

Agrosynergie

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Evaluations fruit and vegetables

Evaluation of the system of entry prices and export refunds in the fruit and vegetables sector

Short summary

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1. EVALUATION CONTEXT

This study is part of the evaluation of the Fruit and Vegetable (F&V) Common Market Organisation (CMO). The aim of the study is to provide an assessment of the impact of the Entry Price scheme (EPS) in fresh F&V sector and of the Export Refunds scheme (ERS) in fresh and processed F&V sector.

The evaluation covers the period subsequent to Council Regulation No 3290/94 of the 21 December 1994, up until 2006, and the geographical coverage is extended to the EU 25 area (EU 15 until 2004).

2. REGULATORY FRAMEWORK

The F&V CMO was introduced by Council Regulation No 1035/72, aiming “to stabilize the Community market by preventing the price levels in non-EU countries and fluctuations”. This Regulation introduced the system of reference prices and general rules for export refunds.

After the 1994 GATT Uruguay round (*URAA*) the import regime for F&V was modified by Council Regulation No 3290/94 and Commission Regulation No 3223/94, which provided for the conversion of all measures restricting imports into customs duties (“*tariffication*”). The reform introduced in 1996 by Council Regulation No 2200/96 and No 2201/96, did not modify the EP and ER schemes.

The Council Regulation No 1182/2007 of 26 September 2007, reformed the F&V CMO abolishing also the ER scheme for F&V.

3. METHODOLOGY

The evaluation combines quantitative analysis - via modelling and other quantitative methods - with the collection and analysis of qualitative data gathered through deep interviews conducted with the main stakeholders in 7 Member States.

A Preparatory Analysis on trends of the most relevant variables involved in the present evaluation was also conducted.

4. EVALUATION RESULTS

The study is structured according to five themes:

- stability of the EU market
- development of the EU trade
- competitiveness of the EU fruit and vegetable sector
- management, administration and efficiency of the Entry price and Export refunds schemes
- coherence.

4.1 Stability of the EU market

Effects of the EPS

The comparison of daily Standard Import Values (SIV) with the trigger EP (TEP) identified the conditions under which the maximum tariff equivalent (MTE) should be applied, showing very different situations. For a large number of products and origin countries, the relative difference between the SIVs and TEP has been constant or increasing, and only a relatively small number of SIVs were below the trigger EP. In these cases, the price structure seems to be linked to the geographic origin of imported products, with transportation costs playing a key role.

Very often F&V variations in exports to the EU were larger than variations in internal production observed in the main partner countries, and there is no relevant difference as regards whether products are covered by the EPS or not.

Also the analysis on price variability does not provide a firm answer with regard to the effect of the EPS. However, a deeper analysis carried out on daily imports of tomatoes from Morocco highlighted that in this case the EP system had no effects even in periods in which the SIVs were below the TEP.

No relationships were found between SIVs below the TEP and recourse to withdrawals.

As a general conclusion, we can say that, although a contribution of the EPS to preventing crises due to abnormally low prices cannot be ruled out, available objective information does not allow us to reach a firm conclusion.

Effects of the ERS

The analysis of correlations between changes in ERs and changes in total exports and in total production showed that there is no clear relationship among these variables, and that ERs do not respond to changes in domestic production. The ERS might have had an effect in terms of the distribution of exports by destination, by increasing the amount of F&V reaching neighbouring countries, such as some Central and Eastern European Countries.

The counterfactual analysis, based on the comparison of exports and price variations, does not show differences between products within and outside the ERS, and does not allow us to isolate its effects from other factors.

The analysis on the relationship between withdrawals and ER showed that they have been used concurrently for market stabilisation although on the basis of the analysis of available data, we can conclude that ERS had negligible effects in stabilizing the EU F&V market.

4.2 Development of EU trade

Effects of the EPS

The counterfactual analysis offers no proof that the EPS constrained F&V import growth in the period 2000-2006. Indeed, the implementation of the URAA pointed to a significant reduction in protection provided by the system during the period 1995-2001. However, the EPS works when an import surge takes place. The EPS can also be relevant for certain seasons, products and suppliers, in particular products of a perishable nature and origin having lower transport costs to the EU market. We therefore consider the EPS as a way of signalling market perturbations rather than as a relevant trade restriction.

As regards Ad Valorem Equivalents, calculated to measure the protection level implied by EPs under different preferential partners and products, we can conclude that, (i) except for the cases of tomatoes and cucumbers, in certain seasons and surplus situations the reduced EPs have had little influence on trade flows; (ii) there was only a significant relevance of the EP reduction in monetary terms in the case of Moroccan tomatoes and, to a lesser extent, Moroccan clementines.

