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EUROPE AFTER 1992 AND IMPLICATIONS FOR FRESH PRODUCE FROM ISRAEL

by

ALAN SWINBANK

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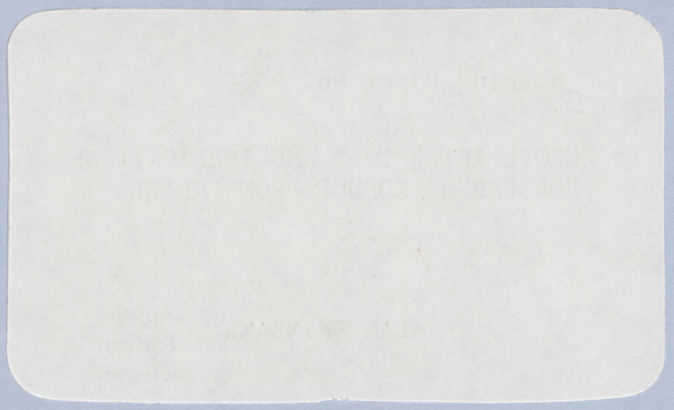

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EUROPE AFTER 1992 AND IMPLICATIONS FOR FRESH PRODUCE FROM ISRAEL

Alan Swinbank
Professor of Agricultural Economics
University of Reading

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the Hebrew University of Jerusalem,
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Department of Agricultural Economics and Management
University of Reading
4 Earley Gate
Whiteknights Road
Reading RG6 2AR
United Kingdom

Tel: 0734 318967
Fax: 0734 314404

The planned completion of the EEC's internal market by 31 December 1992 is but one of a number of policy issues which could affect the EEC's trade in farm and food products with the Mediterranean states in coming years.[1] Indeed, it may well be that '1992' has little effect; and that some of the other policy pressures come to dominate the EEC's trade relations with its Mediterranean partners. In brief, in addition to '1992', the main policy uncertainties at the moment relate to:

i) completion of the transitional period of the Iberian Enlargement, in 1996; and the consequent adjustments to the various trade agreements the EEC has with the Mediterranean states;

ii) the outcome of the GATT[2] negotiations, due to be completed in Brussels in December 1990;

iii) relations with Eastern Europe; particularly the expected unification of the two Germanies after the planned elections in East Germany on 19 March 1990; and

iv) continued budgetary pressure to 'reform' the common agricultural policy; though offsetting this is the view that a substantial 'reform' of the CAP would be premature until the potential impact of the feared 'green-house effect' can be more adequately assessed.

The items in this list are not mutually exclusive: indeed they interact. CAP 'reform', for example, is closely linked to the GATT negotiations. This paper concentrates on '1992', but also pays considerable attention to the after-effects of the Iberian Enlargement

'1992'[3]

It always was the intention of the EEC's Member States, as expressed in the Treaty of Rome, to create a common market which would involve *inter alia*:

"(a) the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect;

(b) the establishment of a common customs tariff and of a common commercial

1. There are three European Communities: the European Economic Community [EEC], the European Atomic Energy Community [EURATOM], and the European Coal and Steel Community [ECSC]; with -since 1965- a common Council, Commission, Parliament and Court, styled the *Commission of the European Communities* etc. Most of the policies referred to in this paper, and in particular the common agricultural policy [CAP], have as their legal base the EEC Treaty. Similarly, the free trade agreement with the State of Israel involves only the EEC and not the broader 'European Communities'.

2. The General Agreement on Tariffs and Trade.

3. This and following sections inevitably draw on the author's earlier writings on '1992'; in particular Swinbank, 1990a & 1990b.

policy towards third countries;
(c) the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital;
(d) the adoption of a common policy in the sphere of agriculture; .....
(f) the institution of a system ensuring that competition in the common market is not distorted; .....
(h) the approximation of the laws of the Member States to the extent required for the proper functioning of the common market; ....." [Article 3 of the EEC Treaty].

