

# Agricultural Trade in the Mediterranean Area: Current Framework and Mid-Term Prospects

EMILIO DE MEO\*, GIANLUCA NARDONE\*, ROBERTA SISTO\*

Jel classification: Q170, F140

## 1. Introduction

To European countries, the Mediterranean region has represented for centuries an area of strategic importance for a series of political, social and economic reasons. The Barcelona Agreement signed in 1995 between the European Union (E.U.) and 12 Mediterranean countries (MEDs)<sup>1</sup> should be seen in such a context since it represents a fundamental step towards the establishment of an area of peace, stability and prosperity based on political dialogue, exchange and cooperation in the Mediterranean basin.

The multilateral structure of the Barcelona Declaration, that envisages bilateral Agreements between the E.U. and each of the MEDs, is characterized by five specific objectives: creating a free-trade area in the Mediterranean Region by the year 2010<sup>2</sup>; increasing investment flows into the MEDs; fostering intraregional economic links; establishing institutional mechanisms for political and economic dialogue; providing performance-linked financial support from the E.U.

Obviously the accomplishment of these objectives could

## Abstract

The Barcelona Declaration's objective of establishing a free trade area in the Mediterranean region by the year 2010 is felt as a menace by the Southern European farmers because of the increasing import flows from non E.U. Mediterranean countries (MEDs). In order to evaluate to what extent these fears are reasonable, we try to analyse the agri-food trade flows between the E.U. and the MEDs and to make some mid-term conjectures on their evolution with a special focus on Mediterranean productions. In particular, we argue that European farmers are likely to face a scenario characterised by the lowering of the trade barriers and the change in the nature of the comparative advantage in agriculture. In such a perspective, it is likely that a greater amount of MED "sensitive products" could be profitably exported into the E.U. markets with negative consequences on the European producers. On the other side, these effects could be partly compensated by the growing demand for quality that comes up from the rapid changes in consumers' preference and retail's structure. These considerations should lead European producers to consider the liberalization process as an opportunity to constantly increase the productivity and to improve the quality of their productions.

## Résumé

L'objectif fixé par la Déclaration de Barcelone de créer une zone de libre-échange dans la région méditerranéenne avant l'an 2010 est perçu comme une menace par les agriculteurs de l'Europe du Sud qui craignent l'accroissement des importations des produits provenant des pays méditerranéens (MEDs). Pour établir dans quelle mesure ces craintes sont justifiées, nous avons analysé le commerce agroalimentaire entre l'U.E. et les pays MEDs et nous avons avancé une hypothèse, à moyen terme, sur son évolution, en particulier en ce qui concerne les productions méditerranéennes. Nous supposons que les agriculteurs européens se trouveront confrontés à une situation caractérisée par la réduction des barrières douanières et le changement de la nature de l'avantage comparatif en agriculture. Dans cette perspective, selon toute probabilité, une grande quantité de "produits sensibles" des MEDs pourront être exportés sur les marchés européens avec des conséquences néfastes pour les producteurs européens. Par ailleurs, ces effets pourraient être partiellement compensés par la demande croissante de la qualité générée par des changements rapides de la préférence du consommateur et de la structure de la distribution. Ces considérations devraient inciter les producteurs européens à considérer le processus de libéralisation comme une opportunité pour augmenter constamment la productivité et améliorer la qualité de leurs productions.

prove to be very troublesome. In particular, the establishment of a free trade area involves many and important interests since the MEDs provide the E.U. with a substantial external market and, on the other hand, the E.U. is the main importing market for many of these countries. One of the main obstacles comes from the opposition of the Southern European farmers who perceive the trade liberalization as a menace since they compete directly with MEDs, especially for fruit and vegetables productions (Garcia-Alvarez-Coque, 2002).

Apparently, these fears find a clear rationale in the basic theory of international trade that explains the current trade flows on the base of countries' comparative advantages (especially in terms of natural resources, capital and labour endowments) and of the existing trade barriers.

In fact, MEDs are assumed to be more competitive because of the large availability of labour force and land. Table 1 gives a first glance to the differences between MEDs and the E.U. Most of the MEDs are developing countries since they show, with the

\* PRIME Department, University of Foggia, Italy

E. De Meo is responsible for section 4, G. Nardone for sections 1 and 5 and R. Sisto for sections 2 and 3.

This paper was presented at the 1st Conference on "Quality and Risk Assessment of Agricultural Food in The Mediterranean Area", held in Foggia on 24-27 September 2002.

Tab. 1. *The Euro-Mediterranean Area*

Country	Population	GNP per capita (in Euro)	Agriculture**
E. U. (15)	375.967.000	24.471	1,7%
Malta	381.000	9.974	2,3%
Turkey	65.300.000	3.291	13,5%
Morocco	31.500.000	1.400	21,5%
Algeria	30.990.000	1.703	15,0%
Tunisia	9.600.000	2.517*	14,0%
Libya	5.115.450	9.294	7,0%
Egypt	63.980.000	1.487	17,0%
Lebanon	4.000.000	5.600	12,0%
Cyprus	670.000	15.148	4,4%
Syria	17.938.000	908	23,0%
Israel	6.315.700	20.823	2,0%
Jordan	5.040.000	1.775*	3,0%

\* GDP instead of GNP  
\*\* Sector contribution to GDP  
Sources: CIA; Information Society Promotion Office; European Commission.

exception of Israel and Cyprus, a very low per capita income. The small stage of development is confirmed by the high contribution of the agricultural sector to GDP.

Since it has been argued that the level of development of a country measured by per capita income affects the relative factor endowment, MEDs are likely to have a smaller capital stock per capita than E.U. countries and therefore tend to exchange unskilled labour-intensive goods such as agricultural products for capital-intensive goods (Schumacher, 2001).

