36% of the total value of preference margins.

3.2.2 Entry Price Preferences

Significant reductions of entry prices for limited quantities (entry price quotas - EPQs) were negotiated for oranges with Israel, Egypt, and Morocco, and some other products with Morocco. Reductions in entry prices of between 5 and 58% enable these countries to supply products to EU markets at prices significantly below those originating from countries which must accept the MFN entry price. As a result reduced entry prices enable the countries concerned to export products to the EU even if at high season the EU domestic price is below the MFN entry price plus tariff. If the EU domestic price is above the level of the entry price plus the relevant tariff, the preferential entry price will have no direct effect except the assurance of being the last exporter to leave the market if the EU domestic price declines. Preferential entry prices could also enable countries to export low quality products to the EU, which would not be marketable at MFN entry price level.

A reduced preferential entry price within an EPQ can result in an economic rent if it is exactly filled or overfilled, because the marginal cost of supplying the imported good is below the selling price on the EU market. Figure 3 depicts a potential quota rent resulting from a preferential EPQ when the domestic EU price is below the MFN entry price level.

Figure 3: Potential Rent Resulting from an EPQ

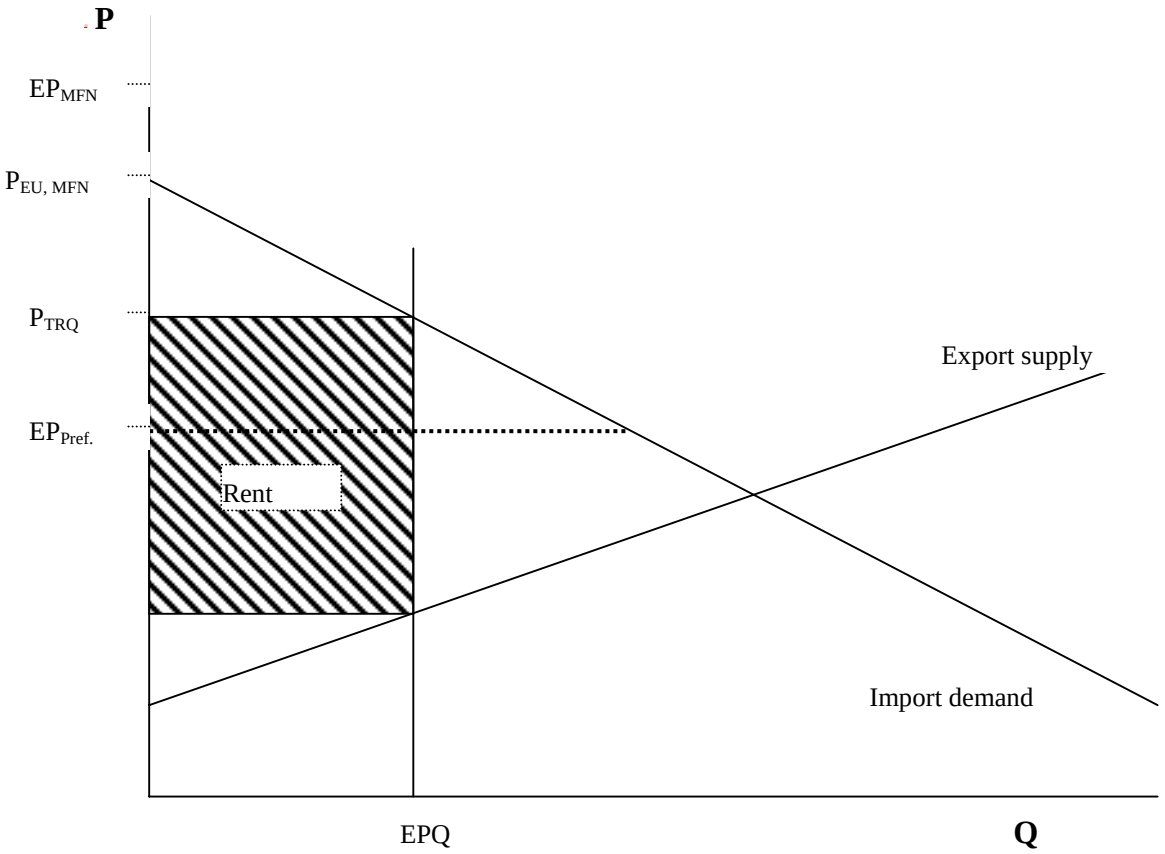


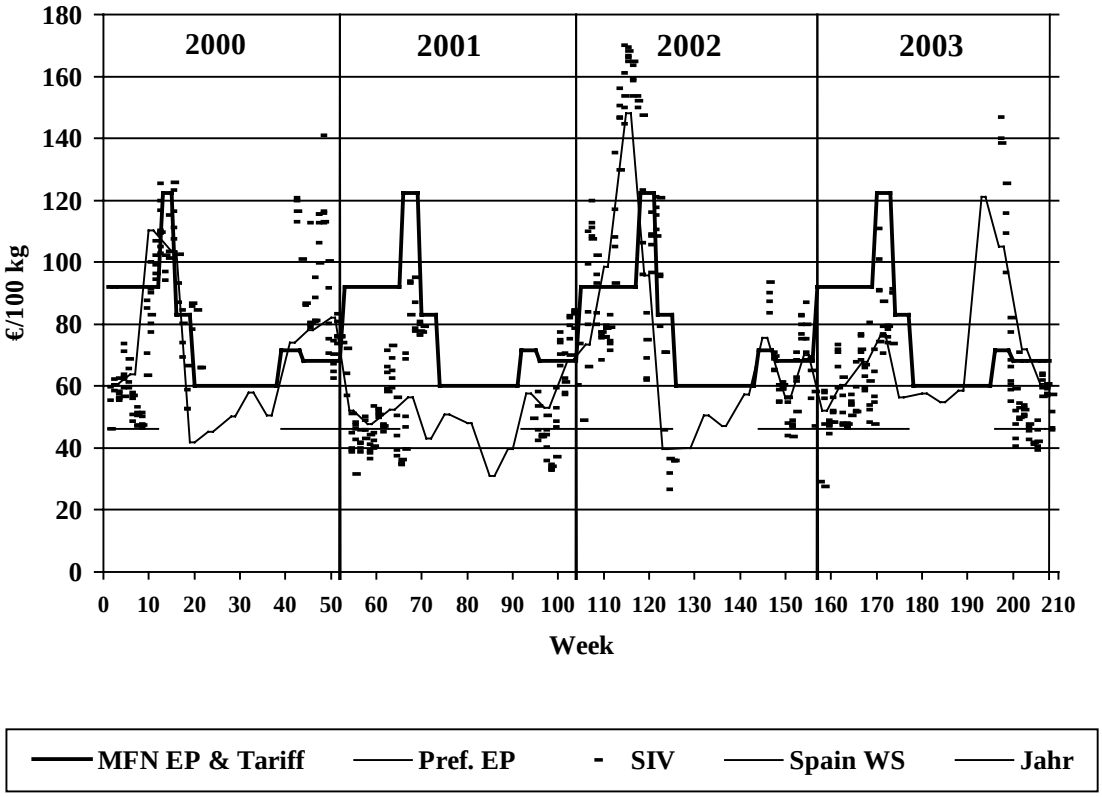
Figure 3 shows a situation in which the EU MFN entry price level (EP_{MFN}) is set above the level of domestic price equilibrium ($P_{EU,MFN}$), and no imports occur. A reduced entry price ($EP_{Pref.}$) is set at a level below domestic EU price equilibrium, but above the price level which would occur with completely liberalized trade. Without any further restriction, this would be the domestic price level in the EU, but an EPQ is set such that the resulting EU price is (P_{TRQ}). The quota rent is the price difference between the export supply (i.e. marginal cost) curve at EPQ and $EP_{Pref.}$ multiplied by EPQ.

This section does not offer a complete analysis of the effectiveness of preferential EPQs, but presents two rather different examples: the preferential EPQ for tomatoes from Morocco, which results in a significant economic rent; and EPQs for oranges which are granted to Egypt, Israel, and Morocco, but are redundant.

3.2.2.1 The Effectiveness of the EPQ for Tomatoes from Morocco.

Figure 4 displays weekly MFN entry prices, preferential entry prices, and Moroccan SIVs as reported by the European Commission as indicators for the Moroccan import price, and Spanish wholesale prices (WP) for tomatoes for 2000 through 2003.

