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DISCUSSION PAPER

Department of Agricultural Economics *and*
Department of Agricultural Marketing

UNIVERSITY OF NEWCASTLE UPON TYNE

Department of Agricultural Economics

Department of Agricultural and Food Marketing

DISCUSSION PAPER

DP 16

February 1986

Future Prospects of Cyprus Citrus
Exports to the E.E.C.

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Department of Agricultural & Food Marketing

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Helen Williams

February 1986

FOREWORD

This discussion paper reports on a study carried out under the Co-operation Agreement between the Department of Agricultural and Food Marketing at Newcastle University, and the Planning Bureau, Government of Cyprus. Under the Agreement, the Government of Cyprus agrees to finance research projects carried out by members of staff of the University of Newcastle upon Tyne during the summer vacation. "In the first instance; the programme of collaboration will be directed towards exploring, on a commodity by commodity basis, the implications of developments in the Cyprus - E.E.C. Association Agreement, and other relevant developments in the evolution of the E.E.C., on the economy of Cyprus".

The author, Helen Williams, who is a M.A.F.F. financed Department Research Associate, visited Cyprus during August 1985 to undertake a case study as part of her research into "The Impact of Reference Prices on the Marketing of Fruit and Vegetables in the U.K.". This paper views the case of Cyprus citrus exports from the perspective of that Country's interest. However, the conclusions have a wider relevance to the Department's research into the marketing implications of the C.A.P. for fruit and vegetables, and will be assessed from the viewpoint of the U.K. as part of our forthcoming report to the British Ministry of Agriculture.

The main conclusions of the paper are that, although reference

prices are not at present impeding Cyprus exports of citrus to E.E.C. countries, it is likely that increasingly they will do so, and that countervailing charges on E.E.C. imports of Cyprus lemons and oranges could become commonplace. The paper notes that countervailing charges would be applied to all suppliers of Cyprus produce to the E.E.C., not just those suppliers who have been offering lower priced produce. The only way that countervailing charges could be avoided would be the exercise of greater marketing discipline than possible under the current fragmented structure of the export sector. There have already been proposals for the establishment of marketing boards to control Cyprus exports of fruit and vegetables. The advocates of this approach argue that Cyprus produce needs to establish a uniform image of high quality in its export markets and that this cannot be achieved without national discipline in export marketing. However, those suppliers who currently do achieve good prices in the E.E.C. markets by the supply of quality produce understandably do not see a need to change the present exporting arrangements. This study provides new, and in my view, compelling evidence that the introduction of national discipline in export marketing is of vital importance to the future prosperity of all Cyprus exporters of citrus fruit.

Christopher Ritson, Head of Department

February 1986

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FUTURE PROSPECTS FOR CYPRUS
CITRUS EXPORTS TO THE E.E.C.

SUMMARY

1. Citrus production is an important part of Cyprus agriculture and of significance to the Cypriot economy. In 1982 citrus exports accounted for 17.0% of all agricultural exports, and 6.5% of all domestic exports.
2. Within Cyprus, production of citrus products covered by the E.E.C's Fruit and Vegetable Regime (mainly lemons and oranges) has been expanding and increases in the region of 200% are forecast by 1995, due to the continued development of large scale irrigation schemes.
3. Citrus exports have expanded at a similar rate to increases in supply. Production of all citrus rose by 45% in the period 1979-84 whilst exports increased by 40%. Within this general pattern, exports of traditional varieties of grapefruit and oranges have declined relative to exports of lemons. Projections of 1995 export availability show an expansion in the region of 200%.
4. The E.E.C. is the leading market for Cyprus citrus, in particular the U.K., reflecting the traditional links between the two countries. Whilst the U.K. remains Cyprus' single most important market, its significance in terms of proportion of Cyprus citrus exports has been declining. Exports to Eastern Bloc countries can be high but are

sporadic, whilst the Middle East is not an export market of great significance for lemons or oranges.

5. Cyprus citrus export marketing arrangements, overall, are fragmented in comparison to the main competitors of Cyprus in European markets. Exporting organisations include SEDIGEP, large vertically integrated private firms, and smaller export marketing concerns. Currently there is no national citrus brand name or national advertising campaign.
6. Domestic demand for citrus is low due to the limited size of the market. In Europe, demand for the traditional varieties of grapefruit and orange which Cyprus produces is static or declining, whilst the demand for lemons, "easy-peeler" soft citrus, and Ruby Red grapefruit is expanding.
7. Recent amendments to the E.E.C's reference price system for citrus fruits (which establishes a minimum import price to be respected by third country exporters) will result, according to the projections of this study, in real increases in reference price levels - of 42.1% by 1987/88 for lemons and 54.0% by 1993/94 for oranges, implying increased protection for the E.E.C's own citrus producers.
8. A comparison of SEDIGEP orange and lemon wholesale prices in the main E.E.C. markets with current and projected minimum import prices (M.I.P's) shows that, although at present wholesale prices are usually above the M.I.P., the M.I.P. is likely to be infringed in the future as reference prices

rise. This will result in countervailing duties being charged (if more than 30% of supplies are below the M.I.P.) on all subsequent Cyprus citrus exports. The countervailing duty is, in effect, a tax to bring up entry prices to the level of the M.I.P., and its frequent imposition would make importing into the E.E.C, extremely difficult.