Therefore, trade barriers play a strategic role in enhancing European agricultural products' competitiveness impeding market access to external low cost products (Venturini, 1989). Either the phasing out or the lowering of these obstacles could affect the competitiveness of the European agriculture, especially the Mediterranean productions' one.

The objective of this paper is to analyse current trade flows in agricultural products between the E.U. and the MEDs and make, for the mid term, a conjecture on their evolution with a special focus on Mediterranean productions.

The approach followed consists in the analysis of the basic agreements related to agricultural trade in the Mediterranean area. Main agricultural trade commitments under the General Agreement on Tariffs and Trade (GATT), agricultural trade concessions to MEDs in the Euro-Mediterranean Agreements and the Agreement on Sanitary and Phytosanitary Measures (SPS) are discussed in chapter 2. Afterwards,

<sup>1</sup> Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Syria, Tunisia, Cyprus, Malta, Turkey and Libya.

<sup>2</sup> Besides encompassing ongoing negotiations on free trade area agreements covering aspects beyond simple trade in goods, the aim was to create a free Mediterranean area under the provisions of Art.XXIV of GATT.

the agri-food trade flows between the E.U. and MEDs are analysed in detail.

Chapter 4 focuses on the future perspectives for European farmers' comparative advantage in a scenario influenced by the ongoing WTO political negotiations, by the construction of a Euro-MEDs free trade area and by the new trends in food markets. Some concluding remarks are in chapter 5.

## 2. Basic Agreements on Agricultural Trade in the Mediterranean Area

### 2.1 The GATT Agreement on Agriculture

The GATT is both an International Agreement on trade and an International Organization created to support the Agreement (WTO, 2001). Its objectives were to establish a legal framework for international trade through periodic multilateral negotiating rounds.

The last negotiation, the Uruguay Round, is considered by far the most extensive effort made to date towards complete trade liberalization. In fact, the Final Act signed in Marrakech in 1994 contains, for the first time ever, a set of principles and disciplines that go well beyond the traditional tariffs, concerning also matters such as textiles, intellectual property rights and trade in services.

As one of the most protected sectors and a main source of the international conflicts, domestic agricultural policies have been among the most discussed topics (Salvatici, 1996). In an attempt to establish a fair and market-oriented agricultural trading system, the GATT Agreement on Agriculture settled specific commitments concerning the domestic support, the export subsidies and the market access<sup>3</sup>. In another section of the Final Act also food security and environmental protection were taken into account as well as the necessity to provide differential treatment for developing countries.

The Agreement on Agriculture came into force in 1995, with an implementation period of six years lasting up to the year 2000. This period was extended up to the year 2004 for developing countries. Below we report a brief summary of the main provisions.

#### a) Reductions in domestic support

With regard to domestic support, provisions have been divided into those subject to reduction commitments and those exempted from such bindings. The former are included in the so-called Amber box and concern coupled measures, i.e. policies that have an effect on the production. The reduction commitments were expressed in terms of a total Aggregate Measurement of Support (AMS) of the farm sec-

<sup>3</sup> The agricultural trade liberalization resulting from the Agreement on Agriculture has been considered quite modest if compared to the expectations of "substantial sustained reductions in agricultural distortions" developed at the beginning of the negotiations (Valdes and McCalla, 1996; Vanzetti, 1996; Anania, 2003). However, it should be considered that "...if the Round had failed the situation would have been much worse" (Greenfield and Konandreas, 1996).

tor calculated for each country with respect to the years 1986-88<sup>4</sup>. The AMS had to be reduced by 20 % by the year 2000 for developed countries and by 13.3 % by the year 2004 for developing countries. No reductions were required of least-developed countries with respect to the annual aggregate support level established in the base period 1986-88 (WTO, 1995a).

The calculation of the AMS did not have to take into account the "Green Box", that is measures with minimal distorting impact on trade such as general government services (research, disease control, infrastructures and food security) and direct decoupled payments<sup>5</sup>. Also some partly coupled measures, the so called "Blue Box", such as direct payments under production-limiting and government assistance programs and other support on a small scale, were excluded from the reduction.

#### b) Reductions in export subsidies

The Agreement provides specific commitments on the reduction of the volumes and the expenditures of the financed exports. To this aim agricultural products were divided into 23 categories subject to different reductions. With respect to the 1986-90 base period levels, each member country had to reduce, over the implementation period, the expenditures on export subsidies by 36% and the volumes of subsidised exports by 21%. Some flexibility was granted to developing countries whose reductions were two-thirds of developed countries' ones and had to be accomplished over a ten-year period. Again, no reductions were required to least-developed economies (WTO, 1995a).

In addition, the commitments also included the decision to avoid the introduction of new subsidies for those agricultural products that did not have financial support during the base period.

#### c) Increased market access

The main commitment taken in this area during the Uruguay Round regarded the abolishment of the quotas and the other non-tariff measures and their conversion into equivalent tariffs (ad valorem or specific). This process, called tariffication, involved measures such as quotas, variable levies, minimum import prices, discretionary licensing, state trading measures, voluntary restraint agreements, etc. Few exceptions were taken into account with respect to those products for which special treatment has been negotiated.

The Agreement on Agriculture also stated that the tariffs resulting from the tariffication process should be reduced by a simple average of 36% by developed countries and

24% by developing countries, with a minimum reduction per tariff line of 15% and 10%, respectively.

An additional clause of the Agreement established the introduction of "minimum access" quotas subject to reduced tariffs (Tariff-Rate Quotas or TRQs) for those products whose import levels had been less than 5% of the domestic consumption in the base period. TRQs were also granted to reaffirm the existing concessions under the previous institutional framework. These quotas, we refer to as "current access" quotas, covered specific products and were allocated to specific countries.

