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The EU entry price system for fresh fruits and vegetables – Paper tiger or powerful market barrier?

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ABSTRACT

The EU protects EU growers of 15 kinds of fresh fruits and vegetables against international competition by the entry price system (EPS), which is designed to restrict imports below the product-specific, politically designated entry price level. This study investigates the relevance of the EPS per product and country of origin. We develop two indicators for the effectiveness of the EPS, which serve as variables in a cluster analysis identifying four classes differing in the relevance of the EPS. The relevance of the EPS is found to be heterogeneous among products as well as countries of origin. It is highest for artichokes, courgettes, cucumbers, lemons, plums and tomatoes. The influence of the EPS on apples, clementines and pears is significantly lower, and of least relevance for apricots, mandarins, oranges, peaches and nectarines and table grapes. The EPS has the greatest effect on countries which neighbour the EU, whereas it is of minor importance for exports from far-away countries with the exception of China and South Africa.

Introduction

The EU is the largest importer of fresh fruits and vegetables in the world, in 2007 accounting for 27% of world fresh fruits and vegetable imports (intra-EU trade excluded, EU-27) (UN, 2008). It has established a comprehensive import system for fresh fruits and vegetables, which protects EU growers of 15 kinds of selected fruits and vegetables against international competition not only by the means of ad valorem tariffs of upto 20% but also by the EU entry price system (EPS). Analogous to a minimum import price, the EPS aims to restrict imports below the product-specific, politically designated entry price (EP) level. This system was established in 1995, replacing the former reference price system (RPS).

Various authors have analysed the functioning and effects of this highly complex system and have compared it to the former reference price system (see Williams and Ritson, 1987; Swinbank and Ritson, 1995; Grethe and Tangermann, 1999; Martin and de Gorter, 1999; Cioffi and dell'Aquila, 2004; Chemnitz and Grethe, 2005; Goetz and Grethe, 2007a; García Álvarez-Coque and Jordán Galduf, 2007; Martinez-Gomez, 2007; López and Muñiz, 2007). As a general conclusion, the effects of the EPS appear relatively difficult to assess and differ strongly between countries of origin and products.

This study is unique in that it comprehensively analyses the effectiveness of the EPS for all products and countries of origin based on a uniform approach. The central question is whether the EPS influences EU import prices. In particular, we investigate the relevance of the EPS on a disaggregated level, i.e. for each of the 15 fruits and vegetables and all major exporting countries individually. We utilise a unique data set comprising about 60,000 observations of the standard import value (SIV), a synthetic import price calculated by the European Commission (EC) based on wholesale price quotations, for the period 1995–2005 (European Commission, 2005a). We derive two indicators to measure the influence of the EPS. One indicator is taken from previous studies, supplemented by a newly developed indicator. These indicators serve as variables in a cluster analysis that identifies four clusters of product-specific and country-specific imports of fresh fruits and vegetables which differ according to the degree they are affected by the EPS.

The effectiveness of the EPS is particularly topical for four main reasons. First, from an EU producer's perspective it is interesting to see how policy-dependent the sector is. Any liberalisation of trade in fresh fruits and vegetables between the EU and Southern Mediterranean countries[1] (SMC) within the Barcelona process is strongly resisted by EU producers, as SMC exports of fresh fruit and vegetables to the EU directly compete with southern EU production due

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[1] The SMC comprise of the following 10 Mediterranean countries: Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey.

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Table 1
Basic elements of the EPS

	MFN tariff (%)	MFN EP		Pref. EP	Specific tariff	
		Level (€/t)	Period of application	Level (€/t)	As a % of MFN EP	MTE (€/t)
Apples	4.8–11.2	457–568	01.01.–31.12.	–	41.9–52.1	238
Apricots	20.0	771–1071	01.06.–31.07.	–	21.2–29.4	227
Artichokes	10.4	654–826	01.11.–30.06.	571	27.7–35.0	229
Cherries	12.0	916–1494	21.05.–10.08.	–	18.3–29.9	274
Clementines	16.0	649	01.11.–28.02.	484	16.3	106
Courgettes	12.8	413–692	01.01.–31.12.	413–424	22.0–36.8	152
Cucumbers	12.8–16.0	481–1105	01.01.–31.12.	449	34.2–78.6	378
Lemons	6.4	462–558	01.01.–31.12.	–	45.9–55.4	256
Mandarins	16.0	286	01.11.–28.02.	–	37.1	106
Oranges	3.2–16.0	354	01.12.–31.05.	264	20.1	71
Peaches/nectarines	17.6	600–883	11.06.–30.09.	–	14.7–21.7	130
Pears	4.0–10.4	388–510	01.07.–30.04.	–	46.7–61.3	238
Plums	6.4–12.0	696	11.06.–30.09.	–	14.8	103
Table grapes	8.0–17.6	476–546	21.07.–20.11.	–	17.6–20.2	96
Tomatoes	8.8–14.4	526–1126	01.01.–31.12.	461	26.5–56.7	298

Sources: European Commission (2007), own calculations.

to overlapping production and marketing campaigns (García Álvarez-Coque and Jordán Galduf, 2007)[2].

