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Linde Goetz
Harald Grethe

**Poster paper prepared for presentation at the
International Association of Agricultural Economists Conference,
Gold Coast, Australia, August, 12-18, 2006**

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The EU's Import Regime for Oranges – Much Ado about Nothing?

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Abstract

EU imports of oranges are restricted not only by ad valorem tariffs but also by the entry price system establishing a minimum import price. In addition, the EU applies a comprehensive system of trade preferences. The hypothesis of this paper is that, in contrast to its complexity, the effectiveness of the EU import system for oranges is low with respect to its goals, i.e. protecting EU producers on the one hand and creating imports from preference receiving countries on the other.

The comparison of import prices for oranges from extra-EU countries with the EU entry price shows that the former are about 40% higher than the latter on average. Also, it is pointed out that at least 72% of extra-EU orange imports during the EU harvest season enter the EU tariff free. As a conclusion, the contribution of the import regime to the protection of EU producers is low.

Concordantly, the preferential entry price is not utilized by orange preference receiving countries. Besides, although orange quotas increased from 1991 to 2003, actual exports from Mediterranean countries and thus quota filling rates have decreased over the same period. It is shown that EU trade preferences for oranges were not decisive for the development of Mediterranean countries' orange exports to the EU. In the light of the low effectiveness of the entry price system for oranges along with high transaction costs involved, its abolishment should be considered. Yet, results cannot be generalized, even not for citrus fruit, as is demonstrated for mandarins.

Keywords: entry price system, oranges, trade preferences, tariff rate quota

JEL classifications: F13, Q13, Q17, Q18

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1 Introduction

EU imports of oranges are restricted not only by an ad valorem tariff but also a de facto minimum import price which is established by the EU entry price system. In addition, the EU applies a comprehensive system of trade preferences, especially for orange imports originating in developing countries.

The motivation of the EU's external market regulations for oranges is to protect EU producers by mitigating international price competition while creating an EU market price which is higher than the world market price. In contrast to this, trade preferences are intended by the EU to create imports from the preference receiving countries.

This paper analyzes the relationship between the EU entry price and the actual EU market price for oranges, indicating that the market price is substantially higher than the entry price. In addition, it is shown that EU trade preferences for oranges are highly complex. They are specified, negotiated and repeatedly revised for each preferred trading partners individually. However, findings suggest that the degree of their utilization is rather low.

The results of this study demonstrate that, in contrast to its complexity, the effectiveness of the EU import system is low with respect to its goals, i.e. protecting EU producers on the one hand and creating imports from the preference receiving countries on the other. In the event of the conclusion of the Doha round trade negotiations the effectiveness of the import regime will further diminish. Before the background of high transaction costs caused by the entry price system, the full liberalization of orange imports of the EU should be considered as an alternative.

In this paper we proceed as follows. Section two describes EU orange imports and import policies for oranges in detail. Section three analyses the effectiveness of the entry price

system and the preferential orange quotas. Section four draws some summarizing conclusions and puts our results in perspective.

2 EU imports of oranges

2.1 Trade flows

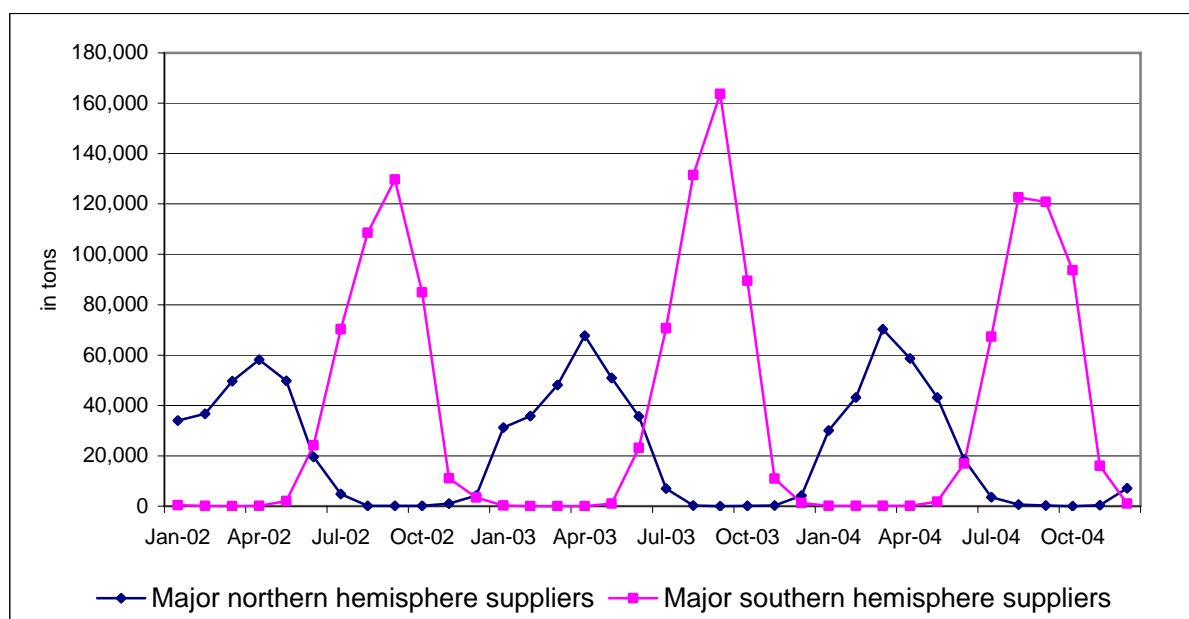
The EU is the largest orange importer in the world. In 2003, EU orange imports amounted about 805,000t, equivalent to 23% of world orange imports (FAO, 2005). In addition, EU intra-trade of oranges, originating in the southern EU member countries Spain, Italy, Greece, and Portugal, accounted for about 1.6 million tons, of which 74% originate in Spain.