A partial equilibrium trade model helped to simulate the impact on monthly import flows, for 4 major products, that would result from the simulated phasing out of the EPS. Results show a negligible impact for several months. In which the EPS applies and significant effects on EU imports only in given months by product (e.g. November for tomatoes).

Effects of the ERS

Since 1995 the dynamism of EU exports of F&V products within the ERS has generally been worse than that of products outside. Nevertheless, it is difficult to isolate the impact of the ERS from other effects that determine export competitiveness, in part because of non-price factors, including the role of private standards.

The general decline over time of both ER utilization and unitary ER subsidies casts doubt as to the effectiveness of the ERS in terms of export promotion strategy, unless subsidies are concentrated on targeted

shipments or destinations. Furthermore, no evidence of an association between ER expenditure and export changes has emerged, and this supports the hypothesis that the ERS should be considered as a measure to alleviate the EU market in times of saturation rather than as an export promotion strategy.

A partial equilibrium trade model was used to simulate the impact of a full removal of ER on products that account for 80% of ER for fresh F&V. Only oranges appeared to be slightly affected by the phasing out of ER. Therefore it appears to be a welfare improving measure that would allow budgetary resources to be used more efficiently.

4.3 Competitiveness of the EU fruit and vegetable sector

Effects of the EPS

Performance indexes we have calculated show that the ability of the EU F&V sector to compete in world markets is significantly affected by Euro exchange rate trends, and that EU competitiveness does not seem to be related to the kind of external protection measures characterising different products. We can only say that the EPS has not kept imports of F&V products out of the EU market, particularly from southern hemisphere countries, in periods in which they do not compete directly with EU production.

The counterfactual analysis showed that prices of products either imported out of the EU production season or from faraway countries are generally higher than EU farm prices, while the prices of products competing directly with EU domestic production are often lower. However, the effect of the EPS is not clearly identifiable and therefore it is not possible to firmly conclude that the EPS is able to affect prices and the market orientation of EU farmers.

Effects of the ERS

After the URAA, the competitiveness of EU F&V exports in world markets showed an improvement for some fruits outside the ERS. On the other hand, in some markets where low-price oranges were sold, the availability of the subsidy helped product exports greatly.

The analysis does not allow us to conclude that the ERS had effects on farm prices and on farms market orientation. This confirms that competition in the F&V sector is increasingly linked to non-price factors, such as the ability to meet the supply requirements of large retailer chains. We conclude that the configuration given to the ERS was growingly unfitted to provide a support to external competitiveness of EU fresh F&V.

4.4 Management, administration and efficiency of the Entry price and Export refunds schemes

Functioning of the EPS

The analyses highlighted that procedures are sufficiently simple and proportionate, with the exception of the following major criticalities:

- The absence of a standard procedure to collect data on market prices and quantities among MSs.
- SIV calculation parameters (i.e. deductions for transport and insurance costs) were not brought into line with context changes over time, with the risk that SIVs levels can frequently be lower than actual EU market prices.
- The unpredictability of daily SIV fluctuations, strongly influencing operators' decision making processes.
- The importer's free choice among three different declaring methods, in accordance to Commission Regulation No 3223/94, seems to be at odds with the Community Customs Code.

The analysis on the efficiency is hindered by the missing quantitative information on specific or overall costs for the management of the EPS. Therefore we assessed whether the EPS is justified (or not) with respect to

the results it achieves, by comparing it with other border measures, namely: 1) the ordinary EU import regime; 2) the new simplified system for the valuation of certain fresh F&V imported on consignment. The analysis shows that the EPS can achieve a broader range of results, if compared to these two border measures, although the management of these alternative measures entails a notably smaller amount of human resources.

According to previous evaluation results we conclude that, as efficiency is concerned, the maintenance of the system could be restricted, by product, to the most sensitive periods of the marketing year.

Functioning of the ERS

ERS procedures are generally perceived as sufficiently simple but not always proportionate to the objectives. The most relevant criticalities reported were:

- The lodgement of a 20 euro/ton security requested for “A3 system”: acting as a constraint for medium and small exporting firms.
- The unpredictable availability of ERs in the “B system”. Indeed, each periodical allocation of ERs by product is exhausted very frequently in the first 8 to 15 days.
- The customs checks procedure is excessively bureaucratic and complicated.
- The excessively high number of documents requested and checked within the “ER payments” procedure is not proportionate to the benefits obtained.

Resuming the analysis of the ERS conducted in Theme 1, it emerged that while the expenditure for withdrawals generated concrete effects on price stabilization, the ERS’s actual contribution in terms of efficiency is not clearly identifiable, and is only linked to some products, like oranges and lemons, in conditions of unreasonably low price elasticity, while in other cases the impact was considered negligible.