The EEC Treaty went on to specify that the common market was to be established over a transitional period of twelve years, which could be extended to fifteen years. Thus the transition should have been completed by 31 December 1972 at the latest. In practice, for a variety of reasons, this ambitious schedule could not be met; and it was only in the mid 1980s that popular opinion and political expediency apparently coalesced to generate a new momentum to complete the common market. Thus, in the Single European Act which amended the EEC Treaty, the Member States agreed to the declaration that:

"The Community shall adopt measures with the aim of progressively establishing the internal market over a period expiring on 31 December 1992 .....
The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty." [Article 8A of the EEC Treaty].

Quite what the phrase "an area without internal frontiers" implies is still the subject of some debate in the Community, with some insisting that it does literally mean no border controls or customs posts on the boundaries between Member States; and others, equally firmly, that the phrase should be interpreted in an economic, and not a physical sense. The latter would argue that border checks must be maintained whilst there remains the risk of the spread of infectious plant or animal diseases; and that border controls remain the most efficient means of intercepting the movement of terrorists.

Equally diverse opinions exist as to the level of coordination of economic policies that will be necessary as a consequence of '1992': does '1992' require the harmonisation of consumer taxes, social policy, monetary union? Even when one considers the elimination of more conventionally recognised non-tariff barriers to trade in goods and services, it is not entirely clear that <u>all</u> the remaining barriers can be swept away in the next three years.

However, to concentrate on these negative aspects of '1992' can mislead. '1992' is not so much a date as an ideal; and the Community is steadily moving towards a more integrated, and competitive, economic space. Indeed, the more relevant issue now

relates to the geographical spread of that integrated economic space. Will it embrace new Member States, besides East Germany; for example: Austria, Hungary, Norway, Cyprus? And if not members of the Community, will other EFTA[4], East European and Mediterranean states nonetheless be partners in a wider economic space in which all barriers to trade in manufactured goods and services, but not farm and food products, are eliminated?

It would also be inappropriate to think of 31 December 1992 as a watershed, as some do: with a fragmented market existing before that date, and a flawless single market coming into being on New Year's Day 1993. Since the signing of the EEC Treaty in Rome on 25 March 1957, the single market has been progressively created; and for many products that process was completed years ago. What is new about the present situation is that the rate of adoption of integration measures has speeded up as a consequence of a renewed political and commercial enthusiasm for the single market, new voting procedures in the Council of Ministers under Article 100A of the EEC Treaty, and the political appeal of the target date.

Cassis de Dijon and the Mutual Recognition of Standards

Completing the internal market has always involved two mechanisms: first the adoption of common policies at Community level, and the harmonization of national rules and regulations particularly those concerned with standards. And second, rulings of the European Court which have swept away barriers to intra-Community trade judged contrary to the provisions of Article 30 of the EEC Treaty. This prohibits "Quantitative restrictions on imports and all measures having equivalent effect" unless they can be justified, under Article 36, "on grounds of public morality, public policy, or public security; the protection of health and life of humans, animals or plants; ....." provided such prohibitions or restrictions do not "constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States."

For the first twenty years of the Community's existence, however, it was in the main through legislative action that efforts were made to establish the common market. Attempts to eliminate non-tariff trade barriers, arising for example from divergent national regulations relating to processed foodstuffs, were frustrated by the practical difficulty of securing the requisite unanimous agreement of the Council of Ministers [under Article 100 of the EEC Treaty] and the understandable opposition of EEC citizens to a process under which, it was feared, products produced to distinctive national formulations would be replaced by bland concoctions, such as Eurobread and Eurobeer, which would please no-one.

The turning-point in this process came in 1979 with the *Cassis de Dijon* judgement of the European Court.[5] An attempt had been made to sell this French-made

4. European Free Trade Area.

blackcurrent liqueur in West Germany, where it had fallen foul of German regulations specifying a *minimum* alcoholic content for liqueurs which Cassis de Dijon did not meet. The Court decided that the German ban on the sale of this product, which had been lawfully produced in another Member State, was excessive and thus was in breach of Article 30. Consumer protection interests could be adequately met if the product carried a label specifying its alcohol content.