Finally, under the terms of the Article 5 of the Agreement on Agriculture (Special Safeguards Provisions), Members that have tariffied border measures, are allowed to limit imports on a temporary basis, if it experiences an import surge or significant falls in the import price (below 1986-88 reference level). The trigger in the safeguard for import surges depends in indirectly proportional way on the "import penetration" currently existing in the market.

Considering the objective of the present paper, it is interesting to analyse with more detail the E.U. market access commitments with regard to fruit and vegetable products. Despite the tariffication, for these products the E.U. has retained a mechanism that is quite similar to the variable levies one since it is based on a fixed entry price. Imports are charged with an ad valorem tariff to which it can be added another duty, the Maximum Tariff Equivalent (MTE), when the import price is lower than the entry price.

On a daily basis, the European Commission calculates a "Standard Import Value" (SIV) for each exporting country and product<sup>6</sup>. If the SIV is equal to or more than 92% of the entry price, imports are subject to normal tariffs; if the SIV is less than the above limit, imports are charged with the MTE and the ad valorem tariff. Such a mechanism guarantees that imports cannot be sold in the Community at a lower price than the entry one thus favouring that only stocks of better quality are imported into the E.U. (Grethe and Tangermann, 1998a; 1998b; Cioffi, 2001; Inea, 2002). It is interesting to notice that the products with an entry price benefit from a different management of the preferential quotas since the tariff exemption works only in the case of SIV above the entry price. Imports that occur at a lower level than the fixed limit are subject to tariffs and MTEs<sup>7</sup>.

## 2.2 Agricultural trade preferences under the Euro-Mediterranean Association Agreements

The Conference of Paris, held in 1973, may be considered as the cornerstone in trading relationships between the E.C. and MEDs. The agreements signed with the MEDs provided asymmetrical trade concessions in favour of them while a mutual liberalisation was arranged only with Turkey, Cyprus, Malta and Israel (Inea, 2002).

As we have already observed, the Euromed Partnership established in the Barcelona Conference represents a fur-

<sup>4</sup> The annual AMS (including "equivalent commitments") declared by the E.U. has been of approximately 73.5 billion ecu for this base period (CEC, 1994, Table 9a).

<sup>5</sup> These policies are contained in the Annex 2 of the Agreement.

<sup>6</sup> For more details on the SIV calculation, see Grethe; Tangermann, 1998a, pp. 12-16; Cioffi, 2001, p.119; INEA, 2002, p. 97).

<sup>7</sup> Anyway, it should be noticed that the entry price for TRQs is lower than the one fixed for non preferential treatments.

ther step towards a wider liberalisation in the Mediterranean area. In this frame, the progressive creation of the free-trade area should be obtained through the bilateral agreements between the E.U. and each Mediterranean country and between the partners themselves (Euro-Mediterranean Association Agreements or EMAAs).

So far, different EMAAs have been signed replacing the first generation agreements. Among these, the ones with Tunisia, Israel, Morocco, the Palestinian authority and Jordan have already entered into force while the EMAAs with Lebanon and Algeria have to be ratified. Negotiations are in progress with Syria.

The EMAAs have consolidated and in some cases extended agricultural trade concessions granted by the E.U. to MEDs. Nevertheless, the extent of the favourable market access can still be considered quite limited. In fact, in order to protect its domestic agricultural products, the E.U. has tended to exclude from the liberalisation process some agricultural products considered particularly "sensitive" to imports pressure (Garcia-Alvarez-Coque, 2002). Moreover, the E.U., despite the Euromed and GATT Agreements, has maintained some restrictions on imports of both sensitive and continental products.

However, as far as agricultural concessions are concerned, it is important to notice that the provisions differ by products, countries and seasons. The accorded Mediterranean preference is wider for products or seasons in which MEDs productions do not compete directly with the E.U. ones. For instance, only fairly small improvements were offered to Tunisia and Morocco while significant concessions have been made with regard to Egypt (Zarrouk and Zallio, 2000). Also for some products originating from Morocco, Israel and Tunisia (such as onions from the formers and wine from the latter) TRQs are higher than before Euromed Agreements. On the other hand, for some sensitive products, such as olive oil and some vegetables, the E.U. has maintained or lowered TRQs (Grethe and Tangermann, 1998 b).

For fresh fruit and vegetables the U.E. has reduced or completely removed the ad valorem tariffs (within or without TRQs) and has fixed a lower entry price than the one scheduled in the GATT framework. This decision reflects in a reduction of the probabilities of charging imports with the MTE that, as we have already discussed, is still maintained. In general, the mechanism works in such a way that the prices of imported goods are at least equal (but often higher) to the domestic products. Consequently, foreign productions become less competitive than the European ones and exports to the E.U. unprofitable and sometimes prohibitive (Grethe and Tangermann, 1998 b; Cioffi, 2001).

<sup>8</sup> While it is not uncommon that food-safety issues may result in restrictions in trade, most of the standards applied in the fruit and vegetables business area are considered justified by traders, considering that most of this agricultural products are used for uncooked or lightly cooked human consumption (Grethe and Tangermann, 1998a).

## 2.3 The Agreement on the Application of Sanitary and Phytosanitary Measures (SPS)

The SPS Agreement sets the rules for food safety as well as animal and plant health. It encourages international harmonisation through the use of widely recognized standards, general guidelines and recommendations developed by international organizations such as the joint FAO/WHO Codex Alimentarius Commission for Food Safety, the International Office of Epizootics for Animal Health and the FAO's Secretariat of the International Plant Convention.

Obviously, the SPS Agreement allows member countries to set their own safety and health standards through more stringent measures than the international ones. The basic principle is to reduce the possible arbitrariness ensuring that the sanitary and phytosanitary measures are not applied to create restrictions and trade barriers. Thus, if a Country requires higher standards than the international ones, it must prove the higher level of protection with "scientific evidence" and an appropriate "risk assessment" (WTO, 1995b).