Figure 4: Weekly Entry Prices, Moroccan SIVs and Spanish Wholesale Prices for Tomatoes in the Years 2000-2003

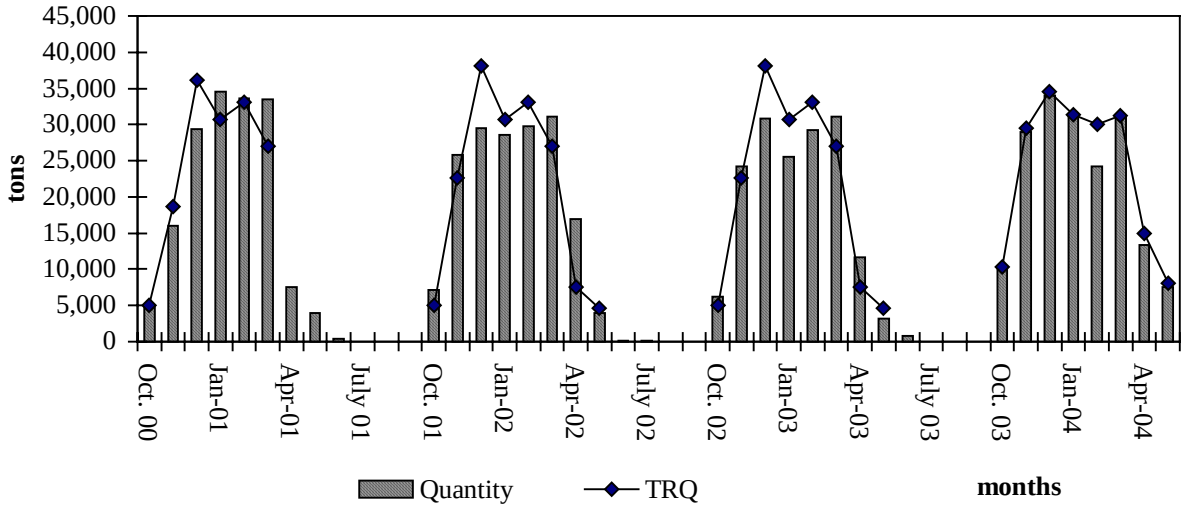


Source: Chemnitz and Grethe (2005).

Figure 4 depicts the MFN entry price plus the *ad valorem* tariff for tomatoes which is higher in winter than in summer and which reaches its peak in April. Furthermore Figure 4 shows that the preferential entry price for Morocco in the winter months is considerably lower than the MFN entry price. The SIV of Moroccan tomatoes, which is the average of observed wholesale market prices for Moroccan tomatoes in the EU minus a marketing and transportation margin, is between the MFN and the reduced entry price in 58% of the observations. In such a situation, it is the reduced entry price which allows for importation. In about 13% of the cases, however, Moroccan SIVs are below the preferential Moroccan EP. In 29% of observations, SIVs are above even the MFN entry price level. In those cases, the preferential entry price is not relevant to Morocco, as even the MFN entry price is nonrestrictive. This occurs in situations in which the EU price level for tomatoes, which is indicated by the Spanish average wholesale price in Figure 4, is especially high.

It is indeed the preferential entry price which allows for imports from Morocco during large parts of the high season of Moroccan tomato exports to the EU. In order to check to what degree Morocco makes use of the EPQ, Figure 5 depicts monthly EU import quantities of Moroccan tomatoes compared to the size of the EPQ for each month and shows that, on average, the EPQ is binding.

Figure 5: Monthly EU Import Quantities and EPQs for Moroccan Tomatoes, 2000/01-2003/04



Source: Chemnitz and Grethe (2005).

