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The effects of trade policies for fresh fruit and vegetables of the European Union

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Abstract

This paper examines the economic effects of the trade policies for fresh fruit and vegetables adopted by the European Union (EU) after the Uruguay Round Agreement on Agriculture (URAA). The new import regimes are based on entry prices that in effect work as minimum prices. At the same time, the EU has signed trade preference agreements particularly with Southern Mediterranean countries that are important suppliers of fruit and vegetables to the EU. The management of the import regime is a balance between two conflicting objectives: to support internal producers and to preserve trade flows from preferred countries. On the side of export subsidies, to handle the reduction commitments under the URAA the EU has introduced rationing through tender procedures. The analysis shows that such subsidies do not seem able to boost the exports of eligible products. Therefore, EU policy makers should ask whether the EU should continue to offer such subsidies.

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Introduction

Support to EU producers of fresh fruit and vegetables (f&v) is based both on internal market measures and external protection. Intervention on internal market is rooted around Producer Organisations whose main functions are the increase of market power, the improvement of marketing activities and to provide a partial price stabilisation. External protection of the EU f&v producers has very peculiar features. The distinctiveness of the import regime has been kept alive even after the

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Uruguay Round Agreement on Agriculture (URAA). Currently, f&v are the only products whose external protection is provided by an entry price system. The functioning of the new import regime has been thoroughly analysed by Swinbank and Ritson (1995) who compared it to the previous reference price system, while Martin and De Gorter (1999) analysed its distributive effects. Although the entry price system provides a distinctive external protection device to EU f&v producers, preferential trade agreements with some Mediterranean basin countries have favoured imports of f&v originating from these countries. Grethe and Tangermann (1998) analysed the import regime and its relationships with preferential trade agreements.

Some f&v exported out of the EU are eligible for export subsidies. Such subsidies, since the URAA, have been cut severely. In 1995, the EU introduced a new regulation to fix the quantities of exports and the unitary amount of subsidies, in order to fulfill the URAA undertaking to reduce such subsidies.

The main aim of this paper is to analyse the effects of the existing system of external protection and export subsidies both on the trade of f&v and in terms of support to EU fresh f&v producers. The paper is organised as follows. External protection will be examined in the following section, also discussing the functioning of preferential trade agreements for imports of f&v. The discussion will be based on the analysis of data related to the application of the entry price system. The subsequent section will be devoted to the analysis of the export subsidies regime that the EU introduced in 1995.

The EU import regime for fresh fruit and vegetables

Before the URAA, external protection to EU producers of all f&v was obtained by means of tariffs. Imports of the main products were also subject to reference prices. This system worked in such a way that when the import price of products originating from non-EU countries fell below the reference prices they were also subject to the payment of a countervailing charge. The extra duty was only charged on imports from that country. The import regime rather penalised exporters to EU markets because when countervailing charges began to be applied on a product the system worked in such a way that after they increased continuously so as to eliminate the flow of imports from a country (Swinbank and Ritson, 1995). Therefore, reference prices worked as minimum import prices.

The URAA eliminated all non-tariff barriers (NTBs) such as reference prices. However, in the case of f&v already covered by reference prices, the EU replaced the old system with *entry prices*. In the new regime, if the import price of a product is above the entry price it only pays the tariff. When the import price is lower than the entry price by a percentage no greater than 8%, the import incurs an extra duty whose amount is equal to the difference between the entry price and the import price. If the percentage exceeds 8% the extra duty is the maximum tariff equivalent (MTE).¹ Tariffs, entry prices and MTEs change during the year according the seasonality of

¹ The reasons why this form of NTB was introduced after the URAA are discussed by Swinbank and Ritson (1995) and Grethe and Tangermann (1998).

EU production. For many f&v products the entry prices operate only for a limited period when internal supply is marketed. The amount of MTEs is so high that it can be seen as a prohibitive tariff.

One of the main changes introduced in the EU f&v import regime after the URAA is that the entry price system works on a consignment basis. In this way, at least in principle, it is possible to avoid the penalisation of high quality imports from a country as occurred under the old reference price regime where all imports from the country were penalised if countervailing charges were introduced. In order to allow the functioning of the new system on a consignment basis, the EC Commission calculates on a daily basis a standard import value (SIV) for every f&v product subject to entry price according to its origin.

Standard import values play a central role in the functioning of the new import regime of f&v, because they represent the import price of a product on which the custom duties that the importer will pay are set. For each product, the entry price is compared to the SIV which applied at the time the declaration of product release for free circulation is made and, simply put, operators are given the choice of three different systems of charge.² With the first and second (the “invoice” and the “deductive” systems, respectively), procedures of entry price–SIV comparison are defined that set the duty to be paid as a security. Operators can ask for a partial or total rebate of the sum by proving, through invoices or other customs documentation, that the actual sale price of their consignment is such that a lower duty was to be paid. The third system is simply based on the entry price–SIV comparison for all the imports coming from a given country, with no investigation of the single consignment’s price, as there was in the old “reference price” system.