The non-EU countries exporting oranges to the EU can be divided into northern and southern hemisphere suppliers, characterized by distinct orange export seasons. The major northern hemisphere suppliers are the Mediterranean countries (MED²), which accounted for 88.4% of total EU orange imports from January to June in the period 1988-2004, and Cuba (Eurostat, various issues). In contrast, the orange export season of the primary southern hemisphere suppliers, including South Africa, Brazil, Argentina, Uruguay, Zimbabwe and Swaziland lasts from June to November (Figure 1).

The most important MED exporting oranges to the EU are Morocco and Israel. Both countries' orange exports decreased markedly between 1988 and 2004 (Figure 2). Additional MED exporting oranges to the EU are Egypt, Cyprus, Tunisia and Turkey, with Cypriot orange exports to the EU exhibiting a decrease and Egyptian orange exports a recent increase. The MED's orange exports to the EU represented 72% of EU imports from non-EU countries during the EU harvest season lasting from November 1 to May 31 in the period 1988 to 2004.

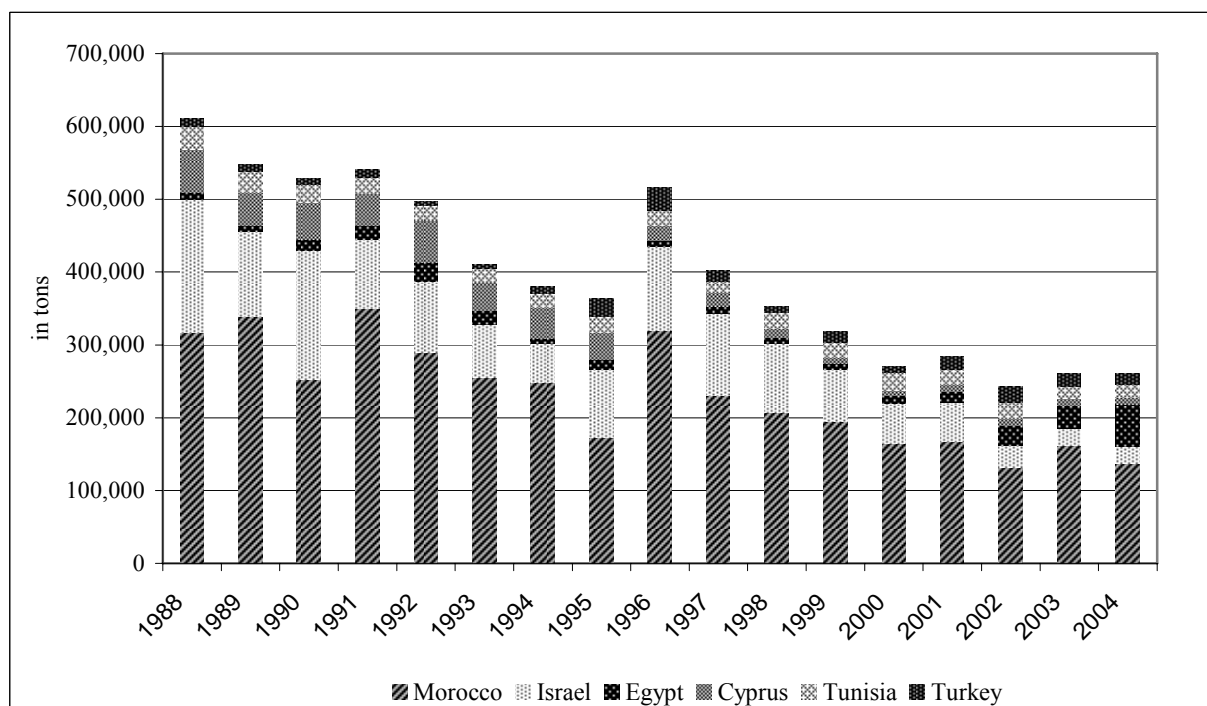
² The MED countries comprise Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestine Authority, Syria, Tunisia and Turkey, the countries covered by the Euro-Mediterranean Partnership. Cyprus and Malta became EU members in 2004.