9. This scenario could be alleviated if citrus wholesale prices were to increase at the same rate as the M.I.P. Given world demand trends for citrus, the large expansion of production forecast in Cyprus, and the strong competition between Cypriot exporters, this appears very unlikely.
10. Enlargement of the E.E.C. in 1986 to include Spain, which already supplies 40% of E.E.C. citrus requirements, is predicted to increase Community self sufficiency in citrus from 45% to 89%. The gradual removal of barriers on Spanish exports is likely to increase competition in citrus markets. Spanish production is also forecast to expand with adoption of high price E.E.C. internal market support arrangements. Further, the increased bargaining power of Mediterranean countries within the Community may lead to demands for stronger protection against third country suppliers like Cyprus.

11. Options for Cyprus to minimise the impact of these developments include the expansion of alternative, non-E.E.C., markets. SEDIGEP records indicate little price differential between importing centres but the potential of such markets would have to be thoroughly investigated.
12. Currently, negotiations of the second stage of the E.E.C.-Cyprus Association Agreement are underway. E.E.C. proposals for citrus to date centre on maintaining current Cyprus export levels, and if accepted may result in problems for Cyprus of disposing of her projected increases in production.
13. The re-organisation of citrus export marketing via the Fruit and Vegetable Export Project, with the establishment of a Citrus Export Marketing Board thus appears the most viable immediate option. Such a policy would be to the benefit of all exporters because, if increased reference prices result in countervailing duties being triggered by a proportion of lower priced exports, the countervailing charge will be levied on all subsequent exports. A marketing board could implement supply control to ensure that the crucial M.I.P. is respected, direct production towards varieties for which demand is expanding, and undertake a national promotional campaign to secure a price premium for Cyprus' typically high quality citrus produce.

1) INTRODUCTION

Previous consultants' reports (1) to the Cyprus Government have examined aspects of the E.E.C's Common Agricultural Policy and its impact on Cyprus agriculture and fresh produce exports. This short study examines one specific area of E.E.C. agricultural policy, namely the reference price system used to monitor third country (i.e. non-E.E.C.) citrus exports to the E.E.C. In particular, it investigates how recently introduced policy changes in this sector may have potential impacts on Cypriot citrus exports.

A description of the structure and importance of the Cyprus citrus sector, of its potential future production and of the previous and now amended citrus reference price system, set out the background to the project. This study will concentrate on two main citrus products - lemons and oranges - as the other main citrus crop - grapefruit - is not subject to detailed control under the E.E.C's fruit and vegetable policy. The core section brings together these elements to examine how past and likely future Cypriot citrus quantities and prices relate to current and projected reference price levels. Developments which are occurring externally to Cyprus - the accession of Spain and Portugal to the E.E.C. and the current negotiations over revised preferential trading agreements between Mediterranean countries and the E.E.C. - are introduced; events which have the potential to affect citrus markets. To conclude, some suggestions on Cyprus policy for citrus production and marketing, to alleviate the effects of these developments, are put forward.

2) THE CYPRUS CITRUS SECTOR

2.1 Background

Agriculture has traditionally been the most important sector in the economy of Cyprus, although since the country's independence in 1960, the role of agriculture has been declining, with other sectors, such as tourism and manufacturing, becoming of progressively greater importance. In 1981-82 agriculture contributed 10% to gross domestic product, at current factor cost, as compared to 18.7% for 1971-72. Agriculture's contribution to total domestic exports is still high - for the three year period 1980-1982, 34.7% of total domestic exports were of agricultural origin.

The Turkish invasion and subsequent occupation of the northern part of Cyprus in 1974 had a severe disruptive effect on the economy, particularly the agricultural sector, with an estimated 70% by value of the agricultural resources (plantations, irrigated land, machinery) of the country being located in the area occupied.

A wide range of agricultural products are now grown in the Government controlled areas of the island, reflecting disparate climate and soil conditions. The main crops are citrus, deciduous trees, olives and carobs, vines, bananas, vegetables, cereals and animal fodders (See table 1).

TABLE 1

AREA AND PRODUCTION OF MAIN ANNUAL CROPS

Type of Crop	1972		1982	
	Area (ha)	Production (M.Tonnes)	Area (ha)	Production (M.Tonnes)
1. Citrus	12,864	232,585	5,347	127,712
1.1 Oranges	8,174	141,273	1,809	43,180
1.2 Lemons	1,943	36,689	1,769	24,892
1.3 Grapefruit	2,412	50,800	1,407	55,982
1.4 Mandarins	535	3,773	362	3,658
2. Deciduous Fresh Fruit	5,159	23,825	3,554	18,309
3. Deciduous Nuts	9,742	4,547	5,715	2,489
4. Vines	46,230	167,640	33,500	201,168
5. Olives	21,440	20,320	6,030	13,208
6. Carobs	28,140	38,608	8,040	12,801
7. Bananas	87	2,438	415	6,604
8. Main Vegetables	15,732		11,390	
inc. Potatoes	9,112	174,252	8,040	171,704
Melons	1,876	29,261	1,032	26,213
Tomatoes	1,675	24,384	737	22,860
9. Cereals	151,420		51,322	
9.1 Wheat	80,400	81,290	8,422	10,160
9.2 Barley	71,020	81,280	42,880	81,280

SOURCE: Agricultural Survey (Statistics) 1972-1982

Department of Statistics and Research, Nicosia

An important feature in Cyprus' agricultural policy is the Cyprus - E.E.C. Association Agreement, signed in 1973, which establishes preferential trading terms for Cyprus. The Agreement is currently in the first of two stages which, when completed, should be replaced by full customs union between the two parties

(Ministry of Agriculture and Natural Resources, 1984).

2.2 Citrus Production

The citrus sector comprises the production of grapefruit, lemons, oranges and associated hybrid products. In 1983, total citrus production was approximately 120,000 metric tonnes, equal to 0.2% of world citrus production. The importance of the different citrus types in the total citrus production is shown in Table 2. As overall production has expanded, so the proportion of lemons has increased, whilst that of grapefruit, oranges and mandarins has shown some limited decline.