Standard import values are a weighted sum of average representative prices collected on the import markets within the EU, the weights being given by the quantities traded on each market. Representative prices are collected by Member States with reference to the importer–wholesaler or wholesaler–retailer stage; in the latter case they are reduced by 9%. Representative prices are reduced by a percentage varying from 8% to 15% according to the different markets on which they are surveyed, in order to take account of distributive margins. The Commission reduces representative prices by a fixed amount of € 5/100 kg and of import duties. SIVs are published daily in the Official Journal of the European Communities.

Preferential trading arrangements within the EU import regime

A major part of the actual working of the EU’s f&v protection system relates to trade agreements signed with many countries.³ The EU has long managed the f&v

² Technicality on this point is available in the [European Commission \(1999\)](#).

³ Concessions for f&v imports are granted to south-eastern Mediterranean countries, which are most relevant for EU producers due to both overlapping production calendars and weight of import flows. Some preferential conditions are also granted to African, Caribbean, and Pacific countries (Cotonou Agreements), other developing countries involved in the GSP, as well as some CEECs and fr/Yugoslavian countries. As a whole, these partners are major providers of f&v to the EU.

package by pursuing, at the same time, protection of Southern EU producers, maintenance of traditional import flows and improvement of political-diplomatic relationships with several developing countries. This, in turn, implies that a sort of protection, through preferences, has been granted to the competitive advantage of these countries on the EU market.

The major countries are Southern-Eastern Mediterranean Countries (SEMC), the agreements with whom may be dated back to the 1970s EU “global Mediterranean policy”. Revised in the late 1980s after the enlargement of the EU to include Greece, Spain and Portugal, the current Euro-Med Association Agreements (EMA) are being re-launched within the framework of the Euro-Med Partnership:⁴ reciprocal trade liberalisation, as well as EU technical co-operation and financial support, are seen as major threads driving development and integration in the whole area (Hoeckman and Diankov, 1996).

Agreements with SEMC establish relevant preferential trade concessions for fresh f&v. Such concessions normally consist of zero tariff import quotas for a set of products defined for each country. In the case of products for which the EU declared entry prices at the WTO, the protection system is applied according to the same procedures described in the previous section, but with some relevant concessions, for certain SEMC, on the level of some of the prices in question (Table 1). No preferential measures, however, are foreseen regarding MTEs, which entirely apply whenever operators are not able to prove the price was above the (preferential) entry price.

Although lower entry prices are also restricted by quotas, they are fiercely opposed by EU producers, afraid of low priced imports from the Mediterranean. The major losers from the EU’s concern for traditional inner and outer providers of f&v, however, are the “unpreferred” exporters. Management of the entry price system—namely, the consignment-based setting of custom duties and the features of the ex-post assessment of the import price—allows preferred exporters to price at preferential entry prices and zero tariffs, undercutting the price of any other exporter who must abide by MFN entry price and tariff (Tangermann, 1996; Swinbank-Ritson, 1995).

The wedge between preferential and MFN pricing is a preference margin that makes room for non-competitive behaviour among traders. Pricing at the lowest level (preferential entry price) implies that the margin is completely spent in order to increase the market share on the EU market, while higher prices allow some per-unit extra-gain. The actual outcome, in terms of both pricing and distribution of the preference margin between importers and exporters will be mainly affected by concentration on the import side, marketing boards on the export side, degree of exploitation of preferential quotas, and features of licensing systems (if any).

Finally, the effects of reductions in f&v NTBs are lessened by seasonal exceptions which, where needed, restore higher entry prices. Seasonal suspension of

⁴ The Euro-Med Partnership includes, besides EU members, three candidates to EU membership (Cyprus, Malta and Turkey) and nine countries negotiating new EMA (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria and Tunisia).

Table 1
Structure of EU trade concessions to main preferential partners for some fresh f&v products (1999–2001)