Figure 1: Seasonal pattern of extra-EU orange imports, 2002-2004



Major northern hemisphere suppliers: Morocco, Israel, Tunisia, Turkey, Cyprus, Egypt, Cuba; Major southern hemisphere suppliers: South Africa, Brazil, Argentina, Uruguay, Zimbabwe, Swaziland; Sources: Eurostat

Figure 2: EU orange imports from major northern hemisphere suppliers, 1988-2004



Sources: Eurostat (various issues).

2.2 EU orange import policy

2.2.1 Most favoured nation (MFN) policy

The EU external market regulation for oranges includes a seasonally varying *ad valorem* tariff, with the highest tariff (16%) applied from October 16 to April 30 during the EU orange harvest season (see Table 1). In addition, an entry price system is in effect from December 1 to May 31. In the event that the entry price is undercut, an additional specific tariff is levied, its size varying proportionately to the difference between the product's actual import price and the entry price. The Maximum Tariff Equivalent (MTE) is the maximum specific tariff of 71 Euro that is levied if the minimum entry price is undercut by 8% or more. This MTE is equivalent to 20.1% of the entry price.

Table 1: EU MFN import regime for oranges

	MFN ad valorem tariff (%)	MFN entry price (€)	Specific tariff MTE (€t)	in % of MFN entry price
01.01.-31.03.	16.0	354	≤ 71	20.1
01.04.-30.04.	10.4	354	≤ 71	20.1
01.05.-15.05.	4.8	354	≤ 71	20.1
16.05.-31.05.	3.2	354	≤ 71	20.1
01.06.-30.09.	3.2	-	-	
01.10.-15.10	3.2	-	-	
16.10.-30.11.	16.0	-	-	
01.12.-31.12.	16.0	354	≤ 71	20.1

Sources: European Commission (2005a), own calculations.

The EU orange import system has been changed substantially in the course of the implementation of the results of the Uruguay Round. *Ad valorem* tariffs for oranges were reduced by 20% between 1995 and 2001, and the former reference price system was replaced by the entry price system as of December 1995. The MFN entry price for oranges introduced on December 1995 was 34.3% higher than the former reference price. This rise in the minimum market price was designed to compensate orange growers, mainly in Italy, for the

abolition of the market penetration premium³ that had been introduced following the EU accession of Spain and Portugal. Following its introduction in 1995, the MFN entry price for oranges was reduced slightly by 4% until 2001.

In conclusion, the external EU market regulation for oranges exhibits great seasonal differences. Since 2001, northern hemisphere suppliers have been confronted with a significantly higher average *ad valorem* tariff (10.9% during their main export season from January to June) than southern hemisphere suppliers (4.3% throughout their export season from June to November). Southern hemisphere suppliers are confronted with a substantial *ad valorem* tariff from October 16 to November 31 exclusively, amounting to 16% since 2001. Also, northern hemisphere suppliers have to comply with the entry price system from January to May, thus during almost their complete export season, whereas the entry price system is not at all effective during the southern hemisphere suppliers' season.

2.2.2 Trade preferences

The EU grants trade preferences for oranges mainly to the MED, who are the major northern hemisphere orange suppliers to the EU. Zimbabwe and Swaziland are the only southern hemisphere suppliers that enjoy preferential access to the EU orange market. Since 2000, this preference takes the form of a reduction of 80% in the *ad valorem* tariff.

Preferential access to the EU orange market might induce a competitive advantage for the preference receiving country's exporters against non-preference receiving countries' exporters. Also, trade preferences might reduce the competitive disadvantage of the preference receiving country's exporters relative to the EU's domestic suppliers. In particular, a preferential tariff may increase exporters' profits by raising the export price. A preferential

³ Market penetration premiums, a policy instrument to subsidize orange production, were paid to orange growers on class I orange exports to other EU member countries prior to December 1995 (Swinbank and Ritson, 1995).

entry price might allow utilizing a cost advantage if the produce can profitably be supplied to the EU market at a price below the MFN entry price.