TABLE 2

CYPRUS CITRUS PRODUCTION BY TYPE 1979-1984

Crop Type	1979		1980		1981		1982		1983		1984	
	Prod'n in Tonnes	% of Total Citrus Prod'n	Prod'n in Tonnes	% of Total Citrus Prod'n	Prod'n in Tonnes	% of Total Citrus Prod'n	Prod'n in Tonnes	% of Total Citrus Prod'n	Prod'n in Tonnes	% of Total Citrus Prod'n	Prod'n in Tonnes	% of Total Citrus Prod'n
Oranges (Main varieties)	35,500	35.1	32,000	32.4	40,000	34.9	42,500	33.8	41,500	33.2	51,000	34.8
Lemons	16,400	16.2	16,500	16.7	20,700	18.1	24,500	19.5	29,000	23.2	26,500	18.1
Grapefruit	46,250	45.7	47,200	47.7	50,800	44.4	55,100	43.8	51,200	41.0	64,600	44.0
Mandarins	3,000	3.0	3,200	3.2	3,000	2.6	3,600	2.9	3,300	2.6	4,500	3.1
TOTAL	101,150	100	98,900	100	114,500	100	125,700	100	125,000	200	146,750	100

SOURCE: Agricultural Statistics 1979-1984

Production of citrus is generally concentrated in the coastal plains, and although much is on small fragmented farms, a large proportion takes the form of plantation farming, often owned by large vertically integrated production marketing firms. The major orange variety is Valencia, second in importance being the Oval (or Jaffa), then the Washington Navel. Citrus harvesting takes place between mid-September through to June, with lemons typically being ready to harvest in September, and Valencias the last product to be harvested in the citrus crop.

Previously, availability of water was the critical factor in determining production, but new irrigation projects are helping to overcome this problem. For example, the Paphos Irrigation Project, which has recently been completed, brought forward 10,000 donums of irrigated agricultural land (= 1,340 hectares). Four other major irrigation works are also currently being undertaken, as well as several minor projects (Planning Bureau, 1982).

2.3 Citrus Exports

Table 3 shows the export of Cyprus citrus fruit by type and covers the marketing years 1978/79 - 83/84. From the table it can be seen that:-

- a) Total citrus exports are increasing - Table 2 shows an increase in production of all citrus by 45% in the period 1979-84 whilst exports in this period increased by 40%.

b) As exports have expanded, lemons have become of greater significance proportionately.

TABLE 3

EXPORT OF CITRUS FRUIT BY TYPE (Tonnes)

Type	1978-79		1979-80		1980-81		1981-82		1982-83		1983-84	
	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%
Grapefruit	35925	52	38292	50	40874	52	42683	48	41163	44	45286	47
Lemons	6897	10	12472	16	10675	14	16377	18	20822	22	21542	23
Valencia oranges	20523	30	10510	27	21557	28	24506	27	25735	28	23209	24
Oval oranges	4748	7	4713	6	4016	5	4782	6	3947	5	4404	5
Navel oranges	-	-	313	-	252	-	383	-	370	-	348	-
Clementines	492	1	508	1	509	1	425	1	391	-	312	-
Other varieties	314	-	166	-	308	-	389	-	597	1	773	1
TOTAL	68629	100	76974	100	78191	100	89545	100	93025	100	95874	100

SOURCE: Commodity reports - Ministry of Commerce and Industry.

Tables 4 and 5 show, for lemons and Valencia oranges, the ten principal export markets, which were selected on the basis of total tonnage of imports over the six year period 1979-84. The following issues can be noted:-

a) For both crops, there is high, but declining, dependency on the U.K market. This reflects the traditional economic and political links between the two countries which have remained despite the U.K's membership of the E.E.C.

b) Exports to Eastern Bloc countries are sporadic. In some years these can form a highly significant export market and in other years provide no market at all. For example, in 1979 Cyprus exported no lemons to the U.S.S.R. but in 1982, 38.8% of its exports by weight went to this market.

Sales to these markets are on a consignment basis (or even as part of barter trade). They tend to occur ad hoc, with no conscious marketing policy, and often comprise residual 2nd class produce that the European market would not accept, at - according to traders - significantly lower prices than exports to E.E.C. markets.

c) Within Cyprus there is much talk of developing exports to the oil-rich Middle Eastern nations, but it can be seen that these are not yet highly significant markets for Cyprus citrus.

TABLE 4

MARKET SHARE TEN PRINCIPAL EXPORT MARKETS OF VALENCIES

	1979		1980		1981		1982		1983		1984	
	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%
UNITED KINGDOM	11,615	58.5	14,528	84.2	12,754	57.0	15,055	57.0	16,090	60.9	11,775	50.6
RUSSIA	-	-	-	-	-	-	5,376	20.4	2,347	8.9	4,152	17.8
NETHERLANDS	593	3.0	70	0.4	5,534	24.7	1,046	4.0	1,140	4.3	-	-
YUGOSLAVIA	4,583	23.1	1,546	9.0	380	1.7	1,752	6.6	-	-	-	-
FRANCE	183	0.9	88	0.5	1,727	7.7	1,139	4.3	2,738	10.4	-	-
BULGARIA	-	-	238	1.4	559	2.5	1,520	5.8	471	1.8	1,920	8.3
CZECHOSLOVAKIA	46	0.2	70	0.4	-	-	-	-	2,589	9.8	2,415	10.4
AUSTRIA	44	0.2	104	0.6	720	3.2	32	0.1	-	-	825	3.5
ROMANIA	1,493	7.5	-	-	-	-	-	-	-	-	-	-
HUNGARIA	513	2.7	24	0.1	-	-	-	-	-	-	-	-
OTHERS	777	3.9	579	3.4	721	3.2	480	1.8	1,037	3.9	2,175	9.4
TOTAL	19,847	100	17,247	100	22,395	100	26,400	100	26,412	100	23,262	100