Product/ country	EU import 2000				Tariff concessions				NTB concessions			
	Tons	Partner rank ^a	% tariff reduction (%) ^b	MFN tariff (%) ^b	Tariff rate quota (TRQ)		Preferential entry price (euro/ton)	% margin over MFN EP ^b	Entry price quota (EPQ)		Import ^c / EPQ (%)	
					Tons	Calendar			Tons	Calendar		
<i>Tomatoes</i>												
Morocco	140,871	1	100	8.8–14.4	168,757	01/ 01–31/12	461	26.4–45.5	150,676 ^d	01/10–31/03	107.4	
Israel	14,526	2	100	8.8–14.4	1000	01/ 01–31/12	na	–	–	–	–	
Turkey	12,245	3	100	8.8–14.4	na	–	na	–	–	–	–	
<i>Oranges</i>												
South Africa	267,649	1	100	16.0–3.2	na	–	na	–	–	–	–	
Morocco	164,505	2	100	16.0–3.2	380,800	01/ 01–31/12	264	25.4	300,000	01/12–31/05	45.7	
Brazil	69,971	3	100	16.0–3.2	na	–	na	–	–	–	–	
Israel	54,363	4	100	16.0–3.2	200,000	01/ 07–30/06	264	25.4	200,000	01/12–31/05	25.2	
<i>Apples</i>												
Czech Republic	125,660	2	100	9–11.2	500	–	na	–	–	–	–	
South Africa	120,901	3	100	9–11.2	na	–	na	–	–	–	–	
Chile	89,257	4	100	9–11.2	na	–	na	–	–	–	–	
Brazil	56,341	5	100	9–11.2	na	–	na	–	–	–	–	

Source: Eurostat; EC Reg. 2433/2000, EC Reg. 747/2001; Taric (2003).

na = not applied.

^a Including MFN partners.

^b Minimum and maximum value over the year (or period defined by the related calendar).

^c Flow over the period defined by the related calendar.

^d Sum of monthly sub-quotas, with 20% margin of forward or backward loading.

preferences resembles, on the one hand, the seasonality of protection. On the other hand, being defined on a product/country basis, seasonal restraints, along with quotas, can be rather helpful in distributing EU market shares among preferential partners.

Knowledge of actual prices that occurred along the supply chain could allow an assessment of welfare effects of preferences on the many stakeholders involved (EU producers and consumers, outsider producers—both preferred and MFN—several trading operators involved). The preference margin determined by the wedge between preferential and MFN pricing makes room for non-competitive behaviour among traders. Pricing at the lowest non-dutiable level (preferential entry price) implies that the margin is completely spent in order to increase the market share on the EU market, while higher prices allow some per-unit extra-gain.

The actual outcome, in terms of both pricing and distribution of the preference margin between importers and exporters will be mainly affected by concentration on the import side, marketing boards on the export side, degree of exploitation of preferential quotas, and features of licensing systems (if any). However, since actual prices at firm level are not available and only preference margins and SIVs can be easily and reliably observed, the following pages draw especially on these evidences.

Table 1 summarizes the preferential arrangements and per-unit margins related to three major f&v products. In 1995, after the signing of the EMA, the entry price of fresh oranges imported from Israel and Morocco was lowered to € 275/ton, equivalent to a reduction of 25% with respect to the MFN entry price. Such an arrangement is only provided in the period from December to May, resembling the structure of MFN protection for oranges, and within quotas usually not completely exploited. After a time, Egypt and Cyprus joined the system (1998), while further reductions in the entry price were granted, reaching € 264/ton by December 1999. This current price still accounts for a 25% reduction in the MFN entry price.

Morocco also enjoys entry price preferences on fresh tomatoes and a few other products. The preferential entry price of tomatoes started at € 500/ton in 1995, to be lowered to the current € 461/ton. In this case the arrangement covers the period from October to March, when the MFN entry price starts from the lowest level and increases over winter and spring. This implies that the percentage preference margin varies seasonally, ranging from 15% in October to 45% in March, reflecting the trend of letting Moroccan produce in only when a relatively small share of the EU production is marketed. Also in this case preferential and MFN entry prices have been reduced over the implementation of the URAA, keeping the percentage preference margin stable, while the entry price quota for Morocco has been overshot in the last few years.

A common feature of the two products examined is the stability of the percentage preference margin over the MFN entry prices. However this implies that, over time, MFN liberalisation is reducing the economic value of preferences. A striking difference between the two products, instead, is in the ways operators are managing the entry price quotas. In the case of oranges, evidence on SIVs shown in the next

section suggests that Morocco and Israel may have been reducing their share on the EU market mainly due to the erosion of preferences against Spain and Southern Hemisphere competitors. Moroccan tomatoes, instead, seem to be caught in the contradictions between growing quantities of produce and production calendars which are inconsistent with the structure of protection requested not only by Southern European producers, but also by Northern European greenhouse producers.

The effects of the entry price system

In order to assess the effects induced by the f&v import regime on the internal market, it would be useful to gather data on duties paid on the imports of f&v from non-EU countries into the EU. Unfortunately such data are not available. As an alternative it is helpful to analyse the daily distribution of SIVs compared with the entry prices. The analysis aims to ascertain two points: (i) how many times the SIVs of a fresh f&v product imported from a country have been lower than its entry prices and therefore the number of days in which the extra duty or the MTE could be applied, at least as a security; (ii) the time distribution of these events in relation to the marketing season of each product. The last point is particularly relevant because it is aimed at the assessment of the effectiveness of the MTE in modifying the flow of imports from a country.