In general, the Agreement has been considered as an attempt made by developed countries, with more stringent foodborne risks regulations (e.g. the E.U.), to shield domestic producers from economic competition legitimating the exclusion of imports from less regulated countries and consequently, from MEDs. In fact, notwithstanding a country may adopt "facially neutral" standards for imports and exports, if imported products present higher risk than the exported ones, these measures could reveal themselves as protectionist and at the same time they could harm some exporting countries (Crutchfield et al., 2000).

On account of these elements, it could be assumed that the Agreement could affect agricultural trade between the E.U. and some MEDs. Often, developing countries have domestic risks reductions measures lower than the European ones; furthermore, they should support exorbitant costs to comply with international sanitary and phytosanitary standards (Crutchfield et al., 2000). This makes them more vulnerable to regulatory standards than industrialized nations (Otsuki et al., 2001) and European producers could be advantaged with respect to MEDs ones. In fact, while the former are able to comply either with international standards or with the less stringent ones of some developing countries, it is not the same for Mediterranean producers whose lower domestic standards don't make them able to export in Europe.

Hence, despite the aim of SPS was a further liberalisation of trade and in particular of the agri-food one, these regulations are felt as potential substitutes of decreasing traditional import barriers by the E.U. and therefore could reveal themselves as a further threat to trade flows liberalization (Vanzetti, 1996).

## 3. Agri-food trade flows in the Euro-Mediterranean Area

Tab. 2. *EuroMed agricultural trade balances (.000 of Euro)*

Country	E. U. Net Balance
Malta	+ 204.820
Turkey	- 1.299.361
Morocco	- 491.265
Algeria	+ 1.123.078
Tunisia	- 41.158
Libya	+ 437.058
Egypt	+ 618.781
Lebanon	+ 419.070
Cyprus	+ 237.664
Syria	+ 179.669
Israel	- 255.849
Jordan	+ 250.581
Total	+ 1.383.088

Source: Eurostat, Faostat.

The analysis of the agri-food trade structure between the E.U. and MEDs presented in this section is based on the 24 four-digit agricultural categories of the Eurostat database. In 2000 the EuroMed trade has concerned more than 5.5 billions of Euro with main flows involving Turkey (23.4% of total), Algeria (20.2%), Egypt (11.1%) and Morocco (8.8%). As we can see from Table 2 the E.U. has a positive balance for 1.383 millions of Euro since

destination of 43% of the exports. The opposite is not true since only 14% of European agricultural exports go to MEDs while the inflows from that area weight for 7% on the total imports.

Table 4 focuses on the EuroMed trade flows in terms of product category. It confirms that the MEDs import typically continental agricultural products and processed ones (cereals, dairy products, natural honey and eggs, sugars and fats) while the exports are concentrated on fruit and vegetables, fresh and processed, and fish.

Obviously, the main concern Southern European farmers are facing is the competition from low cost productions coming from abroad. Thus, the analysis has been restricted to the most important agricultural products that the E.U. import from MEDs selected on the base of their relevance on whole European imports.

To this aim we have considered a products' classification at the six-digit level taking into account only products whose traded quantities were greater than 50 thousand metric tonnes. Figure 1 shows as, for many products, the European dependence from MEDs is very strong. In fact, for olive oil - virgin or lamp oil -, olives, potatoes and tomatoes, nearly all the imports, come from that area.

As it is clear, many of these products are in direct competition with the agriculture of the European Mediterranean country. Therefore, we have investigated the main sources of these trade flows taking into account the specific position of the main exporters, that is Turkey, Morocco, Israel, Tunisia and Egypt.

Turkey, the leader MED exporter to E.U., is responsible for the whole incoming flows of dried grapes and hazelnuts. Furthermore, we detect consistent trade flows from this country for products such as table grape (77%) and peppers (52%). Morocco is by far the most important exporter of prepared olives (84%), tomatoes (83%) and oranges (61%). In addition, it exports more than half of mandarins, clementines and tangerines<sup>9</sup>. Israel is the main exporter of grapefruit. Half of the imports of this product come from this country (followed by Turkish exports that account for more than one third of the total amount). Israel plays an important role also in the exports of peppers, oranges and various kinds of citrus fruits. Tunisia is the country of origin of the whole amount of the imported lamp oil virgin olive oil. These products mixed with the high quality and more expensive European ones represent a dangerous competitor of the European high quality olive oil, representing a real menace for Southern European olives' producers. Finally, Egypt is the main exporter of edible potatoes (32%) followed by Israel (26%), Cyprus (19%) and Morocco (17%).

it results to be a net exporter with respect to most of the MEDs, especially Algeria. Only four countries do not contribute to such a positive balance, as they are Turkey, Morocco, Israel and Tunisia.

To consider the relevance of the European market to the MEDs we have analysed the weight of imports from (exports to) E.U. with respect to the total imports (exports). The same was done to assess the relevance of the MEDs market for European countries. As we expected, given the different economic size of the trading partners, the E.U. is a basic trading partner for the MEDs since it is the source of more than one third of the imported goods and it is the

Tab. 3. *The relative relevance of E.U. and MEDs market for each other (.000 of Euro)*

Med imports from E.U. (A)	Med imports from the world (B)	A/B	Med exports to the E.U. (C)	Med exports to the world (D)	C/D
6.848.731	20.102.183	34,1%	4.086.540	9.499.321	43,0%
E.U. imports from Med (E)	E.U. imports from the world (F)	E/F	E.U. exports to Med (G)	E.U. exports to the world (H)	G/H
4.086.540	57.163.653	7,1%	6.848.731	48.927.563	14%