SOURCE: Cyprus Foreign Trade Statistics 1979-1984

TABLE 5

MARKET SHARE IN TEN PRINCIPAL EXPORT MARKETS OF LEMONS

	1979		1980		1981		1982		1983		1984	
	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%	Tonnes	%
UNITED KINGDOM	5,968	47.8	7,093	58.4	7,865	48.7	7,141	39.0	8,793	39.5	7,463	40.9
RUSSIA	-	-	635	5.2	2,616	16.2	7,098	38.8	2,198	9.9	1,661	9.1
BULGARIA	-	-	502	4.1	1,121	6.9	603	3.3	1,870	8.4	1,056	5.8
AUSTRIA	169	1.3	625	5.2	1,298	8.1	-	-	1,518	6.8	1,467	8.0
FRANCE	1,131	9.1	426	3.5	993	6.2	587	3.2	1,391	6.3	-	-
YUGOSLAVIA	1,893	15.1	701	5.8	350	2.1	535	2.9	517	2.3	-	-
EAST GERMANY	-	-	-	-	-	-	-	-	2,116	9.5	957	5.2
SAUDI ARABIA	-	-	7	0.1	-	-	-	-	1,441	6.5	1,577	8.6
LEBANON	-	-	-	-	826	5.1	56	0.3	-	-	1,968	10.8
NETHERLANDS	22	0.2	307	2.5	374	2.3	604	3.3	891	4.0	-	-
OTHERS	3,312	26.5	1,844	15.2	712	4.4	1,687	9.2	1,509	6.8	2,112	11.6
TOTAL	12,495	100	12,140	100	16,155	100	18,311	100	22,244	100	18,261	100

SOURCE: Cyprus Foreign Trade Statistics 1979-1984

2.4 Citrus Export Marketing

Our discussion of export marketing will concentrate on the European markets, due to the intermittent nature of exports to Eastern Bloc countries. The major types of organisation involved in citrus exporting are as follows:-

- a) SEDIGEP (The Agricultural Products Co-operative Marketing Union) - the largest and only nationwide co-operative within Cyprus, marketing other fresh fruit and vegetables too, not only citrus - "18 small primary co-operatives also exist at the village level and when they have quantities of produce for export they use the services of SEDIGEP" (SEDIGEP, 1982).
- b) Large private firms which own plantations, grading and packing facilities, and have specific brand names under which they sell. There are two such major plantations - Lanitis and Phassouri.
- c) Independent smaller export marketing firms.

Table 6 shows the estimated market share of citrus exporters for the 1982/83 marketing year.

TABLE 6

STRUCTURE OF CYPRUS CITRUS SECTOR

Estimated Current Market Share of Exporters

Vertically Integrated Firms (i.e. Production and Marketing)	52%
S.E.D.I.G.E.P.	32%
Export Marketing Firms	16%
	<u>100%</u>

Structure of Citrus Exporting

Estimated Number of Organisations Involved	10
Market Share of Largest Five Organisations	78%
Tonnes Exported (1983)	93,000
Exported per Organisation (1983)	9,300

SOURCE: Ministry of Commerce and Industry.

Export arrangements in Cyprus are fragmented when compared to those of some of her principal competitors in the European markets. For example all citrus exports from Morroco are currently channelled through O.C.E. (Central Marketing Organisation) which can undertake national advertising in export markets (although use of this outlet will no longer be compulsory from June 1986 onwards).

This fragmentation has led to claims (for example, Laurence Gould Consultants Ltd., 1985) that Cypriot citrus export marketing is

inefficient, high cost and unable to provide the quantities demanded by the important and expanding supermarket segment of the market. The lack of a national brand name for Cyprus citrus has meant an absence of national advertising. Further there is concern that any campaign mentioning "Cyprus" per se, just provides free promotion for citrus originating from the occupied sector of the island. In 1982 a major government project was created to try to improve horticultural marketing. The Fruit and Vegetable Export Project has as its main aims "the co-ordination of production and marketing, and the improvement of the facilities and organisation of marketing" (Planning Bureau, 1982).

2.5 The Domestic Citrus Market

Due to the small population of Cyprus, (estimated for 1982 at 646,000 for the whole country) the market for domestic citrus is a residual one, with little export quality fruit sold and, compared to the level of exports, only small quantities are involved (See table 7).

TABLE 7

COMPARISON OF EXPORTS AND DOMESTIC CONSUMPTION (tonnes)

1982/83	Exports	Domestic Consumption
Lemons	20,822	2,500-3,000
Oranges (main varieties)	30,443	7,690

SOURCE: Agricultural Statistics 1982, Import and Export Statistics 1982,83, Laurence Gould Consultants Ltd., 1985 "Fruit and Vegetable Export Project"

2.6 Projections of Cyprus Citrus Production

The previous sections have displayed how citrus production and exports have been increasing and how the sector is organised. In section 4 an examination is made of Cyprus export prices and, in order to gain an idea of likely trends in these prices, it is necessary to make projections of future production levels and export availability.

Two sets of projections are included, the first from a recent consultant's report to the Cyprus Government (Laurence Gould Consultants Ltd., 1985) and the second from a member of staff of the Planning Bureau (2) (See tables 8 and 9, graphs 1 and 2).