This analysis was carried out for three of the most important f&v—apples, oranges and tomatoes—imported from the major countries exporting to the EU. These products are particularly interesting because they compete directly with the EU internal production. The analysis concerns SIVs from 1st July 1995, the first day on which the new import regime began to work, until 31st August 2000.

Table 2 shows the number of SIVs calculated in each year for apples imported into the EU from South Africa, Chile, New Zealand and Argentina. It also reports the number of days in which SIVs were lower than entry prices and the days in which SIVs were lower than 92% of entry prices, the condition for the application of the MTE. The table also includes SIVs for tomatoes imported from Morocco which will be discussed later. According to the data shown, there were relatively few days in which SIVs were lower than entry prices. In the last six months of 1995 in which the new system began to be applied, there were, however, many days in which SIVs were below entry prices. In the following years there were far fewer days in which this event occurred.

Knowledge of the frequency of SIVs lower than entry prices does not provide much information if their seasonal distribution is not taken into account. The reason is that apples are easily stored, and hence SIVs may refer to periods in which apples from non-EU countries are marketed in the EU but are not currently being imported. To show this point, the monthly distribution of the share of SIVs lower than entry prices for apples is reported for each of the four major exporting countries, all of which belong to the Southern Hemisphere (Fig. 1). The distribution shows that SIVs are lower than entry prices mostly in autumn, when the import season is already ended and SIVs refer to the selling prices of residual quantities of

Table 2

Number of SIVs for some f&v imported in EU, SIVs lower than entry prices and SIV lower than 92% of entry prices

			1995	1996	1997	1998	1999	2000
Apples	South Africa	SIV	80	146	145	170	154	136
		SIV < PE	16	2	7	22	0	0
		SIV < 0.92PE	5	2	4	20	0	0
Apples	Chile	SIV	71	138	146	140	134	125
		SIV < PE	34	0	31	3	8	0
		SIV < 0.92PE	16	0	27	1	5	0
Apples	New Zealand	SIV	94	132	116	111	139	127
		SIV < PE	42	1	0	1	12	0
		SIV < 0.92PE	34	1	0	1	10	0
Apples	Argentina	SIV	48	134	158	142	133	111
		SIV < PE	11	0	11	0	19	0
		SIV < 0.92PE	8	0	2	0	14	0
Tomatoes	Morocco	SIV	60	121	134	116	129	64
		SIV < PE	14	22	6	19	51	1
		SIV < 0.92PE	7	4	0	6	29	0

stored apples. By contrast, SIVs are never lower than entry prices—and therefore no MTE is applied—in spring and summer when apples are being imported.

It is difficult to assess the openness of the new regime in comparison to the old. Many authors argued that the entry price system introduces strong incentives for concentration both at the export and at the import level. Concentration would give the opportunity to avoid the charge of the MTE and to capture rents involved in the protection system.

In the case of apples the new regime did not appear to offer greater opportunities for exports to the EU. After 1995, the first year when the new import regime was implemented, the yearly imports of apples from third countries in the EU

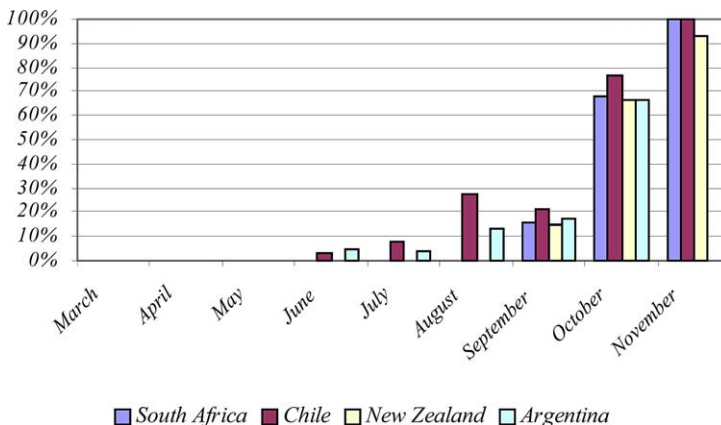


Fig. 1. Monthly share of SIVs lower than the entry prices.

Table 3
Imports of apples and oranges in the EU (tons), two years average

	Apples	Oranges
Average 1990–94	752,798	874,083
1995–96	831,678	926,337
1996–97	853,555	921,725
1997–98	771,710	862,687
1998–99	730,963	855,738
1999–00	727,351	792,566
2000–01	701,863	835,268

exceeded 1990–94 average imports only in 1996 and 1997. Subsequently imports of apples show a decrease and only in 1999 they were slightly larger than the 1990–94 average. Table 3 reports the two-year average imports of apples and oranges in the EU from 1995–96 to 2000–01. It can be seen that, after an initial increase with respect to the 1990–94 five-year average, in subsequent years imports decreased continuously.