The comparative analysis we conducted between ERS and measures having similar objectives, as promotion measures for agricultural products in third countries, showed that these two policies are running on the same cost levels, but in terms of impact, it has been ascertained from mid-term analyses that stakeholders have expressed great interest in promotional programmes focused on the internal market rather than in third countries. Therefore this instrument cannot be considered at present as an efficient alternative to the ERS in “ensuring export sales at world market prices”.

4.5 Coherence

Internal coherence of EP and ER schemes

Analysis of the existing coherence between different trade measures in the F&V CMO (EPS; ERS; TRQs - *tariff rate quotas*; SSP - *special safeguard provisions*) and the objectives of the EPS and the ERS, as well as between the objectives of the two schemes and those of the reformed CAP, has been defined as internal coherence. The coherence matrices we created for the analysis lead us to the following conclusions:

- A general convergence of trade measures towards the global objectives of the EP and ER schemes was found, and furthermore these measures did not result as an impediment to the attainment of both schemes objectives.
- The two schemes, introducing elements of distortion within the F&V sector, appear as being *theoretically* not coherent with the principle underpinning the CAP reform: stronger market orientation. On the other hand the results of quantitative analyses on effectiveness we have previously reported show that no clear result has been achieved by the ERS, as well as it is not possible to firmly conclude that the EPS is able to affect prices and the market orientation of EU farmers. Therefore although we can deduct a theoretical incoherence between both the ERS and EPS with the reformed CAP, the *actual functioning results* of both schemes did not lead to a concrete distortion of the free functioning of EU market.

External coherence of EP and ER schemes

By means of a logical analysis of the theoretical effects of the EPS, DP and CCP it appeared that the simultaneous interaction of the three different policies - CAP, DP and CCP - provides for a “system coherence”. The Preferential Duty Rates indeed, granted through CCP preferential agreements to all of the developing countries where DP provides for financial and technical aid, rebalance the possible existing incoherence between EPS and DP measures. Furthermore it emerged that farm specialization, as well as climate conditions in developing countries, determine that possible production and exports to the EU market of F&V products within the EPS, are not actually frustrated by the EPS.

On the other hand, we uncovered a theoretical incoherence between the ER and DP schemes. Namely the absence in EC Regulations of limitations or differentiations for ER subsidy levels, by destination country, may directly or indirectly interfere with DP objectives. Specific findings of EU exports granted by ER subsidies in developing countries where DP is effective, contribute also to this conclusion. These first conclusions have to be carefully considered taking into account relevant contextualization elements of the *actual functioning of the ER and DP schemes*, which are clearly pointing to the general conclusion that the ERS does not necessarily interfere with developing countries’ production, thus limiting the general and theoretical incoherence judgement on the ERS vis-à-vis EU DP.

5. RECOMMENDATIONS

After the start of the evaluation exercise, Council Regulation (EC) No. 1182/2007 reformed the F&V CMO, abolishing the granting of ER for F&V. Therefore we do not put forward recommendations on this scheme.

With this premise, our main recommendations for possible ways of improving the current EP system are as follows:

1. A simulated phasing out of the EPS made on four product resulted in a negligible impact on import flows in several months and significant effects only in given months by product. Consequently, as efficiency is concerned, we recommend the maintenance of a flexible system restricted, by product, to those periods of the marketing year when occurrences of SIVs below the trigger EP are most recurrent.
2. In order to remedy the unpredictability of daily SIVs fluctuations, it is recommended that daily SIVs publications be replaced with a weekly (or twice-weekly) publication of the average of daily SIVs.
3. In order to guarantee the quality and homogeneity of data provided to the EC, we recommend the definition of a standardized procedure for collecting, at national level, and cross-checking or validating data on market prices and volumes.
4. Considering the increasing share of large retailer chains in the fresh food sector, changes in marketing channels and the shortening of the supply chain, we recommend a study on how to revise the process of price data collection for a better assessment of the real relevance of imported fresh F&V.
5. It emerged that SIV calculation parameters: (i) have not been adjusted to increasing transportation and insurance costs; (ii) are based on wholesale prices and not on the final prices of large-scale retailers; (iii) still consider as reference the prices on representative markets as established by Commission Regulation No 3223/94, despite the fact that, over the years, some of those markets/entry points have lost their relevance and are now marginal. This leads us to recommend a possible updating of SIV computation methods and parameters.
6. An apparent contradiction emerged between: Reg. (CE) No 3223/94, stating that the 3 EP declaration methods can be chosen “at the discretion of the importer”, and the Community Customs Code, which does not allow this free choice. Thus we recommend that a single interpretation be found by the EC to clear up this dispute.