TABLE 8

PRODUCTION FORECASTS

Figures in brackets are percentage of 1982/83 production.

	1982/83 Production (Tonnes)	<u>Set 1</u> 1995	<u>Set 2</u> 1995
Lemons	24,500	68,000 (277.6%)	52,580 (214.6%)
Oranges (main varieties)	42,500	75,000 (176.5%)	74,000 (174.1%)

TABLE 9

EXPORT AVAILABILITY FORECASTS

Figures in brackets are percentage of 1982/83 exports.

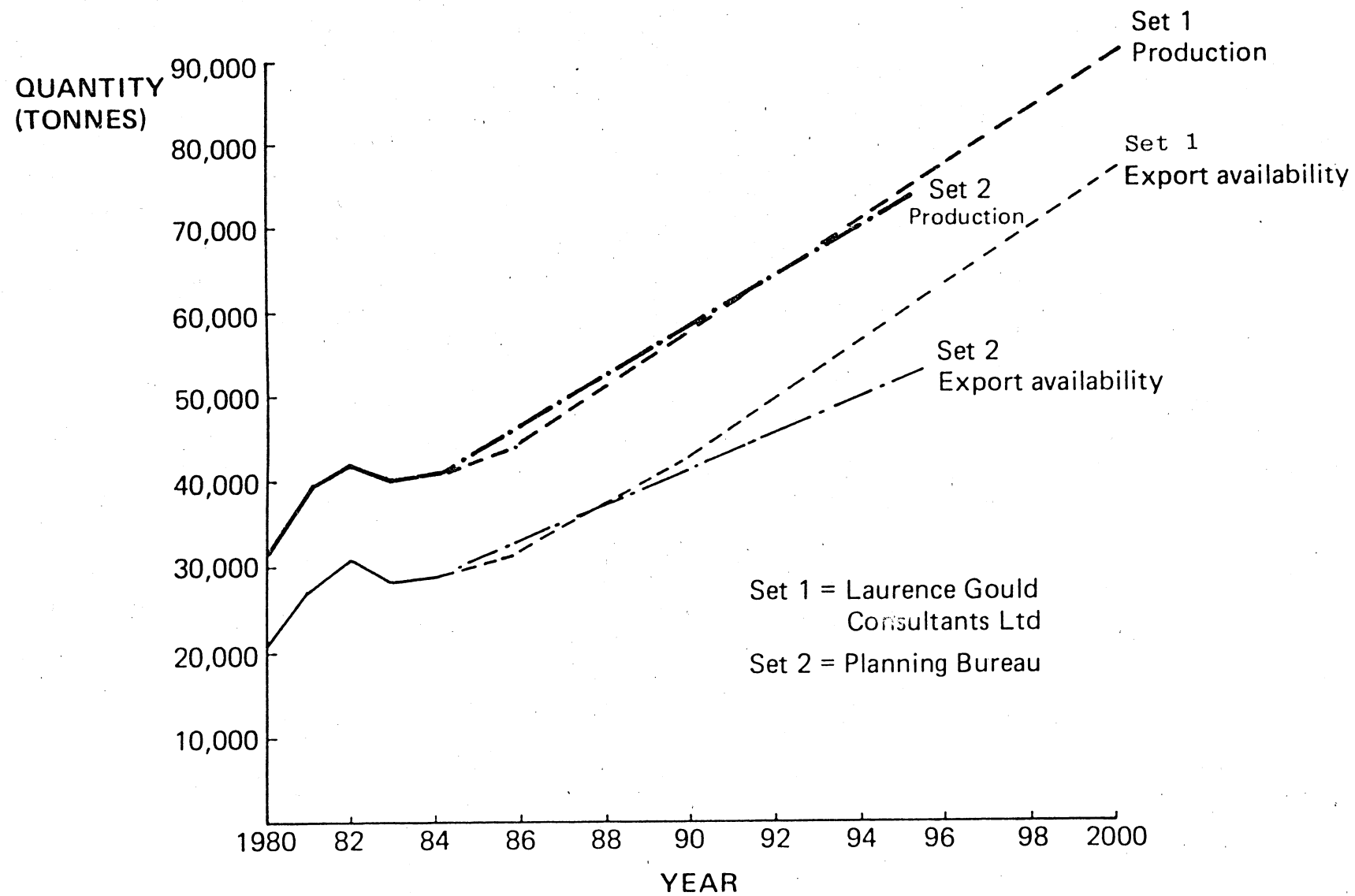
	1982/83 Actual Exports (Tonnes)	<u>Set 1</u> 1995	<u>Set 2</u> 1995
Lemons	20,822	61,000 (293.0%)	44,000 (211.3%)
Oranges (main varieties)	30,443	60,000 (197.1%)	52,000 (170.8%)

Set 1 = Adaptions of Laurence Gould Consultants Ltd.
Set 2 = C. Apostolides, Planning Bureau.