Insights into apple importers' behaviour can be supplied by comparing the yearly average SIV for each of the four main exporting countries with apple entry prices. Table 4 shows that the percentage difference between SIVs and entry prices has gradually increased. Such a pattern suggests that importers did not use the greater opportunities offered by the lowering of entry prices to increase the quantities of apples sold on the EU market. Therefore, it is possible that the entry price system stimulates non-competitive behaviour among importers.

The largest exporters of oranges to the EU are South Africa, Morocco, Israel, Brazil and Argentina. Imports from South Africa, Brazil and Argentina for the most part enter the EU in late spring and summer months when the entry prices are not working and the MFN tariff is at the minimum. The relative SIVs are often below the entry prices in December when the importing season from that countries has already ended. So it is unlikely that entry prices have any effect on imports from South Africa, Brazil and Argentina. As regards oranges imported from Morocco and Israel—which benefit from trade concessions in the form of reduced entry prices—their SIVs never fell below the preferential entry price. It is also

Table 4
Percentage difference between apples SIVs and entry prices per year

	South Africa	Chile	New Zealand	Argentina
1995	14.1	0.0	13.4	8.8
1996	51.4	56.0	70.2	44.1
1997	54.9	19.8	69.4	28.1
1998	38.2	46.3	100.5	51.1
1999	54.6	40.3	70.5	28.0
2000	89.5	79.3	73.3	75.6

worth noting that the quantities of oranges imported from these two countries are less than the zero tariff import quota.

The quantity of oranges imported from non-EU countries into the EU in the years following the implementation of the URAA has shown a decrease with respect to the average imports observed in the period 1990–94 (Table 5). However, within the flows of imports there has been a major change in their composition with respect to country of origin. Imports of oranges from Morocco and Israel have continuously decreased in relation to the 1990–94 average, reaching –41% and –45% in 2000/2001, respectively. A completely different picture is shown by imports from South Africa and Brazil that steadily increased, reaching +96% and +26% in 2000/2001, respectively.

Although imports of oranges from Morocco and Israel benefit from preferential trade concessions, they have not been able to capture a larger share of the EU market. A possible explanation for this performance is that during the past decade imports of Moroccan and Israeli oranges have been replaced by Spanish production. This is a result of Spain becoming a full EU member in 1993 after the end of the temporary period of accession. The second explanation is the effect of the entry prices of oranges: before the URAA the reference prices for oranges was ineffective, because the EU was a net importer of large quantities of oranges it preferred to import oranges at low tariffs, granting premiums to EU producers, mainly Italians, selling on EU non-domestic markets (Swinbank and Ritson, 1995). After the URAA, the entry price of oranges increased over the old reference price by an amount equal to the premiums, displacing exports of oranges from Morocco and Israel. It can be observed that when entry prices are not working and there is the opportunity to sell at low tariffs, imports can grow as in the case of oranges from South Africa and Brazil.

Most imported tomatoes in the EU originate from Morocco, while very limited quantities come from Tunisia and Israel. SIVs of tomatoes imported from Morocco offer a different picture from apples or oranges. In this case we only considered SIVs related to the period from October to March in which imports from that country have zero tariffs if they are imported at prices higher than the pre-

Table 5
Quantities of oranges imported into the EU before and after URAA (tons)

	Non-EU	South Africa	Morocco	Israel	Brazil	Argentina
Average 1990–94	874,083	148,994	278,757	99,579	71,093	68,151
1995–96	926,337	197,822	246,041	104,454	76,407	69,430
1996–97	921,725	217,140	275,105	114,328	69,580	74,072
1997–98	862,687	238,339	219,101	103,834	58,677	73,832
1998–99	855,738	267,994	201,338	82,491	68,063	63,142
1999–00	792,566	268,662	179,910	62,527	74,753	42,391
2000–01	835,268	291,826	165,598	54,502	89,746	56,136
var % 2000–01/1990–94	–4.4	95.9	–40.6	–45.3	26.2	–17.6

ferred entry price within monthly quotas.⁵ Such SIVs are often below the reduced entry prices (Table 2). In many cases the SIVs are less than 8% below entry prices which would entail lower duty. However, it is not exceptional that this percentage is greater than 8% requiring the MFN maximum tariff equivalent. This outcome was particularly recurrent in 1999 when 51 out of 140 SIVs were below entry price and 29 by more than 8%. Moreover this occurred in different periods of the season without a clear time pattern.