Flowing from *Cassis de Dijon*, and a succession of similar rulings involving food and drink products, comes the concept of 'mutual recognition' under which Member States are now expected to admit for sale on their own territory products

> "lawfully and fairly manufactured and sold in any other Member State, even if such products are manufactured on the basis of technical specifications different from those laid down by national laws in force in so far as the products in question protect in an equivalent fashion the legitimate interests involved" [Commission, 1988, p. 24]

'Mutual recognition', coupled with EEC food legislation limited to provisions "relating to public health, the protection of consumers, fairness of commercial transactions and environmental protection", concerning in particular 'horizontal' measures "covering such aspects as food additives, pesticide residues, materials and articles in contact with foodstuffs, certain manufacturing and treatment processes and the labelling, presentation and advertising of products" is now the Commission's preferred route to completing the internal market.[6] [Commission, 1989; p. 3] If Member States are unwilling to accept products onto their market, then a judgement in the European Court could be sought to force access. But recourse to 'mutual recognition' is not without its problems, not least for Third Countries.

First it should be recognised that a Court ruling along *Cassis de Dijon* lines does not over-turn domestic law, which would continue to regulate sales of goods produced and sold in the country concerned, and imports from Third Countries. Such judgements only apply to goods lawfully produced in another Member State; and Third Country suppliers could not use the European Court to gain access to a protected market. Indeed, an unwillingness of the Member State to repeal its domestic legislation following an adverse ruling in the European Court could place both Third Country and domestic suppliers at a competitive disadvantage vis-a-vis producers in other Member States because of a requirement to meet more stringent, or restrictive, national rules.[7]

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5. Judgement of 20 February 1979 in Case 120/79, ***European Court Reports***, 1979, p. 649.

6. However, several sectoral measures are also proposed, for example defining 'organic' produce.

7. Note, however, that the arrangements can also discriminate between manufacturers located in other Member States, because their products must meet the legislative provisions of the country of manufacture.

When the European Court decided that Germany had to allow imports of milk substitutes from other Member States, the German Government apparently took the decision that their legislation would not be amended; thereby consciously placing German and Third Country manufacturers in a position under which they were not able to compete with the imported products from other EEC Member States. [see ***Agra Europe***, 24 November 1989, p. N/2]

'Mutual recognition', then, is hardly a harbinger of a single market: it is a measure giving rise to market access for preferred suppliers, but it does not guarantee equal access to the market for all potential suppliers. Whether such an outcome is compatible with the EEC's international obligations in GATT is debatable; but it would appear that the net effect of the arrangements is to discriminate against Third Country suppliers. Under existing arrangements, for example, the UK forbids the irradiation of food, including fruits and vegetables, except for use in hospitals. Arguably, under the 'mutual recognition' formula, strawberries lawfully irradiated in another Member State could be sold in the UK; but strawberries irradiated in Israel or another Third Country, in the UK, or in any other Member State that itself did not permit the irradiation of strawberries, could not.

Despite this example cited against Britain, the UK is in fact in favour of the Commission's stand on 'mutual recognition'. Other Member States have been less enthusiastic. For example France, referring to the generic names, or trade names, of ordinary foodstuffs has argued

> "The Member States have drawn up rules governing production and composition with a view to organizing the marketing of these products and ensuring that the consumer is well-informed. These rules may vary from one State to another. Mere mutual recognition would on the one hand lead to the consumer being deceived with regard to the characteristics of an everyday product and on the other hand give rise to serious distortions of competition between producers in various countries." [French Government, 1989, Annex 1]

It is perhaps not too fanciful to suggest that 'mutual recognition', through a sort of domino effect, will eventually lead to more EEC legislation, not less. Member States with more restrictive legislation which cannot be justified in the European Court will encounter local manufacturers lobbying for a removal of laws that place them at a competitive disadvantage with respect to their competitors in other Member States; and this could lead to a downward, competitive, spiral in legislative standards until the EEC was forced to intervene to establish minimum EEC-wide provisions. Nonetheless, 'recipe' law and compositional standards do seem set to be replaced by an increased reliance on improved labelling.