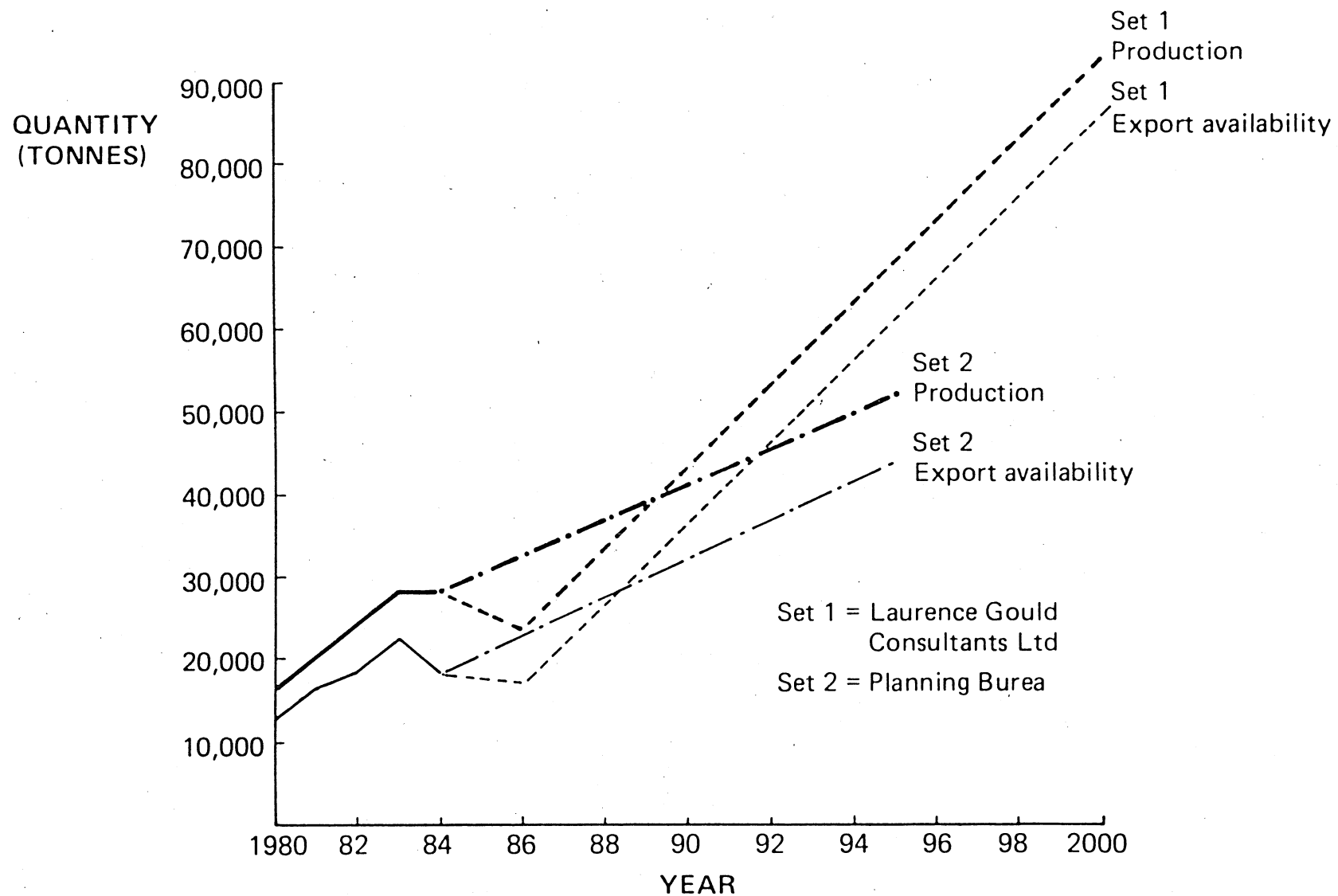
SOURCE: Department of Statistics and Research and Planning
Bureau, and Consultants Estimates.

The first set of estimates assume that all the improvements in
export marketing envisaged by the Fruit and Vegetable Export
Project do take place, and that all the irrigation projects are

CYPRUS ORANGE PRODUCTION AND EXPORT AVAILABILITY
FORECASTS



CYPRUS LEMON PRODUCTION AND EXPORT AVAILABILITY
FORECASTS



completed and fully operational; also, that as production increases, domestic consumption and processing do not increase at the same proportional rate.

The second, more cautious, set of estimates uses yields per annum that have actually been achieved rather than the optimistic figures included in reports of the development of new irrigation schemes. A five year time-lag from planting to actual fruit production is assumed so, for example, 1995 output is dependent on 1990 area of citrus planting. Domestic consumption and processing are assumed to increase pro rata with production, due to the likelihood of increased tourist demand.

On the basis of the optimistic forecasts, production and export availability of lemons is projected to have virtually trebled by 1995. However, even under the cautious forecasts, it is expected to have more than doubled in the next decade and under both sets of assumptions Valencia production and export availability is predicted to almost double.

2.7 Demand for Cyprus Citrus

a) The European Markets

The overall volume of citrus fruit imported annually has been stable in recent years and there are indications that it may show some small decline in the future. Lemon imports have been increasing but the market for oranges does show some decline.

Within Europe, demand is buoyant for some of the newer citrus varieties such as "easy-peeler" soft citrus e.g. satsumas, clementines, and Ruby Red grapefruit. Lemon demand is firm due to their lack of substitutes, particularly within the catering trade. Demand for the more traditional citrus products has suffered, as an ever-increasing range of 'exotic' produce has become available, and as the production season for more conventional fruits has been lengthened. For example, Cyprus has been able to extend her exporting season for table grapes by the use of more advanced production techniques.

b) The Middle East Markets

Exports of citrus from Cyprus to the Middle East are a relatively recent development, and centre on the Lebanon and Saudi Arabia, though total quantities are low. Discussions with traders suggest that this market may be short-lived as the oil-rich nations have invested heavily in domestic production which is beginning to come on-stream, and also that high-cost Cyprus production will be squeezed out by lower cost competitors such as Turkey.

c) The Eastern Bloc

As noted before, trade with the Eastern countries is unpredictable and claimed to be of minimal profitability to Cypriot producers (See tables 4 and 5 for export quantities to individual markets).

3) CITRUS AND THE E.E.C.