The case of tomatoes is probably the one where information on duties actually charged and daily imports would be most useful, and it might well represent some problems of implementation of the new entry price system. Low SIVs give operators the signal that prices of Moroccan tomatoes (and, seemingly, tomatoes in general) on given EU markets are low. Moroccan exports of tomatoes are rather well organised and operators probably choose one of the two criteria that prove that single consignments are in line with entry prices. This should not be easy when *on average* Moroccan produce is violating the entry price. Moreover, since the import market involved is almost always France, SIVs are an average of only one or a few markets.

Of course, when prices on the EU market are low, some imports in line with entry prices can be proved for consignments of very high quality (well above the average). Another potential way to deal with the problem could be exploiting the lag of a few days between SIV application (release of the product) and actual sale. Otherwise, “ways” might be sought to ensure some consignments have the right price. Thus, the role of the entry price quota becomes most important for the purpose of keeping the dynamic on a sustainable track.

The comparison of SIVs with entry prices has shown that the number of times in which MTE can be applied are very few. It shows the ability of importers to avoid the payment of a charge that could actually result in the impossibility of profitable sale of the product on the EU market. The strategy that importers use to avoid the application of the MTE is careful planning of shipments towards the EU market, concentrating them in periods when the competitiveness of EU internal production is lower. However, exporting countries have to sell on the EU market only high quality products with prices high enough to avoid the extra charge.

Therefore, the entry prices and MTEs cause a twofold segmentation of the EU internal market of f&v. On one side there is a market for lower quality products where EU supply is completely insulated from external competition. On the other side, there is a market for high quality products where the EU production competes with the production of third countries with the sole protection of the MFN tariff or without any protection in the case of items imported under preferential trade concessions. It is difficult to say that the market segmentation has been brought by the new import regime. Swinbank and Ritson (1995) in their analysis of the old import regime showed that countervailing charges were applied in many circumstances but they did not consider their time distribution that is very impor-

⁵ In other months imports of tomato from Morocco are subject to the MFN tariff and entry price. This has shaped the flows of tomatoes imports that are observed only from October to March.

tant in assessing the effects of the import regime. However, in the period they analysed Spain was not yet fully integrated in the EU so the situation was rather different from that after URAA implementation.

The external protection of EU f&v internal market has brought a flow of imports only from the Southern Hemisphere with a seasonality opposed to EU supply. The only imports competing directly with EU supply are those from Mediterranean countries (particularly from Morocco) that benefit, within limited zero tariff import quotas from reduced entry prices. Therefore, the functioning of EU f&v external protection seems designed to avoid imports of cheap products that are potentially a source of instability of internal markets.

The effects of export subsidies

When the first CMO for f&v started, subsidies for exports to third countries were included among the various intervention measures. Because at that time EU was a net importer, in this CMO export subsidies were designed to expand the demand for EU products, thereby supporting internal producer prices. Before the application of the URAA, unlimited quantities of f&v produced in the EU were eligible for export subsidies. While the unit subsidy accorded to a product was the same, irrespective of the destination, it was also in principle possible to grant different unit subsidies according to the country of destination. The amount of unit export subsidy was fixed in such a way as to compensate for the difference between internal and international prices in order to make export to non-EU countries profitable. Export subsidies were granted for a limited group of products: oranges, lemons, mandarins, table grapes, apples, peaches and tomatoes. They were also granted to some nuts with little financial impact.

EAAGF expenditure for export subsidies to f&v was kept constant during most of the 1980s, hovering around 50 and 60 million ECU per year. At the end of the decade the expenditure began to rise significantly. By 1990, following the enlargement of the EU, exports of f&v to non-EU countries from Spain and Portugal also became eligible for export subsidies, although at a lower unit subsidy, that was progressively increased in the following years until the end of the transitory period of access to the common market in 1993. Since that year, exports from Spain and Portugal have been eligible for the same unit subsidies as those of all other EU countries. The extension of the export subsidies regime to Spain, a major exporting country, had the effect of increasing the EAAGF expenditure to a maximum of 203.5 million ECU in 1995, although unit subsidies remained unchanged⁶ from 1984.

The 1994 URAA was also concerned with the commitment to reduce export subsidies in six years starting from 1st July 1995. The obligation involved both budgetary expenditure and eligible volumes that had to be reduced by 36% and 21%, respectively, over the base period (1986–90). In the case of f&v the commitment

⁶ Nominal export subsidies increased after 1993 due to the elimination of the green ECU. However, it had no effect on export subsidies stated in national currencies.

was rather binding because, as shown above, the export subsidies increased significantly after the base period.

In order to accomplish the commitment to reduce export subsidies in f&v, the EU had to follow different ways from other sectors. Because the EU was a net importer of f&v, it was not possible to reduce export subsidies by production control, managing surpluses to be sold abroad in the same way exports subsidies to cereals were managed. The reduction of intervention prices for cereals, compensated by direct payments, and the introduction of mandatory set-aside was enough to achieve the commitments. In the case of f&v, to reduce export subsidies the EU introduced the rationing of quantities eligible for subsidies.