The development of EU trade preferences for Morocco, Israel, Egypt and Tunisia is very similar. Those countries were first granted preferential access to the EU market under individual Cooperation Agreements in the 1970s; these preferences take the form of *ad valorem* tariff reductions that vary between 60% to 80% (Table 2). In 1986, the Cooperation Agreements were amended by Additional Protocols to compensate for the relative degradation of agricultural trade preferences due to the EU accession of Portugal and Spain. Under these protocols, *ad valorem* tariffs were reduced analogously to the tariff reduction for Spain and Portugal from 1989 on, but limited quantitatively by tariff rate quotas (TRQs) since 1991. These TRQs initially varied between 293,000t for Israel and 7,000t for Egypt. Orange exports exceeding the quantity specified by the TRQ were subject to the tariff reduction rate as established by the initial Cooperation Agreements. In the ensuing years, TRQs slightly increased, and in January 1993 the *ad valorem* tariff within the TRQ was abolished completely to coincide with the tariff cancellation for Spanish and Portuguese orange exports. Entry price quotas (EPQs) which allow a restricted quantity to be exported to the EU at a reduced entry price as well as a zero tariff rate, were introduced for Morocco and Israel concurrently with the transformation of the reference price into the entry price system in December 1995. Thus, these trading partners were not concerned by the large increase in the entry price compared with the former reference price (see 2.2.1). Instead, the preferential entry price for oranges in 1995/96 was set equal to the former reference price, amounting to 74.6% of the MFN entry price (Table 3). It was successively reduced by 4% until 2001, parallel to the reduction of the MFN entry price. For Egypt, an EPQ was established in December 1996.

Table 2: Development of EU preferences for primary northern hemisphere orange exporters, 1988-2004 (quotas in tons)

	Policy instrument	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Morocco	Tariff red. in/bey. quota	80%	as for Port. & Spain due to EU accession / 80%				100% / 80%											
	TRQ	0			265,000	272,950	280,900	288,850	292,825	296,800				340,000			0	
	EPQ	0								300,000								
	Total quota	0			265,000	272,950	280,900	288,850	292,825	596,800				640,000			300,000	
Israel	Tariff red. in/bey. quota	60%	as for Port. & Spain due to EU accession / 60%				100%/ 60%											
	TRQ	0			293,000	301,790	310,580	323,705	328,100	0								
	EPQ	0								200,000							201,500	
	Total quota	0			293,000	301,790	310,580	323,705	328,100	200,000							201,500	
Egypt	Tariff red. in/bey. quota	60%	as for Port. & Spain due to EU accession / 60%				100%/ 60%											
	TRQ	0			7,000	7,210	7,420	7,630	7,735	7,840						0		
	EPQ	0									8,000						50,000	
	Total quota	0			7,000	7,210	7,420	7,630	7,735	7,840	15,840						50,000	
Tunisia	Tariff red. in/bey. quota	80%	as for Port. & Spain due to EU accession / 80%				100%/ 80%											
	TRQ	0			28,000				30,940	31,360	32,301	33,242	34,183	35,124				
	EPQ	0																
	Total quota	0			28,000				30,940	31,360	32,301	33,242	34,183	35,124				
Cyprus	Tariff red. in/bey. quota	40%	stepwise increase between Dec. 87 and Dec. 97									100%						
	TRQ	0																
	EPQ	0									48,200							
	Total quota	0									48,200							
Turkey	Tariff red. in/bey. quota	100%																
	TRQ	0																
	EPQ	0																
	Total quota	0																
All MED suppliers	Total quota	0			593,000	609,950	626,900	648,185	659,600	836,000	893,141	894,082	895,023	939,164	939,164	939,164	939,164	634,824

^a Malta, Algeria, Jordan, Lebanon, Syria and Palestine are no relevant orange exporters to the EU and are therefore not included in the table.

Source: European Union (various issues).

Spain and Portugal had to comply with the reference price until December 1993. In the second phase of EU accession transition (January 1990 to December 1993), oranges exported from Spain to the EU had to adhere with the reference price indirectly due to a compensation mechanism. In the event that the market price of Spanish oranges fell below the average EU supply price, which could not be lower than the reference price, Spanish exporters had to pay a compensation, equivalent to the difference between the reference price and the EU market price (OJ L302, 15.11.1985, Article 152).

Between 1996 and 2004, the Cooperation Agreements were replaced by a series of Euro-Mediterranean Agreements (EMAs). TRQs were increased for Morocco and Tunisia and were abolished for Israel and Egypt. In addition, EPQ increased significantly for Egypt. In the most recent agreements amending the EMAs between the EU and Israel as well as Morocco, TRQs were also eliminated for Moroccan oranges, and Israel's EPQ was increased slightly.