3.1 E.E.C. Fruit and Vegetable Policy

Citrus fruits are covered by the E.E.C's fruit and vegetable policy. This was introduced originally in 1968 and is now controlled by the basic regulation 1035/72, which has been subject to a wide range of subsequent alterations. A separate market regulation covers processed fruit and vegetables.

Previous reports (3) have set out the full range of mechanisms employed by the E.E.C. to control and direct markets in fruit and vegetables. Five main elements are included:-

a) The Common Customs Tariff (C.C.T.) applies on all imports from third countries to the E.E.C. This varies by product, by season, and in some cases by country of origin if the exporting country has acquired preferential tariff treatment.

E.g. for sweet oranges between 1-15 May the full rate of C.C.T. is 6% whilst Cyprus has to pay 2.4%, Morocco 1.2% and Spain 3.6%.

b) For 18 products which are of greatest significance to E.E.C. fruit and vegetable producers, a system of reference prices applies. These are covered more fully in section 3.2.

c) On internal E.E.C. markets a provision exists for withdrawing surpluses of products by producer organisations, who pay an E.E.C. determined buying-in price to producers, and who themselves are compensated by the E.E.C..

d) Provision exists for the use of export subsidies on exports of fresh fruit and vegetables to third countries, though to date these have rarely been used.

e) Special mechanisms were used to aid the export of top quality citrus fruit from one member state to another. These were known as marketing or penetration premiums and are described in detail in section 3.3.

3.2 Reference Prices*

Table 10 shows citrus products and periods for which reference prices apply. For citrus, the main crops - oranges, lemons, mandarins, clementines, with the important exception of grapefruit which is not produced in large quantities within the Community - are covered.

TABLE 10

PRODUCTS COVERED BY REFERENCE PRICES

	Period of Applicability
Clementines	1 November - 28 February
Lemons	All year
Mandarins	1 November - 28 February
Sweet Oranges	1 December - 31 May

SOURCE: Official Journal of the European Communities.

Reference prices are fixed each year by the Commission and are intended to protect the internal E.E.C. market and E.E.C. producers from abnormally low prices in the following way. Entry prices of reference price products from third countries are monitored when produce is sold in E.E.C. wholesale markets. If this wholesale market ("entry") price, after the full C.C.T.

* Section 3.2 is based on Ritson and Swinbank (1983)

is subtracted, falls below the reference price by 0.6 ECU/100kg for two successive days, or for three days out of five, for a significant amount (about 30%) of that country's produce, then a countervailing charge is applied. The countervailing charge is, in effect, a tax to make up the difference between the entry price and the reference price, and is charged on all subsequent shipments of that product from the particular third country, until entry prices respect the reference price or no produce from the offending country is observed on sale. Thus the reference price plus the C.C.T acts as a hypothetical minimum import price below which it should not be possible profitably to market imported produce.

Ritson and Swinbank comment on the system as follows:-

"It could, in practice prove quite difficult for an importing country to respect the reference price once countervailing duties have been triggered. A numerical example will illustrate the problem.

Period	1	2	3	4
market price of imported goods in the EEC	120	110	120	130
<u>less</u>				
C.C.T.	20	20	20	20
countervailing duty (if applicable)	-	-	10	10
<u>equals</u>				
notional cif price	100	90	90	100

reference price	100	100	100	100
countervailing duty to be applied to subsequent shipments	0	10	10	0

In period 1 the market price of the imported product is 120, and deduction of the import duty deemed to have been paid (20) shows

that the reference price has been respected. In period 2, however, the market price falls to 110 and the calculation shows that the reference price has not been respected, and so a countervailing duty of 10 will be charged on subsequent imports from this country. In period 3, although the market price has risen to its original level, the Commission's calculation still shows that the reference price has not been respected because the deduction now includes both the tariff and the countervailing duty. Thus the countervailing duty remains in force - indeed had the market price remained at 110 in period 3, the countervailing duty payable on future imports would have risen to 20. In the particular numerical example shown, it is only when the market price rises to 130 that the reference price is deemed to have been respected and the countervailing duty removed.

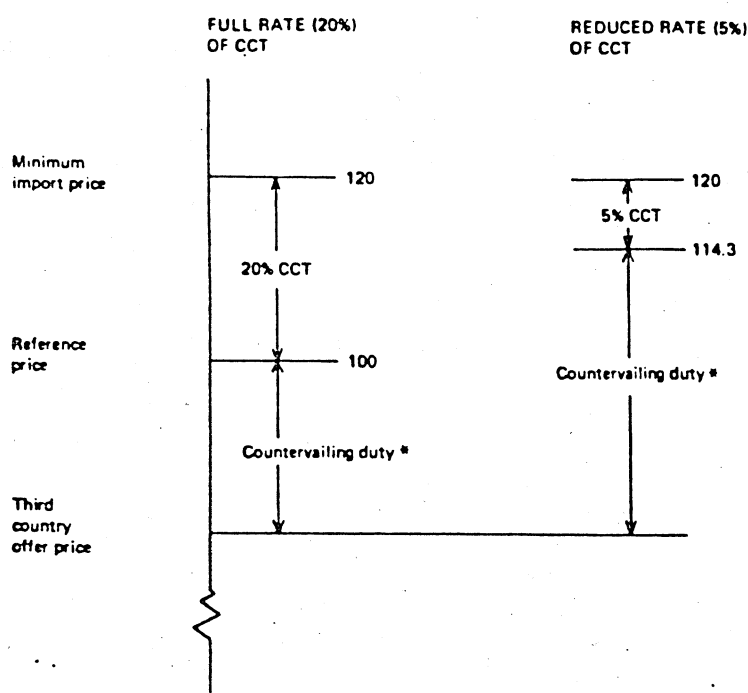
Even when a third country has a C.C.T. concession on the product in question, the calculations outlined in the preceeding paragraph still involve the full rate of the C.C.T. Thus all third countries have to respect the same minimum import price (the reference price plus the full rate of C.C.T.). Consequently a tariff concession on a product covered by the reference price system does not necessarily lead to a price advantage with respect to other foreign suppliers on the E.E.C. market.

