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The entry price threshold in EU agriculture: Deterrent or barrier?

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Abstract

The paper investigates the effects of the entry price scheme (EPS) for a specific sector of agriculture: fresh fruit and vegetables. The analysis is conducted on the EU prices of tomatoes, lemons and apples for some of the main competing countries on the EU domestic markets: Morocco, Argentina, Turkey and China. The econometric analysis is based on testing and estimating a switching vector autoregressive model with endogenous threshold entry price level. The model shows the isolation effects and the accumulation of Standard Import Values (SIVs) above the trigger entry price. This paper contributes to clarify the role played by the EPS in avoiding or deterring low priced imports from main EU partner countries.

JEL classification: F13; Q17; Q18

Keywords: Trade policy; Non-tariff barrier; Entry price system; EU agriculture; Fruits and vegetables; TVAR

1. Introduction

During the last decades the role and the evaluation of agricultural policies have animated scientists and policymakers' debates, and the agricultural policies implemented in the European Union have largely been in the spotlight (*cf.* Cardamone, 2011; Fezzi & Bateman, 2011; Kempen, Witzke, Dominguez, Jansson, & Sckokai, 2011; Sieber & Dominguez, 2011; Soregaroli, Sckokai, & Moro, 2011; Viaggi, Raggi, & Paloma, 2011 as recent studies).

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Among others, a rather complex system of agricultural policies implemented in the European Union is the import regime for fresh fruit and vegetables. There are several reasons explaining such complexity arising from the circumstance that the European Union is at the same time the largest importing country in the world and one of the most relevant producing countries. Such an import regime should help to attain different objectives that, in some situations, could be conflicting: the protection and the stabilization of revenues of domestic producers; the supply of large and differentiated provisions to domestic consumers at reasonable price; the integration of the import regime within the international relationships promoted by the European Union, particularly with developing and neighbouring countries.

The main instrument of the EU import regime for fresh Fruit and Vegetables (F&V) is certainly the Entry Price System (EPS). The rationale of this non tariff barrier, as it comes out from the previous reference price system introduced in the first Common Market Organization of F&V, is to allow imports of F&V assuring EU market supply while avoiding that "abnormally" low price imports could create "disturbances of Community markets". The working of the EPS is well known and widely analyzed by several authors (*e.g.* Cioffi & Dell'Aquila, 2004; Emlinger, Jacquet, & Lozza, 2008; Emlinger, Lozza, & Jacquet, 2010; Garcia-Alvarez-Coque, Martínez-Gomez, & Villanueva, 2010; Goetz & Grethe, 2009, 2010; Swinbank & Ritson, 1995), but a consensus on its effectiveness is still lacking. Furthermore, while "*entry prices for many products are probably not protective, and could readily be abolished*" (Swinbank, 2011), it is also likely they produce (still unclear) distortive effects deserving further investigations (Li & Beghin, in press; Winchester, 2009). In 2008 the fruits and vegetable Common Agricultural Policy has been largely modified despite the entry price system has not been changed: further investigations on its effects would be very relevant for future policy decisions.

One feature of the EPS is the possibility given to importers to legally avoid the payments of the specific tariffs when the Standard Import Values (SIVs) are below the Trigger Entry Price (TEP). In order to circumvent the specific tariff, importers may delay imports until the SIVs are above the TEP, or may declare a final sale price of their lots higher than the entry price. Therefore it may happen that European imports of fruits and vegetables occur also in periods in which the SIVs are below the TEP. This situation has created wider uncertainty on the effects played by the EPS on trade flows as well as on its restrictiveness.

Among the still open issues on the EPS, there is the assessment of the effects played on the stabilization of European domestic prices, namely the main motivation of such import regime. As showed in Cioffi, Santeramo, and Vitale (2011), for some products and importing countries the EPS affects prices, because when the SIVs are below the 92% of the TEP and the Maximum Tariff Equivalent (MTE) is applied, the price determination process of EU products follows a pattern different from the normal one, which occurs when SIVs are higher. Such a particular price behavior implies an isolation of the internal market from import prices. The effectiveness of the EPS in the EU price stabilization is clear in few cases because it depends on trade volumes and on the origin of imported goods. However, in these cases the resulting stabilization effects, as well as the support effects on EU domestic prices, are rather negligible.

Goetz and Grethe (2009), analyzing the distribution of SIVs around the entry price, conclude that for several products and exporting countries there is an accumulation of SIVs slightly above the TEP. Such feature is regarded as an indicator that "*exporters often supply their product at the lowest possible price while complying with the EP*" (Goetz & Grethe, 2009, p. 85). Moreover, specific tariffs are also levied beside the MFN tariff when the SIVs are below the TEP but higher