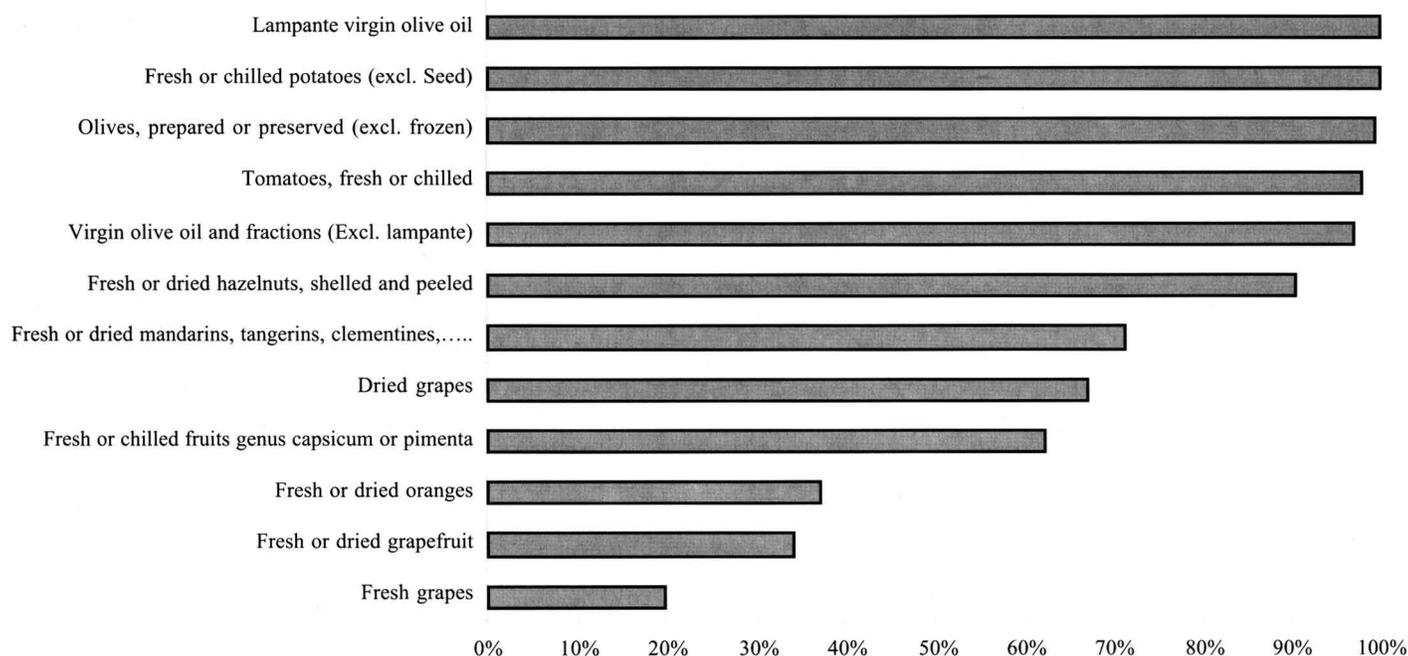
Source: Eurostat, Faostat.

Tab. 4. *The composition of the value of EuroMed agricultural trade flows by product*

MEDs imports		MEDs exports	
Product category	%	Product category	%
Cereals	19	Edible fruit and nuts	32
Dairy products and eggs	13	Edible vegetables and roots	13
Sugars and sugar confectionary	10	Preparations of vegetables	12
Animal and vegetable fats and oils	7	Fish and seafood	11
Tobacco and manufactured tobacco	5	Preparations of meat and fish	5
Miscellaneous edible preparations	5	Animal and vegetable fats and oils	5
Others	39	Others	22
Total	100	Total	100

Source: Eurostat.

Figure 1. Relevance of E.U. imports from MEDs with respect to total imports



Source: our elaboration of Eurostat data.

#### 4. European farmers' competitiveness in a mid-term scenario

In this section we argue that European farmers are likely to face a mid-term scenario characterised by the lowering of the trade barriers and the change of the nature of the comparative advantage in agriculture. Obviously, these perspectives will affect substantially their competitiveness.

As we have already stated, the natural evolution of the Euro-Mediterranean Partnership, should be the creation of a Free Trade Area in the Mediterranean region by the year 2010. Under these circumstances, no barrier to trade between the E.U. and the MEDs should exist and this would mean full access to European markets for MEDs agricultural products. Some estimates calculate that in a complete free market, agricultural MEDs exports will increase by a significant amount – 0.4% of GDP for Tunisia, 1.4% for Morocco, 2.3% for Turkey, 3.3% for Egypt - and E.U. imports of sensitive products would grow by 11% (Lorca, 2000).

Despite the Agreements, it is reasonable to bear some doubts about this conclusion as the liberalization process is facing serious delays due to European protectionist behaviour, especially on agricultural matter (Zarrouk and Zallio, 2000). In fact, both the Northern European countries have not given so much importance to the agricultural trade is-

sue, since they don't realize that the free trade area could be a chance to increase their agricultural exports, and the Southern ones fear the liberalisation process as a source of an increased competition by MEDs (Garcia-Alvarez-Coque, 2002; Inea, 2002).

Therefore, it is likely that a limited liberalization on agricultural trade between the E.U. and the MEDs, considered as a suitable meeting point between the different objectives of the E.U. Members, should continue to exist (Inea, 2002). Hence, in the mid-term we should consider a scenario in which the change in trade policies will be decided under the WTO framework.

The WTO negotiations in agriculture, started in early 2000 under article 20 of the Agreement on Agriculture, have received some deadlines at the Doha Ministerial Conference in November 2001 that set the objectives of a further restriction of the main provisions of the Agreement on Agriculture set in Marrakech. Despite the recent failure of the Cancun negotiations, the WTO position set in the Harbinson proposal can still be used as a base to foresee the likely evolution of the E.U.'s agricultural trade policy. Considering the protective measures of the E.U. domestic markets, the Harbinson proposal from one side targets a decrease in agricultural tariffs, from the other includes a set of rules aiming to increase the transparency of the management of TRQs in such a way that the concessions granted would result in real trade opportunities<sup>10</sup>.