Plant and Animal Health

As was noted earlier, the free-trading provisions of Article 30 of the EEC Treaty are tempered by the need to protect the health and life of humans, animals and plants; and it is indeed with respect to veterinary and phytosanitary controls that some of the more profound problems of establishing a genuine single market are to be found. Given the geographical, and climatic, spread of the Community, and the fact that some Member States are isolated by sea from their mainland partners, it is not surprising to find that plant and animal diseases endemic in one region are absent in another. Under such circumstances, restrictions are likely to be placed on the free movement of animals and plants, and also meats, milk, and fruit and vegetables, from one region to another.[8]

The Commission's unwillingness to countenance any border controls in the single market, combined with a reluctance on the part of the disease-free countries to accept the validity of quarantine arrangements in infected zones,[9] has led to a renewed and ambitious attempt to eradicate certain diseases from the Community. The stricter standards would then apply to all imports from Third Countries; not just to those destined for the regions previously free of disease. Many Third Countries, certainly those with an infected stock, could find difficulty in meeting the higher standards, and might regard the EEC's actions as unjustified protectionism. Certainly, in the past, there have been suggestions that the African beneficiaries of the ACP[10] arrangements on beef imports into the Community have seen the value of those concessions substantially reduced by the need to meet the EEC's stringent veterinary regulations, particularly with respect to food and mouth disease.

Similar concerns arise with respect to pesticide and hormone residues, and on animal welfare grounds. European food markets, certainly in the UK and other 'northern' Member States, show an increasing fastidiousness with respect to the food supply. Eggs are not simply judged on their size, colour, taste and freshness; but also on the basis of the conditions under which the hens that laid them were kept; and the market for 'organic' produce is growing throughout northern Europe.

Consumer concerns about residues or other contaminants, even when unsubstantiated by scientific bodies, are likely to lead to EEC bans on the use of such substances, protecting the commercial interests of local producers. Third Country suppliers tend to

8. A graphic current example of the problems raised relates to BSE [bovine spongiform encephalopathy], or 'mad-cow disease' in the UK. The fear has been expressed that the disease could be transmitted to man, and various control measures are in force. In particular the EEC has banned the movement of live animals from the UK to other Member States; but West Germany has gone further in banning the import of beef and veal originating in the UK, in apparent contravention of EEC law. [see for example ***Agra Europe***, 26 January 1990, p. P/5]

9. See for example the discussion in House of Lords, 1989.

10. African, Caribbean and Pacific states linked to the EEC through the Lomé Convention.

view such measures as protectionist devices, as is evident in the current trade dispute between the USA and the EEC over the latter's import ban on beef grown with the aid of naturally-occurring hormones.

Despite the Commission's protestations that the single market programme will lead to a less protectionist, not a more protectionist, Europe, it is difficult to see how this can be in a single market which attempts to satisfy the food concerns of all its constituent parts.

Potatoes and Bananas

Similarly, when it comes to CAP policy mechanisms, it is difficult to see that the transition to a single market will be achieved without increasing the level of protection afforded EEC agriculture: indeed, in the case of beef and veal, and mutton and lamb, the support mechanisms which had applied in the UK, involving in essence a deficiency payments system, are being phased out so as to introduce EEC-wide support systems and eliminate the need for the 'claw-back' of subsidies, paid on the slaughter of animals in the UK, when their carcasses are then shipped to other Member States. These revised support arrangements involve the introduction of new import barriers on Third Country trade into the UK, despite the 'stand-still' agreement on agricultural protection, entered into in the GATT Uruguay round.