Table 3: Preferential entry price for oranges (in commercial ECU/€)

Marketing year	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05
MFN EP	27.5 (RP*)	36.9	36.6	36.3	36.0	35.7	35.4	35.4	35.4	35.4	35.4
Pref. EP	-	27.5	27.3	27.1	26.8	26.6	26.4	26.4	26.4	26.4	26.4
% of MFN EP	-	74.5	74.6	74.7	74.4	74.5	74.6	74.6	74.6	74.6	74.6

*RP = reference price; Source: European Commission (2005a).

For Cyprus, a tariff reduction was granted under an Association Agreement in the 1970s. Subsequently the reduction rate gradually increased until the tariff was fully removed in December 1997. The tariff preference was supplemented by a preferential entry price, levied within an EPQ of 48,200t and established concurrently with the EPQ for Egypt in December 1996. With Cyprus' EU accession in 2004, trade barriers were completely eliminated. For Turkey, the *ad valorem* tariff for orange exports to the EU was reduced under the Supplementary Protocol to the Association Agreement in 1981 and removed completely in 1987.

Overall, total orange quotas granted by the EU to the MED orange suppliers amounted to 593,000t in 1991, increasing to about 939,000t in 2000, and contracting to about 635,000t in 2004, when the TRQ for Morocco was eliminated.

To sum up, the MED exporting oranges to the EU can be classified according to the kind of orange trade preference they receive from the EU. Tunisia's EU trade preference for oranges is confined to preferential *ad valorem* tariff reductions, partially limited by a TRQ. Turkey is granted tariff free access for an unlimited export quantity. The EU orange trade preferences granted to Morocco, Israel, and Egypt were initially confined to partially quantitatively limited tariff reductions, and later supplemented by EPQs. Cyprus enjoyed an EPQ from 1997 until its EU accession in 2004. In conclusion, the EU import regime for oranges is highly complex and evolved in a multitude of separate agreements and regulations. Without doubt, it causes considerable transaction cost in policy design and administration as well as in its effects on trading companies.

3 Analysis of the effectiveness of the EU import system for oranges

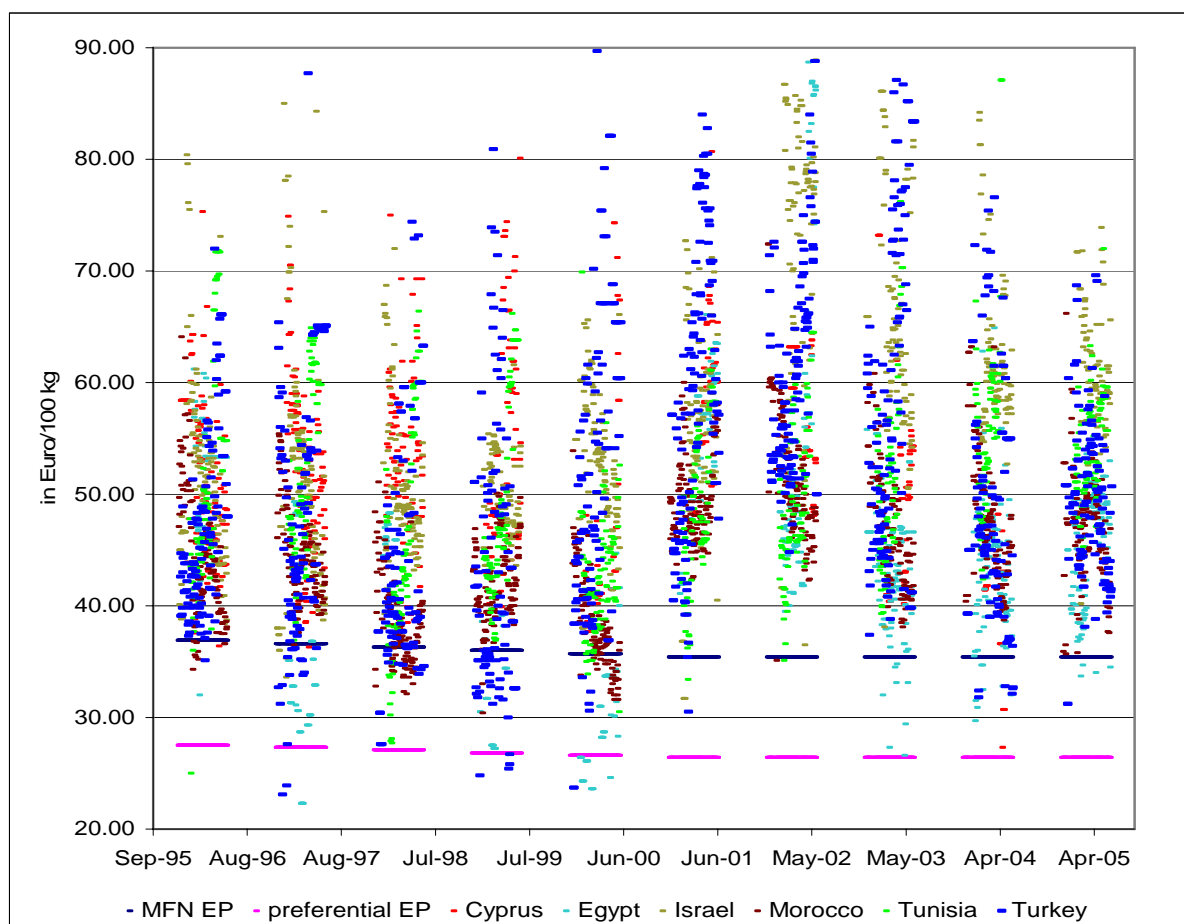
3.1 Relationship between the EU import price and the entry price for oranges