A simple way to estimate the likely effect of lower tariff barriers on European farmers' competitiveness is to see

<sup>9</sup> It should be noticed that another 25% of these citrus fruits are exported by Turkey.

Tab. 5. Exports to the E.U. and quantitative limits (tons)

	Potatoes	Oranges	Mandarins	Tomatoes	Grapefruit	Olives	Fresh Grapes	Peppers	Olive Oil
<b>Morocco</b>									
Exports	56.375	164.505	103.666	140.871	73	57.089	1.006	8.726	264
Tariff quota	120.000	300.000	150.000	150.676	Unlimited	Unlimited	Unlimited	Unlimited	(a)
<b>Tunisia</b>									
Exports	144	24.358	0	1.823	0	343	0	35	97.697
Tariff quota	15.000	31.360	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	46.000
<b>Israel</b>									
Exports	77.477	54.363	25.054	14.526	65.200	-	-	17.432	-
Tariff quota	20.000	290.000	21.000	1.000	Unlimited	-	-	8.900	-
<b>Jordan</b>									
Exports	0	0	0	180	0	0	171	640	-
Tariff quota	1.000	Unlimited	1.000	Unlimited	Unlimited	1.000	Unlimited	Unlimited	-
<b>Lebanon (c)</b>									
Exports	0	1	0	0	-	-	29	-	1
Tariff quota	10.000 (b)	Unlimited	Unlimited	5.000	-	-	Unlimited	-	1.000
<b>Algeria (c)</b>									
Exports	225	0	0	0	0	0	1	0	0
Tariff quota	5.000	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	1.000
<b>Egypt (c)</b>									
Exports	107.118	10.984	594	346	38	-	3.568	120	-
Tariff quota	109.760	7.840 (b)	Unlimited	Unlimited	Unlimited	-	Unlimited	Unlimited	-

Source: Eurostat, EMAA.

(a): 5-10% tariff reduction

(b): the TRQs can be higher depending on the period considered (respectively 20.000 for Lebanon and 8.000 for Egypt)

(c): The Agreements are not into force yet

what is happening at present within the TRQ frame discussed in section 2. In fact, one can assume that imports occurring under easier conditions of access reproduce, in a certain way, the liberalization process.

Clearly, if the TRQs fixed in the protocols of the Euromed Agreements are fully exploited, it is credible to assume a great pressure from MEDs exporters on E.U. markets, thwarted only by the existing system of tariffs. On the other side, a situation with partial utilization of trade concessions<sup>11</sup> can be explained because of general market conditions such as deficiency in the supply or lack of the demand due, for example, to a low quality of the importing goods. A different reason can be found in the fact that, despite the TRQ, the entry conditions could still be far from the economic convenience.

Table 5 shows the imports from MEDs related to the year 2000 for a number of sensitive products (oranges, tomatoes, olive oil, etc.). If we exclude the unconstrained tariff concessions, it can be noticed that only 76% of the TRQs are utilized: only few countries exceed the limits and only for a restricted set of products. In particular, it is worth to outline the case of Tunisia that ships to E.U. almost the double of its TRQ for olive oil, and of Israel that is above the TRQ for several commodities (potatoes, mandarins, tomatoes, peppers).

While it is reasonable to conclude that any step toward a further liberalization will result in an increase in the export

flows of the above-mentioned products to Europe, the same conclusions cannot be reached for those products that are far from the limits set.

As we already stated, an explanation for this behaviour could be that, despite the application of preferential treatment accorded to MEDs (TRQ, tariff abolishment or reduction, lower entry price), current import conditions are still prohibitive and make it unprofitable to export into the E.U. This assumption has proved to be real for many countries especially in the vegetable markets (Cioffi, 2001). Also, imports can be

limited because of products' characteristics different from the standards the European consumers demand. This hypothesis seems to fit properly the exporting trend of Israel, the most developed country among the MEDs and therefore the one with a productive system more similar to the E.U.

On the other side, since the exports to E.U. are less than the half of the whole MEDs exports, we can consider in general less suitable the hypothesis of low exports determined by a lack of supply.

These considerations pave the way to introduce the concept of quality as another factor that, together with the

10 The Harbinson proposal also envisages the elimination of the Special Safeguard Clause and introduces further reductions both in export subsidies, in the perspective of their complete phasing out, and in trade distorting domestic support. With respect to export refunds, final bound levels of budgetary outlays and quantities will be progressively eliminated over five or nine years (depending on the products). Moreover, in the draft, in domestic support categorized that fall in the Amber box, the AMS shall be reduced by 60% over five years; blue box would be reduced by 50%, while provisions on the green box measures, that have proved to be less trade-distorting, shall be maintained or subject to possible amendments. Finally, the proposal doesn't mention food safety or SPS provisions at all; therefore, meaningful improvements with respect to the 1994 Agreement on SPS would be quite improbable.

11 The situation with trade concessions not completely utilized is the most common (Anania, 2003).

change in the institutional framework, will likely shape trade flows in the Mediterranean area (De Meo, 2003).

The perception of food quality in modern markets is a highly dynamic one since it depends on the rapid changes in the consumer preferences and in the distribution systems. On one side, consumers show an increasing attention to a series of quality requirements such as food safety (pesticides and chemical residues, pests' absence, food traceability, absence of GMOs), sensorial characteristics and service contents (easy handling and consuming).

On the other side, the growing market share of big distribution is shifting the bargaining power towards the concentrated retail system<sup>12</sup>. The oligopsonistic power appears even more relevant in the business area of fresh vegetables where the suppliers still show agricultural more than industrial features (i.e., small size and fragmented supply).

To effectively face the requirements of the big distribution in this field, firms are forced to invest time and resources in several directions such as the management of the products' cold storage, the planning of the supply (with respect to standardized sensorial characteristics, adequate volumes and proper timing of the harvesting), the control of the packing process, the management of the logistics, the implementation of quality and safety systems, the establishment of a brand policy (Seccia et al., 1999).