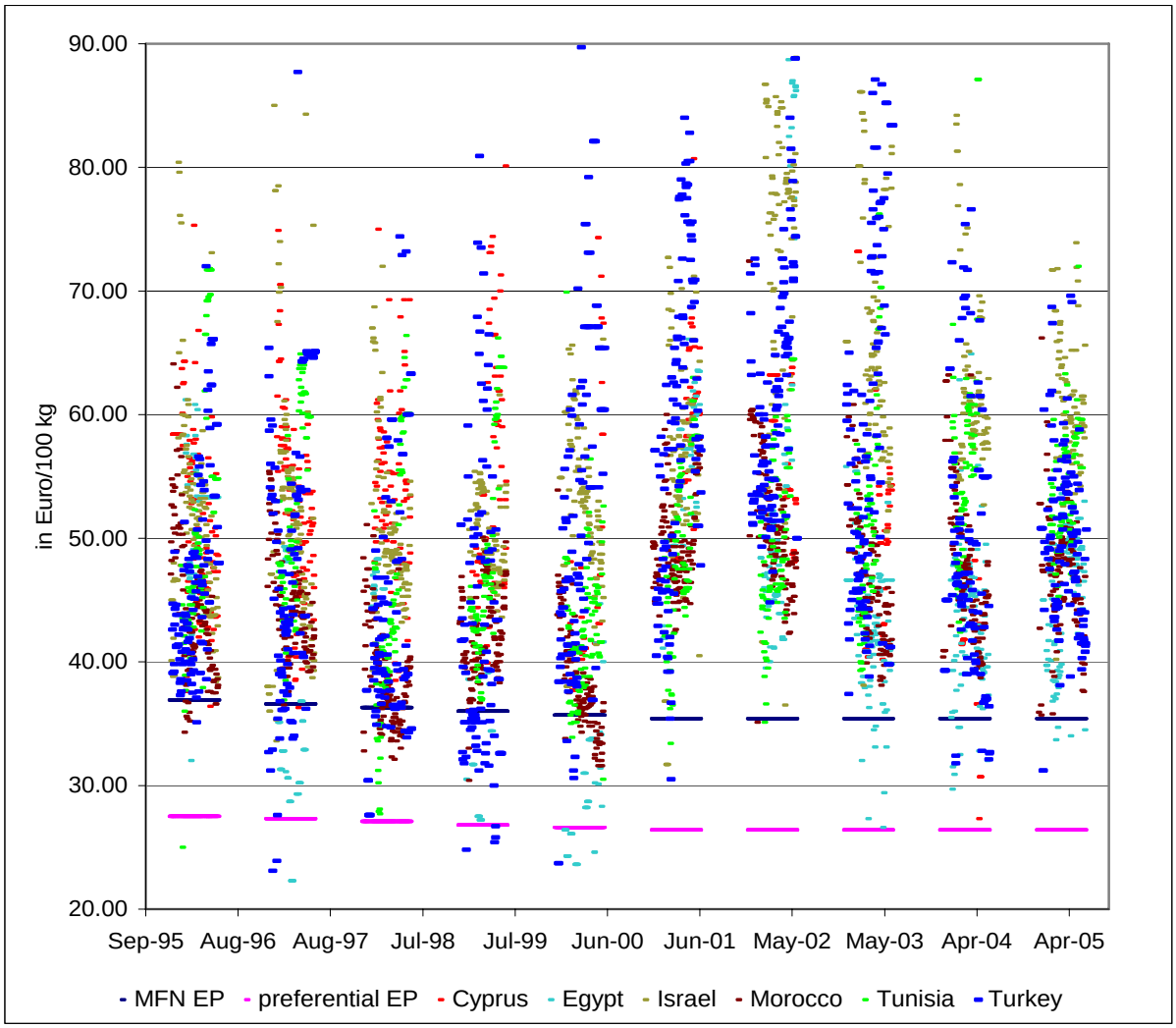
An analysis of production costs and export prices of Moroccan tomatoes suggests that the EPQ results in a quota rent of €0.13 to 0.23/kg of tomatoes. Based on 2000/03 export quantities, this would be a total rent of €24-36.5 million per year (Chemnitz and Grethe, 2005). Compared with the total agricultural preference margin (without tomatoes) of about €50 million for Morocco under the EMA (see above), this is a significant amount.

3.2.2.2 The Effectiveness of EPQs for Oranges from Egypt, Morocco and Israel

With EPQs totalling 635,000 tons, the EU grants a preferential entry price for oranges to Egypt, Morocco, and Israel which is at 74.6% of the MFN entry price.