In other sectors national import controls are still in operation despite the existence of common support measures. Thus, for fruit and vegetables, Member States are entitled to maintain their own quantitative import restrictions on melons, table grapes, tomatoes, artichokes and apricots for example, provided such national measures were in force prior to the application of the common policy and the provisions have not subsequently been made more restrictive.[11] (Such import restrictions can only be applied against Third Country sources; the Community's free-trading rules effectively outlaw restrictions on products originating within the Community.) For example, among a number of other products and origins, France restricts imports of tomatoes from Israel: from 15 May to 31 October there is an import ban, and from 1 November to 31 December, minimum import prices apply.[12]

The maintenance of national import restrictions against products from Third Countries in a '1992' context is inconceivable, for after '1992' products could enter the protected market via a partner Member State which did not place quantitative controls on imports. The debate, in the Community, has centred on access for Japanese-made cars; but the same problems and principles apply for other products. If Member States are to be

[11]. See pp. 24-25 of Ritson & Swinbank, 1986. Much of the discussion concerning fruit and vegetables, and in particular reference prices, in the present paper derives from work jointly carried out with Professor Christopher Ritson of the University of Newcastle upon Tyne.

[12]. Annex III to Regulation 1035/72, as reported in ***CAP Monitor***, updated 3.11.88.

persuaded to remove their own import restrictions they might seek to gain some compensating protection from imports through an extension of Community border protection measures. Thus, in 1981 for example, when the Commission sought to abolish national import restrictions on fruit and vegetables, the 'bribe' offered was an extension of the reference price system. Reference prices are minimum import prices applied by the Community for certain fresh fruits and vegetables, and some other products. They will be discussed more fully below.

Thus Third Countries face a varied prospect, depending upon their product mix and the particular national import restrictions they currently face. For some products they may gain easier access to EEC markets as national restrictions are removed; whereas for other products they may face more restricted access as new Community measures are introduced.

Most, but not all, products listed in Annex II to the EEC Treaty, and thus eligible for EEC price support under the CAP, do in fact benefit from CAP support mechanisms. The main exceptions are ethyl alcohol, bananas and potatoes. '1992', if it literally means an area without internal frontiers, does put greater pressure upon the Community to adopt common support measures for these products. A number of Member States, for example, tightly regulate their domestic markets for bananas: in the case of the UK this is to ensure that high cost Caribbean production can be sold in the UK, and in the case of Spain to secure an outlet for fruit from the Canary islands. [see Swinbank, 1987] If a single market for bananas is to be achieved, and if traditional suppliers to the European market are not to loose their privileged access, it is difficult to see how this can be done without adopting a protectionist CAP policy for bananas.

The EEC's attempts to introduce a CAP support mechanism for potatoes date back to 1975. [see Ritson & Swinbank, 1986, pp 30-31] Although main crop potatoes would be covered, new potatoes are the main traded product and raise the more important policy questions. Mediterranean countries, including Israel, are the Community's principal suppliers; and the political sensitivity of the crop is indicated by the fact that the EEC has established a working party, chaired by the Commission, and composed of representatives from the main Mediterranean exporting countries, the purpose of which is "to draw up indicative export timetables designed to prevent deliveries being concentrated around sensitive periods for the Community market".[13] In short, the working party is expected to conclude 'voluntary export restraint' [VERs] agreements with the EEC's main suppliers.

A common CAP policy for new potatoes would almost certainly involve the

[13]. Joint declaration attached to the "Fourth Additional Protocol to the Agreement between the European Economic Community and the State of Israel", ***Official Journal of the European Communities***, L 327, 30 November 1988.

introduction of reference prices, as in the 1975 proposals, but ought also involve the removal of various national import control measures currently applied against Third Country imports. Whether a 'common' support regime for new potatoes, involving a protective reference price mechanism, would be more or less protective than the present mixture of national measures and the VERs agreed in the potato working party is difficult to say: my guess is that it would be.

Green 'Money' and Reference Prices

The main '1992' question of concern to CAP analysts relates to the future of the green 'money' system.[14] Because the conversion rates used to convert EEC support prices denominated in European Currency Units [ECUs] imply cross exchange rates between EEC currencies which differ from real exchange rates, intervention prices and the like are not common. To safeguard the integrity of these differing national levels of farm price support, border taxes and subsidies have been introduced on intra-Community trade. These border taxes and subsidies, somewhat euphemistically known as Monetary Compensatory Amounts [MCAs], are clearly incompatible with the idea of '1992'; and a good deal of thought is being given to how they can be eliminated permanently from 1 January 1993.