The strong pressure towards the enhancement of products' and company's quality characteristics affects the whole agri-food system. From the competitive point of view, the enterprises along the supply chain and, often, the local governments are forced to the adoption of strategies aimed to constant innovation and product differentiation.

The Good Agricultural Practices (Gap) in the production of fresh fruit and vegetables codified by Eurep<sup>13</sup> represent a quite good example of these changes. The overall goal of Eurep-Gap is to respond to consumers' demand for food safety contents and for environmentally friendly practices through a set of rules that carefully model farmers' behaviour. The resulting certification is becoming an essential condition to enter the big distribution and affects not only the quality system of the single firm but, since procedures of traceability are included, also the organization of the entire supply chain.

In terms of inputs' management, the new strategic commitments require greater investments in technology and expertise enhancing the role played by capital and skilled labour-force. Under these circumstances the comparative advantage changes its nature since the role itself of the traditional categories of agricultural inputs such as land, labour and capital is changing.

The neo-classical international trade theory based on the Heckscher-Ohlin-Samuelson model explained the exports of agricultural commodities from countries with favourable factor en-

dowments, especially unskilled low-cost labour availability. In a world with imperfect competition, scale economies and differences among countries in technology as well as in consumers' preferences, agriculture is becoming more and more a capital and technology intensive sector (Venturini, 1989).

Therefore, forces other than factorial differences can explain trade flows. In a market where firms compete on the basis of product differentiation and investment in research and technology, the availability of a skilled labour supply and the presence of diffuse external economies is about to shape the trade balance (Inea, 2002; Garcia-Alvarez-Coque, 2002; Scoppola, 2003).

If we go back to Table 5, we can conclude that the imagined (limited) openings of the internal market following the conclusion of the next WTO negotiation will impact most of the "sensitive productions", especially those for which the TRQs are already exceeded or the present concessions show to be not convenient. In fact, it is clear that MEDs imports will continue to benefit from a cost competitiveness for a long time.

Anyway, we can also see some opportunities due to the growing requirements in terms of quality. Southern European producers live and work in a system with a higher social capital. The level of the employees' know-how and of the infrastructure, the entrepreneurs' organizational skills, the quality of the local public bodies, are all factors of production whose availability is greater in Europe than in less developed countries. Thus, especially in the market segments where the products' differentiation is a necessary requirement, we find room for a successful European agriculture.

## 5. Concluding remarks

The Barcelona Declaration scheduled, among the other targets, the establishment of a free trade area in the Mediterranean region by the year 2010. In the light of this event, that the Southern European farmers fear as a possible reason for increasing import flows from MEDs, this paper aimed to analyze the current framework and the mid-term prospects of agricultural trade in the Mediterranean area.

The evidence supports in some way the perception of a direct competition on the field of the typical Mediterranean productions. In fact, if the E.U. tends to export continental products such as cereals, milk, dairy products and sugars, the inflows concern especially fresh fruit and vegetables.

The reluctance of Southern European member States to accept a freer regime will inevitably affect the evolution of the E.U. trade policies. We have argued that the existing institutional framework in terms of market access - the Agreement on Agriculture signed under the last GATT and the bilateral EuroMed Agreements - will likely take few steps towards a further liberalization under the WTO framework.

In such a perspective, it is likely that a greater amount of MEDs "sensitive products" could be profitably exported into the E.U. markets with negative consequences on European producers. We have also showed that these effects could be partly compensated by the growing demand for quality that comes up from the rapid changes in consumers' preference and retail's structure. In the new market scenarios of developed countries, the limited quality of the productions imported from MEDs can be interpreted as an ele-

<sup>12</sup> About 60% of the whole fresh agricultural productions pass through the big distribution channels, while the remaining 40% is sold on general markets.

<sup>13</sup> Eurep is a partnership between the most important European retailers (Coop, McDonald, Sainsbury's, Safeway) and producers (Apofruit, Anecoop, Conerpo, etc.).

ment that impedes the access to European markets.

From an economic point of view, we can accept the idea that, for specific market segments, the comparative advantage is changing its nature since the production of high quality agricultural goods requires more and more the availability of strategic resources such as expertise, knowledge, technology, infrastructure, and adequate policies.

In this context, European farmers should see the liberalization process as an opportunity to constantly increase the productivity and to improve the quality of their productions. In particular, the shifting from the wholesale markets to the big distribution, and thus from a non-specific supply to highly differentiated one, forces European agri-food firms to organize themselves and reach an economic size big enough to effectively implement vertical and horizontal integration policies. On these bases we can conclude that Southern European farmers cannot wait any longer to take advantage of the Common Agricultural Policy and set up efficient Producers' Organizations since this is the best way they have to face their future tasks.