Figure 6 depicts the SIV for oranges originating in major Mediterranean orange-exporting countries, together with the MFN and the preferential entry price granted to Morocco and Israel since December 1995, as well as Cyprus and Egypt since December 1996.

Figure 6: SIV, MFN and preferential entry price for oranges exported by major MED-countries, 1/12/1995-31/5/2005 (€/100 kg)



Source: Goetz and Grethe (forthcoming).

The share of SIV observations above the MFN entry price is highest for Israel with 99.9%, followed by Cyprus with 98.7%, and lowest for Egypt with 79.1%. Overall, the SIV is higher than the MFN entry price in 93.3% of the 5,439 observations and on average the SIV is at 140.1% of the MFN entry price.

This shows that the MFN entry prices as well as preferential entry price reductions for oranges are rather redundant: the EU market price level is considerably higher. In addition, quota-filling rates are low and although quotas were increased continuously in the past, exports from the MCs fell significantly during recent decades (Goetz and Grethe, forthcoming).

3.3 Future of the EU Import Regime for Fresh Fruit and Vegetables

The EU import regime for fruit and vegetables will be subject to any agreement on agriculture which may be reached in the Doha round of trade negotiations in the WTO. Various aspects play a role in how such an agreement could impact the current import regime for fruit and vegetables.

At the time of this writing, a banded approach for tariff reductions seems most probable. A first question then is in which tariff band fruit and vegetables would fall. If one takes the EU proposal of October 28 as a reference (European Commission, 2005d), fruit and vegetables not covered by the entry price system would generally fall in the lowest tariff band (up to 30%) and tariffs would thus be reduced by 20% to 45%, with an average of 35%. For those products falling under the entry price system, specific tariffs were converted to ad valorem equivalents (not yet published), and these products would therefore fall into higher tariff bands and the according reduction rates would apply to the ad valorem as well as the specific tariffs.

A second question is how tariff reductions would impact entry prices. During the implementation period of the Uruguay Round Agreement, entry prices were reduced by the same amount as were the respective specific tariffs. As entry prices were higher than the specific tariffs, their relative reduction was below the 20% reduction rate which was applied to specific tariffs. As a result, the more entry prices were reduced (in relative terms), the higher the specific tariff in relation to the entry price. Whether the EU will apply this approach is, again, an open question and depends on the outcome of negotiations.

A third question is to what extent the EU will be able and willing to declare tariff lines for fresh fruit and vegetables as “sensitive”. There are enormous differences in the current proposals with respect to the share of tariff lines which should be eligible to fall into this category (1 to 8%), and the still missing agreement on the size of TRQs which should be set for these products, as well as in and above TRQ tariff reduction rates. Thus the consequences for trade remain unclear.

A fourth aspect which may turn out to be relevant for the future protectiveness of the EU import regime for fruit and vegetables is the potential continuation of the SSG. The quantity trigger, which has been invoked in some years, may become particularly relevant in case of a reduction of entry prices and specific tariffs.

Table 6 provides a first very rough assessment of how future entry prices and specific tariffs could look if the respective products were not declared sensitive. As the ad valorem equivalents notified to the WTO are not yet available, and a precise calculation based on the IDB/Comtrade databases was beyond the scope of this paper, ad valorem equivalents in Table 6 are calculated based on Eurostat import unit values. Potential reduction rates are based on the EU proposal of 28 October 2005.

Table 6: Potential Development of AVEs and EPs after Conclusion of the Doha Round