MCAs, and their elimination, might be thought of as a purely internal preoccupation, with few implications for Third Countries. This, however, is not the case; for the manner of their elimination will help determine the level of border protection, even for products such as fruit and vegetables for which MCAs do not apply.

The problem stems from the fact that, following an appreciation of an EEC currency, support prices in that country ought to fall if common CAP pricing is to be maintained. Prior to 1984, Member States which had resisted the fall in national prices consequent upon their currencies' appreciation introduced MCA taxes on imports and MCA subsidies on exports: the so-called 'positive' MCAs which proved extremely hard to eliminate. After 1984, following the introduction of the 'switchover' mechanism, the problem was shifted: as a consequence of re-defining the common price level, through the introduction of a new variable the green ECU, positive MCAs were automatically translated into negative MCAs for all other countries.[15] In the absence of a firm contrary indication, the supposition must be that the same or a similar mechanism will be used to eliminate MCAs after 1992.

The net effect of these arrangements is inflationary, for in the absence of off-setting measures, MCA elimination is premised on harmonization of pricing at the highest level pertaining in the Community. The effect of the system can be gauged by the fact that the

14. On green 'money', MCAs and the 'switchover' mechanism see Swinbank, 1988.

15. This is a simplified explanation. For details see Swinbank, 1988.

coefficient used to determine the green ECU now stands at 1.145109.[16] Thus, although for normal commercial transactions, the ECU is currently worth approximately 2.36 Israeli shekels, for CAP purposes the ECU is worth approximately 2.71 shekels.[17] It is this latter rate which is relevant for reference price purposes in the fruit and vegetables sector.

Reference prices, as noted elsewhere, are minimum import prices, and they form an extremely important component of the EEC's protective mechanisms for fruit and vegetables. Reference prices apply to most, but not all, fruits and vegetables produced in the EEC and imported in significant volumes. Their level varies through the season, so that they tend to be set at higher levels at the beginning and end of the EEC's main production period; and they work in conjunction with import duties. Research at the University of Newcastle upon Tyne has tended to support the contention that reference prices are protective [Williams & Ritson, 1987; and chapter 4 of Ritson & Swinbank, 1986]

Prices in wholesale markets, for each product and origin [eg table grapes from Israel] are monitored on a daily basis. From this price quotation, the full rate of the customs duty [the CCT: common customs tariff] deemed to have been paid is deducted, and if the resulting amount [the entry price] is greater than, or equal to, the reference price then the reference price has been respected. If however the calculation shows that the reference price has not been respected then a countervailing charge, equal to the shortfall between the reference price and the calculated entry price for the country concerned, is charged on subsequent imports of the product from the offending country.

The specific features of the EEC's reference price system for fruit and vegetables are likely to generate particular marketing strategies in the supplying countries; but an important point to note is that the reference price is, in effect, denominated in green ECU. Thus, since 1984 and the introduction of the green ECU, the level of border protection has increased by 14% more than any casual examination of ECU prices would imply; and any future realignment within the European Monetary System, generated say by pressures caused by a currency union between the two German marks, will with present arrangements lead to an even higher value for the green ECU.

The Iberian Enlargement

'1992' is not the only policy change that will affect trade in fruit and vegetables in the Mediterranean basin in the 1990s. The Community's enlargement to embrace Portugal

16. Following the devaluation of the Italian lira in January 1990. According to new rules introduced in 1987, the January devaluation should lead to all ECU support prices being reduced by 0.17%. This will be effected by dividing all ECU prices by the coefficient 1.001712.

17. Exchange rates of 19 February, as reported in the ***Financial Times*** 20 February 1990.

and Spain is also highly relevant. These two countries did, of course, join the Community on 1 January 1986; but policies are only to be harmonised over a ten-year period expiring on 31 December 1995.