## References

- Anania G., 2003. La liberalizzazione degli scambi e gli accordi internazionali. In Giau B., a cura di, *L'agricoltura Italiana alle soglie del XXI secolo*. Anteprema Edizioni, Palermo.
- Central Intelligence Agency, 2000. The world factbook. <http://www.cia.gov/cia/publications/factbook> (accessed September 2002).
- Commission of the European Communities (CEC), 1994. Annex 1 of the European Community Schedule, Part I Most-favoured Nation Tariff. Section I Agricultural Products. CEC, Brussels.
- Crutchfield S., Buzby J., Frenzen P., Allshouse J., Roberts D., 2000. The Economics of Food Safety and International Trade in Food Products. United States Department of Agriculture. [www.orst.edu/Dept/IIFET/2000/abstracts/crutchfield.html](http://www.orst.edu/Dept/IIFET/2000/abstracts/crutchfield.html) (accessed September 2002).
- De Meo G., 2003. La liberalizzazione degli scambi e gli accordi internazionali. In Giau B., a cura di, *L'agricoltura Italiana alle soglie del XXI secolo*. Anteprema Edizioni, Palermo.
- Economic Research Forum, 2000. Economic Trends in the MENA Region. [http://www.erf.org.eg/html/economic\\_00/html/f\\_main.html](http://www.erf.org.eg/html/economic_00/html/f_main.html) (accessed September 2002).
- Euro-Mediterranean Conference, 2000. Barcelona Declaration. Euro-Mediterranean Conference of Foreign Ministers. Barcelona, 27-28 November. [http://europa.eu.int/comm/external\\_relations/euromed/bd.htm](http://europa.eu.int/comm/external_relations/euromed/bd.htm) (accessed September 2002).
- European Commission, 2001. Intra and Extra-EU Trade, detailed tables, Luxembourg.
- European Commission, 2002. The EC's Proposal for Modalities in the WTO Agriculture Negotiations, Brussels.
- Handoussa H., Reiffers J.L., 2000. The Euro-Mediterranean Partnership in the year 2000, Second FEMISE report on the Euro-Mediterranean partnership.
- FAO, 2002. Faostat-Agriculture. [www.fao.org/waicent/portal/statistics\\_en.asp](http://www.fao.org/waicent/portal/statistics_en.asp) (accessed September 2002).
- Garcia-Alvarez-Coque J.M., 2002. Agricultural trade and the Barcelona process: is full liberalisation possible?, *European Review of Agricultural Economics*, 3, 399-422.
- Greenfield J., Konandreas P., 1996. Introduction, An overview of the issues, *Food Policy*, 4/5, 345-350.
- Grethe H., Tangermann S., 1998 a. The EU Import Regime for Fresh Fruit and Vegetables after Implementation of the Results of the Uruguay Round. Paper prepared for the Commodities and Trade Division. FAO Economic and Social Department, Gottingen.
- Grethe H., Tangermann S., 1998 b. The New Euro-Mediterranean Agreements. An Analysis of Trade Preferences in Agriculture. Paper prepared for the Commodities and Trade Division. FAO Economic and Social Department, Gottingen.
- Inea, 2002. L'Unione Europea e I Paesi del Mediterraneo. [www.inea.it](http://www.inea.it) (accessed September 2002).
- Information Society Promotion Office, 2000. European Survey of Information Society, Basic facts & Indicators CEEC - MED. [http://www.eu-esis.org/script/form\\_simple.cgi](http://www.eu-esis.org/script/form_simple.cgi) (accessed September 2002).
- Konandreas P., Greenfield J., 1996. Uruguay Round commitments on domestic support: their implications for developing countries, *Food Policy*, 4/5, 433-446.
- Lorca A., 2000. L'impact de la libéralisation commerciale euro-méditerranéenne dans les échanges agricoles, FEMISE research programme. Universidad Autonoma de Madrid. [http://www.femise.org/PDF/A\\_Corrns\\_09\\_00.pdf](http://www.femise.org/PDF/A_Corrns_09_00.pdf)
- Otsuki T., Wilson J., Sewadeh M., 2001. Saving two in a billion: quantifying the trade effect of European food safety standards on African exports, *Food Policy*, 26, 495-514.
- Salvatici L., 1996. Dall'Accordo generale sulle tariffe e sul commercio all'Organizzazione mondiale per il commercio. In Anania G., De Filippis F., a cura di, *L'accordo GATT in agricoltura e l'Unione Europea*. Franco Angeli, Milano.
- Seccia A., Casieri A., Nardone G., 1999. Strategie e competitività delle imprese di condizionamento dell'ortofrutta in Puglia, paper presentato al XXXVI Convegno SIDEA, Milano, 9-11 settembre.
- Schumacher D., 2001. Market Size and Factor Endowment: Explaining Comparative Advantage in Bilateral Trade by Differences in Income and Per Capita Income, Discussion Paper No. 259, Deutsches Institut für Wirtschaftsforschung, Berlin.
- Scoppola M., 2003. Il commercio internazionale dei prodotti agro-alimentari: la posizione e le prospettive dell'Italia in un'Europa allargata, paper presentato al IL Convegno SIDEA, Padova, 18-20 settembre.
- Valdés A., McCalla A.F., 1996. The Uruguay Round and agricultural policies in developing countries and economies in transition, *Food Policy*, 4/5, 419-431.
- Vanzetti D., 1996. The next Round: game theory and public choice perspectives, *Food Policy*, 4/5, 461-477.
- Venturini L., 1989. Teorie del commercio internazionale e determinanti della competitività: un quadro concettuale per l'analisi degli scambi agro-alimentari, *Rivista di Economia Agraria*, a. XLIV, 3 - 24.
- WTO, 1995a. Legal texts: Uruguay Round Final Act [http://www.wto.org/wto/english/docs\\_e/legal\\_e/ldc2\\_512.htm](http://www.wto.org/wto/english/docs_e/legal_e/ldc2_512.htm) (accessed September 2002)
- WTO, 1995b. The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement). [http://www.wto.org/wto/english/tratop\\_e/sps\\_e/spsagr\\_e.htm](http://www.wto.org/wto/english/tratop_e/sps_e/spsagr_e.htm) (accessed September 2002).
- WTO, 2001. Trading into the Future. [http://www.wto.org/wto/english/thewtoe/whatise/tife/tif\\_e.htm](http://www.wto.org/wto/english/thewtoe/whatise/tife/tif_e.htm) (accessed September 2002).
- Zarrouk J.E., Zallio F., 2000. Integrating free trade agreements, paper presented at the Third Mediterranean Development Forum, Voices for Change, Partners for Prosperity, 5-8 March 2000, Cairo. <http://www.worldbank.org/mdf/mdf3/papers/global/Zarrouk.pdf> (accessed September 2002).