The rationing of exports eligible for refunds can have distributive effects similar to any rationing. Given a unit subsidy, if the quantity of a product eligible for the subsidy were lower than the quantity that exporters would be willing to sell at that subsidy, exporters would benefit from a rent on the quantity actually exported. The amount of unit rent is given by the difference between the unit subsidy and the level of subsidy strictly necessary to export the fixed quantity. However, the ultimate distributive effects of the rationing are dependent on the criteria adopted in the allocation of the licenses among agents. For this reason, it is useful to analyse the way export subsidies in f&v have been managed.

Regulation 2190/96 modified a prior regulation enacted the previous year, introducing three fixing systems to grant export subsidies for f&v: two systems with advance fixing of the refund, defined standard and special; a system without advance fixing of the refund. The first two systems are intended for exporters that seek to take part in the procedure of fixing the refunds before making the shipment, while the third system is open to exporters that have already completed the shipment. In the two advance fixing systems, the Commission set both the rate of refunds and the quantities for which licenses can be issued. However, in the case of the special system, rates and quantities are only indicative.

Exporters can apply for quantities no larger than one-half of total quantities eligible for export licences. Applications must be accompanied by the lodging of a security equal to half the amount of the refunds demanded. In the case of the standard system, Member State authorities receiving applications communicate to the EC twice a week the quantities of refunds demanded. Refunds are fixed on a “first come first served” basis.

In the case of the special systems, the fixing of export refunds is made on a competitive basis through an auctioning procedure. Exporters’ applications specify both the quantities and the refund rate demanded. Also in this system applications are accompanied by the lodging of a security. Quantities and refund rates demanded are communicated to the EC Commission at the end of the application period. In turn, the Commission fixes the definitive rates applied and the quantities eligible. Applications seeking refund rates greater than those fixed are rejected. Once the application has been accepted, exporters have two months to bring the shipment to a close.

The system without advance fixing is also based on competitive criteria. In this system, applications for refunds can be made after the export has been carried out.

The Commission specifies refund rates and quantities applicable for a certain period. Exporters within five days after the shipment apply for the restitution indicating the refund rate demanded. The Commission fixes the definitive rates on the basis of demanded rates. Applications that indicate refund rates higher than the fixed are rejected. No methods of fixing export refunds allow the transfer of export licences.

The systems based on advance fixing are more suited to exporters seeking to assess the profitability of the shipment provided they know the refund rates that they could obtain. In the event of the application being rejected because the refund rate requested is higher than that fixed, the security is freed and the exporter can opt not to carry out the export. However, if the application is accepted, it is possible to execute the shipment that gives the right to obtain the refund. The workings of this system underline the aim of the EU to reserve some resources for export refunds to traders seeking to enter new markets. By contrast, the other system seems more suited to traders who have already established commercial relationships with non-EU countries for which the export refund is a factor enhancing export profitability.

In fixing export refunds the EC Commission has mainly used the two competitive procedures, while the standard system with advance fixing of the refund has only been used for nuts that account for a very small share of expenditure for export refunds. Export refunds for f&v have been managed using the two competitive methods and have been granted for the same products that received the subsidy before the URAA. These methods using the ranking criteria described by [Skully \(1999\)](#) to analyse the allocation of tariff rate quotas, can be defined “market criteria”. Under the hypothesis of competitive behaviour among agents concurring for export refunds, allocation of subsidies through auctioning can neutralize rents. It gives the EC the opportunity to fix refund rates which are strictly necessary to carry out the defined amount of exports.

[Table 6](#) shows the evolution of quantities of exports to non-EU countries that benefited from export subsidies and the amount of money spent from 1st July 1995, the start of the six-year undertaking to gradually reduce export subsidies, until 30th June 2000. It can be seen that in the five years, quantities of exports eligible for subsidies were slightly lower than the maximum allowed. As far as the value of subsidies is concerned, it decreased in the first three years to a greater extent than the commitment, while it increased in the following two years. This increase was possible because the EU used the credits earned in previous years in which the decrease was greater than due.

The undertaking to reduce export refunds applies to all f&v eligible for such subsidies. Consequently, it is possible to modify their distribution among the different products. [Table 7](#) shows that during the first five years of implementation of the URAA undertakings on export subsidies there was a relative increase in subsidies to peaches, apples and oranges, while subsidies to lemons, table grapes and tomatoes decreased.

Considering the reduction of both unit subsidies and the quantities eligible for export refunds, it is of interest to identify the effects on exports from the EU.