To analyze whether and how the EU entry price impacts prices and quantities of EU imports and thus the domestic orange market price, the standard import value (SIV) of oranges, an indicator for the import price, is compared to the entry price. The European Commission calculates the SIV daily based on the weighted average of wholesale market prices, surveyed by origin of the produce in different EU countries (for more details see Grethe and Tangermann, 1999 p. 15).

Figure 4 depicts the SIV for oranges originating in the MED, the MFN entry price, and the preferential entry price that has been granted to Morocco and Israel since December 1995, and Cyprus and Egypt since December 1996. The share of SIV observations that exceed the MFN

entry price is highest for Israel with 99.9%, followed by Cyprus with 98.7%, and lowest for Egypt with 79.1% (Table 4). The share of SIV observations below the preferential entry price

Figure 4: SIV, MFN and preferential entry prices for oranges exported by the most important MED, December 1, 1995-May 31, 2005



Sources: European Commission (2005a, 2005b).

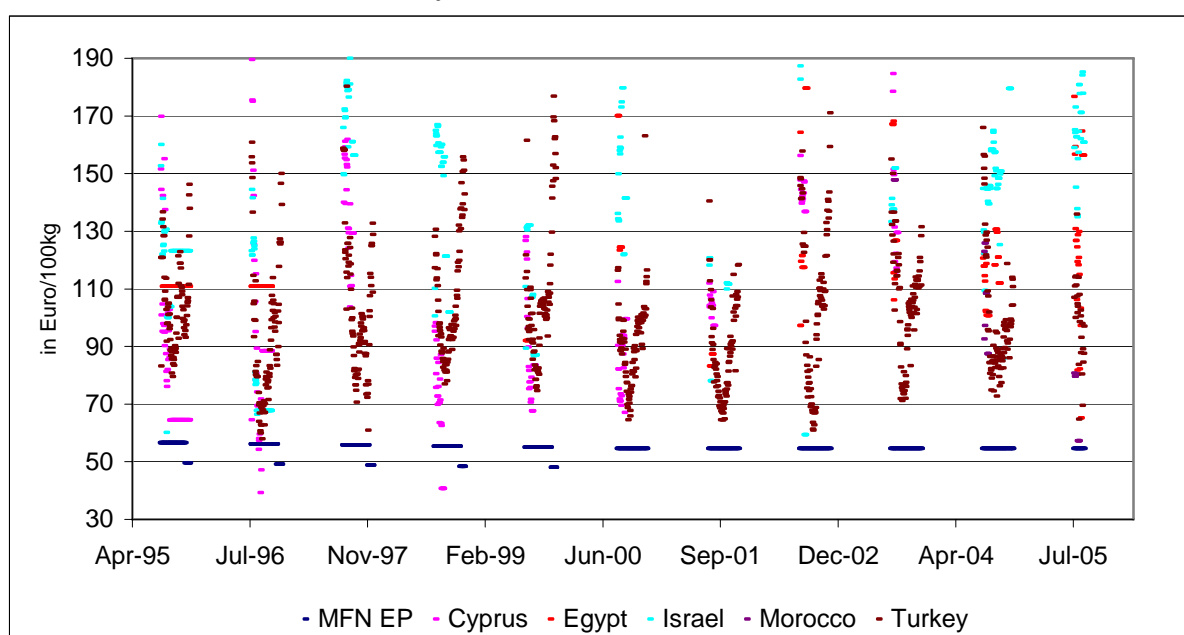
Table 4: Orange SIV in relation to MFN and preferential entry prices, December 1, 1995-May 31, 2005

	Number of observations	SIV > MFN EP	SIV < Pref. EP	SIV as % of MFN EP (average)	SIV as % of pref. EP (average)
Israel	961	99.9%	0.0%	158.3%	212.4%
Tunisia	854	97.2%	0.2%	141.5%	185.8%
Turkey	1,132	92%	0.7%	144.5%	193.8%
Morocco	1,133	93%	0.0%	127.6%	171.1%
Egypt	746	79.1%	4.0%	124.1%	166.5%
Cyprus	613	98.7%	0.0%	144.4%	193.7%
Total	5439	93.3%	0.6%	140.1%	187.9%