Second, for any quantitative analysis of liberalisation of trade in fresh fruits and vegetables especially between the EU and SMC, knowledge of the impact of the EPS on the EU import price is required, as García Álvarez-Coque and Jordán Galduf (2007) point out. Some applied studies which analyse the liberalisation of EU fruit and vegetable trade disregard the EPS (e.g. Bunte, 2005). Our paper provides a basis for deciding for which products it is important to take the EPS into account in simulation analyses.

Third, the EPS is criticised from a development policy perspective. This is based on the assumption that the EPS restricts fruit and vegetable exports especially from developing countries, which have a clear comparative cost advantage in the labour-intensive production of fruits and vegetables compared with developed countries (Diop and Jaffee, 2005). Our analysis sheds light on the question for which countries the EPS is of particular relevance.

Fourth, in the context of the ongoing Doha negotiations of the World Trade Organization (WTO), knowledge about the effectiveness of the EPS could serve as a basis for deciding how much negotiation effort to put into its maintenance (from an EU perspective) or its dismantling (from a third-country perspective).

This article is structured as follows. The section 'Structure of the EU entry price system' describes the functioning of the EPS and section 'Previous studies' presents a literature review. The indicators used to analyse the effectiveness of the EPS are derived and discussed in section 'Specification of indicators to analyse the effectiveness of the EPS'. The results of the cluster analysis are presented in section 'Empirical results', while an outlook on the further development of the effectiveness of the EPS is given in section 'Future developments that could impact the effectiveness of the EPS'. The section 'Conclusions' discusses results and concludes.

Structure of the EU entry price system

The EU protects growers of 15 kinds of selected fruits and vegetables against international competition not only by the means of ad valorem tariffs of upto 20%, but also by the EPS. The EPS came into effect on July 1, 1995, replacing the former RPS. Analogous to a minimum import price, the EPS is designed to restrict imports below the product-specific, politically designated EP plus ad valorem tariff (Table 1). If the EP is undercut, an additional specific tariff is levied, which proportionally varies depending on the gap between the product's actual import price and the EP. When the EP is undercut by 8% or more, the maximum specific tariff, referred to as the maximum tariff equivalent (MTE)[3], of upto 80% of the EP is charged. For example, the EPS is applied to oranges during the EU orange harvest season in the time period December 1–May 31. The MFN tariff for oranges seasonally varies between 3.2% and 16.0% whereas the MFN EP remains constant at a level of 354 €/t. If oranges are exported to the EU at a price of 336.3 €/t, the EP is undercut by 5%. This implies that the exporter has to pay an additional specific tariff of 17.7 €/t which is equal to the gap between the import price and the EP. If the entry price for oranges is undercut by 8% or more, an additional specific tariff at the level of the MTE of 71 €/t is charged.

Concurrently to protecting EU growers, the EU aims to foster exports to the EU of these fruits and vegetables from preferred trading partners by granting preferential market access. In most cases, preferential market access to the EU market for fresh fruits and vegetables is restricted to ad valorem tariff reductions, and thus the EPS still applies. Exceptions are market access under the everything-but-arms initiative, and preferential market access for the Balkan countries, for which the EPS does not apply. In addition, in some cases EU trade preferences for fresh fruits and vegetables include a preferential EP, which is lower than the most favoured nation (MFN) EP. Preferential EPs, which are limited quantitatively upto a certain export amount by entry price quotas (EPQs), are granted exclusively to Morocco[4] for artichokes, courgettes, cucumbers, clementines and tomatoes, while a preferential EP for oranges is also granted to Cyprus (pre-EU), Egypt and Israel. As an example, Fig. 1 compares the EU orange market access conditions for MFN countries to those for Israel, a preferred trading partner in the time period January 1–March 31. A MFN country has to comply with an EP of 354 €/t and is subject to a tariff amounting 16%. In contrast, Israel may export oranges to the EU tariff free and has to comply with a lower EP of 264 €/t within an EPQ of upto 201,500 t. If Israel's exports exceed the quota, the MFN entry price applies and an ad valorem tariff amounting 40% of the MFN tariff (6.4%) is charged.

[2] In some EU regions, fruit and vegetable production plays an important role for agricultural incomes. There are 35 EU regions in which fruits and vegetables represent more than 45% of the gross added value of the region's agricultural sector (García Álvarez-Coque and Jordán Galduf, 2007). These regions are in Spain, Greece and Italy (8 each), the Netherlands (5), Belgium (4), and Portugal and France (1 each).

[3] The designation "maximum tariff equivalent" stems from the Uruguay Round, in which the MTE was established as the tariffied equivalent of the former RPS.

[4] Since January 2006, Jordan has enjoyed preferential EPs similar to Morocco; however, this period is not covered in this analysis.