Table 6
EU export refunds for f&v from 1/7/1995 to 30/6/2000 (values in € quantities in metric tons)

		1995/96	1996/97	1997/98	1998/99	1999/2000
Tomatoes	Values	3,558,653	1,778,753	1,080,767	1,219,006	1,014,233
	%	5.1	2.9	4.2	3.9	2.7
	Quantities	93,018	71,254	67,754	59,553	51,349
	%	10.2	8.2	8.1	7.8	5.9
Oranges	Values	41,724,278	39,513,545	15,703,171	19,202,388	22,537,609
	%	59.3	63.9	60.4	60.8	60.5
	Quantities	455,528	466,718	436,951	391,194	455,034
	%	50.1	53.4	52.2	51.3	52.2
Lemons	Values	12,775,154	12,351,924	4,214,008	4,707,211	5,988,651
	%	18.1	20.0	16.2	14.9	16.1
	Quantities	142,303	131,011	146,316	143,932	139,798
	%	15.6	15.0	17.5	18.9	16.0
Table grapes	Values	3,601,609	2,118,833	1,667,122	1,432,031	1,337,602
	%	5.1	3.4	6.4	4.5	3.6
	Quantities	71,489	69,074	66,389	59,914	60,505
	%	7.9	7.9	7.9	7.9	6.9
Apples	Values	6,459,122	4,240,459	2,125,495	3,646,946	4,353,024
	%	9.2	6.9	8.2	11.6	11.7
	Quantities	109,868	102,842	96,278	83,412	114,370
	%	12.1	11.8	11.5	10.9	13.1
Peaches	Values	722,265	539,232	395,082	384,837	1,019,476
	%	1.0	0.9	1.5	1.2	2.7
	Quantities	28,619	24,351	15,302	14,823	40,493
	%	3.1	2.8	1.8	1.9	4.6
Total f&v	Values	70,420,321	61,819,571	25,998,382	31,564,761	37,226,878
	Quantities	909,477	874,234	837,409	763,014	872,044
	Max values	77,600,000	79,800,000	85,700,000	62,700,000	40,000,000
	Max quantities	920,300	897,700	877,100	859,900	883,700

Table 7 reports the quantities of some f&v exported on average in the two years 1993 and 1994 before the new regime and in the years 2000 and 2001 at the end of the transitory period. Quantities exported of oranges, that receive the largest share of export refunds decreased considerably by more than 36%. Exports of tomatoes and lemons remained roughly constant, while an increase is shown by table grapes, apples and peaches. It is worth noting that the aggregate exports of vegetables and fruits not eligible for export refunds increased by 25% and 38%. Therefore, after the URAA export refunds do not seem to have a key role in determining the competitiveness of EU exports of f&v on world markets.

Concluding remarks

The paper analysed the effects of the trade policies for f&v adopted by the EU after the URAA. To implement the agreement, the EU had to adopt a new import

Table 7
 EU exports of f&v, in 1993–94 and 2000–01 and percentage variation

	1993–94	2000–01	$\Delta\%$
Tomatoes	245,528	245,896	0.1
Oranges	941,516	597,123	–36.6
Peaches	141,792	221,945	56.5
Apples	389,484	502,205	28.9
Table grapes	192,623	255,202	32.5
Lemons	244,818	241,341	–1.4
Other vegetables	1,931,785	2,413,519	24.9
Other fruits	792,833	1,094,223	38.0

regime and a new system to fix export subsidies granted to f&v. The new import regime does not differ greatly from the preceding one because products protected by the old reference price system are now regulated with entry prices. Preferential trade concessions to Mediterranean countries, based on zero tariff quotas, are also constrained by entry prices although lower than the MFN entry prices. The analysis carried out in the paper showed that traders of f&v behave in such a way as to avoid imports at a price lower than the entry price, which would incur a prohibitive tariff. As a result, on EU markets it is usually only high quality f&v that fetch prices higher than entry prices which are sold.

The new import regime has not increased EU trade partners' opportunities to sell f&v on the EU market, particularly in the case of imports with entry prices. Moreover, trade concessions have been unable to boost exports to the EU as long as reduced entry prices are in effect. Exports of oranges from Morocco and Israel decreased, while the exports of Moroccan tomatoes are constrained by the quota. Therefore, the new import regime and the way trade concessions have been managed has not brought about greater openness of EU f&v markets.

As regards export subsidies, the new regulation has implemented the obligation of the EU to reduce them both in quantity and value. Currently, the amount spent by the EAGGF for export refunds in f&v is roughly one-fifth of the amount spent in 1995. This paper showed that exports of products eligible for such subsidies in many cases did not increase at the same rate as non-eligible products. The new criteria for the management of export subsidies in the f&v sector has resulted in an administrative burden being placed both on traders and on the bureaucracy of Member States and the EU Commission that is difficult to justify, given their ineffectiveness in increasing EU exports of f&v.

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