	IUV 1999-2001 (€/t)	Ad val. tariff (%)	Base MTE (€/t)	Max. total AVE (€/t)	Base EP (€/t)	Potential red. rate (EU)	Final MTE (€/t)	Final EP (€/t)	Reduction of EP
Tomatoes	766	8.8 - 14.4	298	53%	526 - 1,126	40%	179	407-1,007	11-23%
Cucumbers	747	12.8 - 16.0	378	67%	481 - 1,105	50%	189	292-916	17-39%
Artichokes	1,279	10.4	229	28%	654 - 826	35%	149	574-746	10-12%
Courgettes	1,033	12.8	152	28%	413 - 692	35%	99	360-639	8-13%
Oranges	454	3.2 - 16.0	71	32%	354	40%	43	326	8%
Clementines/ mandarins	691	16.0	106	31%	286 - 649	40%	64	244-607	7-15%
Lemons	640	6.4	256	46%	462 - 558	40%	154	360-456	18-22%
Table grapes	1,471	8.0 - 17.6	96	24%	476 - 546	35%	62	442-512	6-7%
Apples	757	4.8 - 11.2	238	43%	457 - 568	40%	143	362-473	17-21%
Pears	735	4.0 - 10.4	238	43%	388 - 510	40%	143	293-415	19-25%
Apricots	1,431	20.0	227	36%	771 - 1,071	40%	136	680-980	8-12%
Cherries	1,619	12.0	274	29%	916 - 1,494	35%	178	820-1,398	6-10%
Peaches/ nectarines	1,601	17.6	130	26%	600 - 883	35%	85	555-838	5-8%
Plums	1,111	6.4 - 12.0	103	21%	696	35%	67	660	5%

Sources: European Commission (2005c, 2005d), Eurostat (various issues), own calculations.

Table 6 shows that ad valorem equivalents vary between 20% and 70%, resulting in reduction rates between 35% and 50% for specific and ad valorem tariffs. If one applies the resulting reduction of MTE to the entry prices, they are reduced between 5% and 39%. Thus, the reduction of entry prices differs significantly among products and the effectiveness of such reductions would depend greatly on the current effectiveness of MTE as well as entry prices, as the above examples of tomatoes and oranges have shown.

4 Conclusions

Most of the MCs have little to lose from preference erosion in the current Doha round of trade negotiations. This is because they are competitive suppliers with a comparative advantage due to climate and geographical location for most of their preferential export products such as fruit, vegetables, and olive oil. They can therefore support multilateral liberalization of these EU markets.

Given the high transaction costs of product-specific and differentiated preferences, the full inclusion of MCs' agricultural exports in a free trade area with the EU seems a worthy alternative. The effect on EU markets may be limited for many reasons. First, compared to an increasing EU market, the MCs are relatively small in terms of agricultural production; agricultural GDP in the MCs is only about 17% of that in the current EU-25 and the four

accession candidates combined. Furthermore, natural resources, especially water, are rather scarce in most of the MCs and therefore limits additional exports. Finally, transportation costs and increasing quality standards applied by EU importers limit the competitiveness of many MC products on EU markets. Garcia Alvarez-Coque (2002: 408) states that "only a few countries … are able to export the quality products demanded by high-income consumers". Grethe (2004) arrives at a similar conclusion for Turkey where, in contrast to a priori expectations, full abolishment of EU market access barriers for fruits and vegetables would lead to only small gains in exports.

In the future the EU is likely to push for a higher degree of reciprocity in agricultural trade preferences. This process has started with the inclusion of reciprocal preferences in the EMA and is continued with the initiative of the European Commission to establish a roadmap for free trade in agricultural and processed agricultural products "with a very limited number of exceptions" (European Commission, 2005b). Therefore MCs need to be prepared for opening their markets for temperate zone products to strong international competition.

The EU import regime for fruit and vegetables is highly complex and the effectiveness of the entry price system differs strongly among products. For some products, such as oranges, it is rather redundant, as are preferential entry prices in these cases. For other products, the entry price system is restrictive and preferential entry prices allow for significant economic gains, for example for tomatoes from Morocco.

The implementation of potential market access commitments for fruit and vegetables which may result from the Doha round of multilateral trade negotiations is complex. Points of special importance include:

- The potential continuation of the SSG endangers the trade creating effects of a reduction of tariffs and entry prices.
- The mechanism used to translate tariff reductions into entry price reductions is crucial. The replication of the Uruguay Round approach leads to very heterogeneous results among products. Alternatively, entry price reductions could be negotiated separately.
- Due to the variation of effectiveness of the entry price system among products, any agreement on reduction rates needs to be assessed on a product-specific basis.
- Should the EU declare any fresh fruit or vegetable as “sensitive”, the precise rules for this still-to-be-negotiated product category are of relevance. In particular, TRQs should be designed such that market access is a real option. Therefore, TRQs need to include reduced entry prices for some products.

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