Sources: European Commission (2005a, 2005b), own calculations.

is highest for Egypt with 4%, followed by Turkey (0.7%) and Tunisia (0.2%). The average difference between the SIV and the MFN entry price is highest for Israel (for which the SIV amounts to 158.1% of the MFN entry price), and lowest for Egypt (124.1%). Overall, the SIV is higher than the MFN entry price in 93.3% of the 5,439 total observations and the SIV is 140.1% of the MFN entry price on average. This indicates that the entry price system is largely redundant. To check whether this result can be generalized, two other fruits are investigated. The size of the difference between the import price and the MFN entry price for oranges is exceeded by the corresponding difference for table grape exports from the MED to the EU (Figure 5). On average, the SIV for table grapes amounts 199.1% of the MFN entry price effective July 21 to November 20.

Figure 5: SIV, MFN and preferential EP of MED exports of table grapes to the EU, December 1, 1995-May 31, 2005



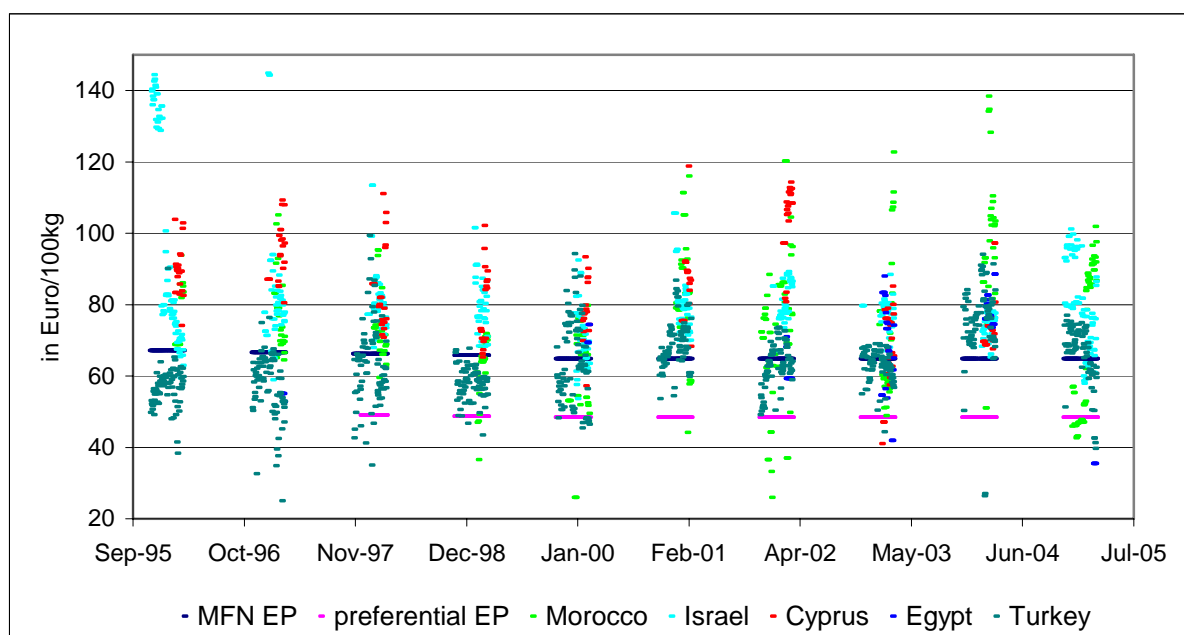
Sources: European Commission (2005a, 2005b).

The situation for EU mandarin imports from the MED differs considerably. The SIV is below the MFN entry price (operative November 1 to the end of February) for Turkey in 60%, Egypt in 41% and Morocco in 33% of the surveyed cases for mandarins, although a preferential entry price is granted to Morocco exclusively (Figure 6). Grethe and Chemnitz (2005) show

that Morocco also heavily capitalizes on the EPQ granted by the EU for Moroccan tomato exports.

In summary, the EU import price for oranges is substantially higher than the EU MFN entry price, even for those countries which are granted a preferential entry price. This relationship is even more pronounced for EU imports of table grapes from MED. Thus, for oranges and grapes, the entry price system is by and large redundant. For mandarins and tomatoes, however, import prices are much closer to entry prices and the entry price system has an import restricting effect.

Figure 6: SIV, MFN and preferential EP of MED exports of mandarins to the EU, December 1, 1995-May 31, 2005



Sources: European Commission (2005a, 2005b).