The arrangements for the two countries differ, but there are common elements such as the splitting of the transitional period into two phases. For Spain, for fruit and vegetables, the reduction in import duties is gradually taking place over the full ten-year period, but from the beginning of 1990 at a faster rate for products subject to reference prices. The first stage of the transition, called the 'verification of convergence phase', during which Spain was expected to adopt marketing measures compatible with EEC provisions, expired on 31 December 1989; and it was only at the beginning of this year that EEC support measures for fruit and vegetables began to be introduced. Similarly, until the end of last year, the reference price mechanism in basically unabated form was applied against produce of Spanish origin; and it is only now that the progressive dismantling of the reference price mechanism is in train.[18] Thus, the full competitive impact of the Iberian Enlargement has yet to be felt by the EEC's Mediterranean trading partners, certainly for fruit and vegetables.

A second point to note is that the EEC's policy on reference prices for citrus fruits was amended in 1982 in preparation for the effects of Spanish membership; and the full impact of this policy change will not feed through into the reference prices for sweet oranges, and easy peelers, until the end of the 1993-94 marketing year. Reference prices for citrus had been frozen at their 1975 levels (less transport costs); and protection to the EEC industry had, in effect, been given by granting subsidies, known as 'penetration premia', on the sale of first-class fruit from one Member State to another. This system had done little to promote the sale of Italian fruit, and reference prices for citrus had little, if any, protective effect.

The prospect of paying penetration premia to the more efficient Spanish industry, however, prompted a review of the policy mechanisms and led to the decision to phase out penetration premia, whilst at the same time seriously augmenting the level of reference prices. For lemons and clementines that process is complete; but for other citrus products (except grapefruit, for which reference prices do not apply) the EEC's trading partners have yet to experience the full force of its enhanced protective mechanisms.

The third change, induced by the Iberian Enlargement, which is underway relates to the fact that the EEC's Agreements with each of its Mediterranean partners have been amended, and the revised provisions are being introduced over a period over a period expiring on 31 December 1995. Thus for example, the revised agreement with Israel which came into force on 1 December 1988, involves the gradual reduction of the

[18]. For details see chapter 5 of Ritson & Swinbank, 1986.

EEC's tariff to zero, within tariff quotas, on a range of fruits and vegetables specified in Annex A of the Fourth Additional Protocol.[19] The arrangements for Israel are similar to those introduced for other Mediterranean states, though the product coverage, and the quantities involved, do differ.

As with the other Mediterranean States, this tariff dismantling follows the timetable and phasing established by Spain's transition: if existing customs duties are already lower than those applied by the Community to Portugal or Spain, phasing out of the duty shall only begin "once the duty on that product from both Spain and Portugal has fallen below that applied to imports originating in Israel". [Article 1(2)]

For a few products, reference quantities rather than tariff quotas have been fixed. Thus, for example, the reference quantity for avocados from Israel is 31,000 tonnes. The EEC retains the right to limit the tariff concessions on such products by imposing tariff quotas if trade flows exceed the reference quantities; so they really amount to the same thing. On roses and carnations, Israel has agreed to respect minimum import prices: a new VER.

For a number of products on which import duties are to be eliminated, within tariff quotas, by 31 December 1995, reference prices apply. However, it should not be supposed that tariff reductions allow preferred suppliers to price more competitively on the EEC market, for the reference price system ensures that this is not so. In checking whether or not the reference price has been respected, it is the full rate of the CCT, not the reduced rate, which is deducted from wholesale market prices. In the EEC's somewhat confused jargon, preferred countries are allowed an 'economic' but not a 'commercial' advantage on their sales to the Community, in that their unit export receipts are enhanced by the extent of the tariff concession. [see Swinbank & Ritson, 1988, for further examples]

However, for a limited number of products, the Community has agreed to change these arrangements so as to allow the Mediterranean States to sell at lower prices in Community markets. From 1990 on, the Community may at its discretion adjust the entry price calculations for, in the case of Israel, up to 293,000 tonnes of oranges, 14,200 tonnes of mandarins and other easy peelers, and 6,400 tonnes of lemons: quantities which in fact correspond to the tariff quotas established in the Fourth Protocol. [see Table 1]

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[19]. See footnote 13.