3.2 Development of the quota filling rate

The volume of MED orange exports to the EU relative to the size of the corresponding orange quotas (TRQs and EPQs) is depicted in Table 5. Morocco's and Egypt's orange exports actually exceed their quotas in some years during the 1990s, but fall below afterwards. Morocco's filling rate has been under 50% since 1997. The removal of the TRQ in 2004

caused an increase of the filling rate in that year. Egypt exceeded its quota in 2002 to 2004 due to the rise of Egyptian orange exports to the EU in this period. Tunisia's quota filling rate varies between 48% and 75%. The rate for Cyprus is always below 50%. Israel exhibits the lowest filling rates, declining from 32% in 1991 to 12% in 2004. The unweighted average filling rate fell from over 100% in 1991 to 39% in 1999, but rose again to over 50% in 2002.

Table 5: Orange quota filling rates (orange exports in % of quota)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Morocco	132	106	91	86	59	54	39	35	33	26	26	21	25	46
Israel	32	33	23	17	28	58	57	47	35	27	27	15	12	12
Cyprus	-	-	-	-	-	-	38	25	18	16	19	21	19	19
Egypt	279	347	264	92	184	105	61	54	50	68	95	170	195	114
Tunisia	75	69	72	73	73	64	45	69	61	69	61	61	48	53
Average	130	139	113	67	86	70	48	46	39	41	46	58	60	49

Sources: Eurostat (various issues), European Union (various issues), own calculations.

Overall, while TRQs and EPQs for oranges originating in the MED countries were increasing following their introduction, the MED countries' orange exports to the EU were decreasing (Figure 2). Therefore, the quota filling rate has fallen for most MED countries and the unweighted average quota filling rate has been 60% or less for all years since 1997.

4 Discussion of results and conclusions

The comparison of the import price for oranges originating in the MED countries with the EU MFN entry price shows that the former is about 40% higher than the latter on average. Furthermore, at least 72% of EU orange imports during the EU orange harvest season enter the EU tariff free. Hence, the contribution of the external market regulation to the protection of EU orange producers is low. In particular, the entry price system for oranges is of little effectiveness.

Concordantly, the analysis of the relation between the import prices for oranges and the EU

preferential entry price reveals that preferential entry prices are not utilized by those countries which are eligible for one. This suggests that the MED countries do not have a comparative cost advantage vis-à-vis their competitors in the EU market, i.e. Spanish orange exporters. Indeed, EU importers report that prices of Moroccan and Israeli orange imports are significantly higher than the import price of Spanish oranges.

Besides, although orange quotas increased from 1991 to 2003, actual exports from MED countries and thus quota filling rates have decreased over the same period. This indicates that the quantitative limitations of tariff and entry price reductions (TRQ and EPQs) are largely redundant. Thus, EU trade preferences for oranges are not decisive for the development of the MED's orange exports to the EU.

This implies that the liberalization of orange trade between the EU and the MED countries, which could be realized in the course of the ongoing Barcelona Process would induce few, if any, trade effects. Existing marketing standards for citrus fruits specifying minimum requirements regarding e.g. fruit size, external appearance, uniformity etc. would prevent inexpensive, low quality produce from entering the EU market, even if the EU entry price system were removed.

Finally, the improvement of market access for Spain and Portugal due to their EU accession occurred almost parallel to the enhancement of preferences for the MED until 1993. This supports the conclusion that the development of trade preferences for the MED compared to market access conditions for Spain and Portugal was not decisive for the development of the MED's orange exports to the EU up to 1993. Hence, factors beyond trade policy, such as transportation costs or quality, would appear to have caused the decline of the MED's orange exports to the EU.

Yet, as the results for mandarins demonstrate, these results cannot be generalized, not even for citrus fruit imported from the MED countries. It is highly probable that the removal of the

entry price for mandarins would result in a decrease of the average EU import price level. Table grapes, however, provide a second example for which the SIV of imports from the MED is far above the EU entry price, and thus the entry price system is of little effect.

The conclusion that large parts of the EU external trade regime for oranges are redundant will potentially be amplified by the current round of trade negotiations in the WTO. Negotiations on market access will probably result in significant tariff reduction rates which would also apply to the specific tariffs which are part of the EU's entry price system. In implementing the results of the Uruguay Round, the EU reduced entry prices by the same monetary amount as specific tariffs – an approach which could be repeated and would thus further diminish the relevance of the EU entry price system.

In the light of the low effectiveness of the EU import regime for oranges along with high transaction costs involved in its administration and further development, the unlimited and free access of the MEDs to the EU orange market could be considered as an alternative. This may be extended to grapes and possibly to other fruits and vegetables. In addition, the abolition of the entry price system for some products would reduce the incidence of a clear non tariff barrier to market access which has survived the Uruguay Round process of tariffication, but which is in clear conflict at least with its spirit.

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