Table 1: Reference Price Concessions for Israel

CN code	Product	Fourth Protocol 1,000 tonnes	1990 concessions 1,000 tonnes
ex 0805 10	Oranges, sweet	293	281
ex 0805 20	Clementines, mandarins and similar hybrids	14.2	13
ex 0805 30 10	Lemons	6.4	6.4

Source: Fourth Additional Protocol; and Commission Regulation (EEC) No 3982/89 of 20 December 1989 altering the entry price for citrus fruit originating in certain Mediterranean third countries, **Official Journal of the European Communities**, L 380, 29 December.

For 1990, the Commission under the Management Committee procedure, has in fact implemented this provision; though for somewhat smaller quantities than could have qualified. [see Table 1]. For 1990, in calculating whether or not the reference price has been respected, the amount to be deducted from the wholesale market prices is to be 5/6ths of the full rate of duty [Article 1 of Reg 3982/89], exactly in line with the arrangements in force for Spain in 1990.[20] Cyprus, Egypt, Morocco, Tunisia and Turkey are also beneficiaries, under the same arrangements. For quantities in excess of the volumes recorded in the last column of Table 1, the normal arrangements for calculating the entry price will apply. This could require a discrete increase in the price at which Israeli produce is sold in EEC markets once these quantities have been shipped, if countervailing charges are to be avoided, thus emphasising the importance of having an export marketing board in charge of sales.

Concluding Comments

The EEC has always viewed the Mediterranean as its sea and sphere of influence; and although Mediterranean states may have been somewhat dissatisfied with the terms of their various Association and Trade agreements with the EEC, it is the case that the Community did make some efforts to accommodate the interests of its trading partners. In the agricultural sphere, tariff concessions were granted on a number of products

[20]. The Fourth Protocol refers to the Community deciding "whether to adjust the entry price"; and of the "possible adjustment" being determined "within the limits" specified for a similar procedure laid down for Spain and Portugal [Article 3]. It is therefore interesting that, in its first year of operation, the Commission made maximum use of the concession (though not the quantities); and it remains to be seen whether, in years to come, the Commission intends to follow this precedent and to increase the deduction to 100% of the full rate of customs duty by 1995.

including fruit and vegetables, which in conjunction with the reference price system had the potential for helping high cost producers supply the European market.

Accession of Portugal and Spain to the EEC fundamentally changed the hierarchy of preferences in the Mediterranean; for the two new entrants had not been highly preferred before. Throughout the mid-1980s there was much heart-searching in Brussels, and other EEC capitals, with the aim of devising new trading arrangements with the EEC's Mediterranean Associates which would minimise the disruptions faced by their economies as a result of the Iberian Enlargement; and shift the burden of adjustment onto non-preferred Third Countries. Those arrangements are only now coming to fruition, coinciding with the closing years of the ten-year transitional period negotiated for Portugal and Spain.

Initially, the accession of Portugal and Spain closed the Membership question: the club was full, and an application from Turkey was not taken seriously. Then, however, the '1992' programme led a number of non-EEC European states to reconsider their positions, and in the late 1980s the Membership issue was thrown wide-open again. However, each potential applicant was told to wait until after '1992'. These concerns diverted the Community's attention from the Mediterranean; and, at least as far as the CAP is concerned, from the GATT negotiations.

The present preoccupation within the Community, however, is Eastern Europe. Quite how the Community will evolve in response to this new challenge is uncertain; but it is clear that, although still important, '1992' is no longer the dominant policy concern. '1992' will come, and it will have an important impact on the CAP and the EEC's trade in food and farm products, not least with the Mediterranean states. But it will be the mid to late 1990s before the full effect of these changes will be felt; by which time it is possible, but highly improbable, that the CAP itself will be undergoing major change as a result of agreements reached in Brussels in December 1990 in the closing phases of the GATT negotiations. Consequently, the EEC is unlikely to be willing to pay much heed to trade relations with its Mediterranean associates until the late 1990s.

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