Suppose again that the reference price was fixed at 100 and the full rate of the C.C.T. was 20%, (this discussion assumes that products from different sources are identical to the consumers - which is often not the case. The numerical example described in this paragraph is illustrated in table 11) the minimum market

price would be 120. Any supplies with cif costs to Europe of 100

TABLE 11

THE REFERENCE PRICE SYSTEM



* To be applied on next shipment.

SOURCE: Ritson and Swinbank (1983).

or less would supply the E.E.C. market at 120. If the exporting country was unable to control the pricing of its traders and the cif price fell below 100 then a countervailing charge would be applied and the problems outlined above would result: but a

monopoly export marketing board would be unlikely to price at less than 100 cif. For any supplier to Europe with cif costs of more than 100, the reference price system would normally be superfluous, and in competition with lower cost producers the high cost supplier might be driven from the E.E.C. market.

Suppose the reduced rate of C.C.T. to certain trading partners is 5%. The minimum import price is still 120, so any preferential supplier to Europe with cif costs of 114.3 or less will price at 120 in the E.E.C. market (See table 11). Thus the advantage to a preferential supplier is that of a higher export price. In terms of the example given, price competition is inoperative between all suppliers at costs of less than 100 cif, and in addition preferential suppliers are protected at up to 114.3 cif." (Ritson and Swinbank 1983)

The period and length of application of reference prices, as for the C.C.T., varies by product also its level may vary through the season, tending to be higher at the beginning and end of the E.E.C. season to protect high cost out of season E.E.C. producers.

Reference prices are fixed for the first time on the basis of the arithmetic mean of producer prices in each member state plus an allowance for the cost of transporting products between production areas and the representative consumption centres, and taking into account the trend in production costs in the fruit and vegetable sector. For subsequent marketing years the reference price will be set at a level equal to that of the

previous year, minus the previous years transport allowance and plus a percentage corresponding to that of the average production cost trend in the fruit and vegetables sector less a figure corresponding to the growth in productivity.

Upper and lower boundaries to the reference price have been established:- the lower being that the reference price cannot fall in E.C.U. terms below the level of the previous marketing year, and the upper being that the new reference price level may not exceed the arithmetic mean of produce prices in each member state plus a transport cost allowance and a figure corresponding to the trend in production costs in the fruit and vegetable sector less a figure corresponding to the growth in productivity (i.e. calculated by the first method set out above).

3.3 Reference Prices for Citrus

Reference prices for citrus fruits have evolved somewhat differently from those for the main fruit and vegetable products as set out above. The reason for this was the Commission's decision in 1969 (E.E.C. Regulation 2511/69) to introduce special measures to improve the production and marketing of Community citrus fruit. At that time there were serious market difficulties in disposing of E.E.C produced oranges and mandarins, due to unsuitable varieties being produced and competition from third country imports. For marketing, these special measures took the form of a temporary scheme of financial compensation to promote contracts for regular supplies

of Community produced citrus on Community markets. In 1975 the whole scheme was re-assessed and the level of financial compensation increased and no longer tied to contracts. Payments, known as penetration or marketing premiums, were paid when top quality citrus (including now lemons and clementines, as well as oranges and mandarins), produced by Member States, were exported to other Members, to help their placing vis-a-vis third country imports. These penetration premiums were to be changed in value each year according to the trend in the E.E.C. buying-in prices for fruit and vegetables. Transport cost elements were removed from citrus reference prices and included in the marketing premium. In effect this resulted in citrus reference prices being frozen at their 1975 level with any annual adjustments (increases) being made instead to the marketing premium (See table 12).

TABLE 12

EVOLUTION OF LEMON REFERENCE PRICES AND PENETRATION PREMIUMS

Lemons (June)

Marketing Year	Reference Price ECU/100kg net	Penetration Premium ECU/100kg net
1975/76	34.04	5.68
1976/77	29.81	6.06
1977/78	29.81	6.44
1978/79	29.81	6.58
1979/80	29.81	6.68
1980/81	29.81	7.08
1981/82	29.81	7.86
1982/83	29.81	7.86
1983/84	35.56	5.89
1984/85	42.39	5.89

Payment of penetration premiums has been mainly to Italy, and

after her accession, Greece.

However in the early 1980's with the accession of Spain and Portugal to the Community on the horizon, concern arose within the Commission that the budgetary cost of such marketing premiums on Spanish citrus exports (Portuguese levels of citrus production and export are negligible) would be prohibitive; in any case, the system had mainly been designed to enable Italy to compete with Spain as a non-member. Thus in May 1982, the Council introduced amendments to the system.

3.4 Amendments to Citrus Reference Prices

Regulation 1203/82 laid down that penetration premiums for citrus products should be phased out, starting in the 1982/83 marketing year for lemons and clementines. As these financial compensations had been taken into account when determining reference prices - resulting in citrus reference prices remaining at their 1975 level - it was necessary to make provisions for reference prices to increase in the same way as for other fruit and vegetable products once more (i.e. as in section 3.2). For each citrus type, an adjustment period was set out during which the penetration premium would gradually be phased out and the reference price increased to a level to compensate for this. A time scale of the various adjustments is shown in table 13. The intention is that complete adjustment for lemons and clementines will have occurred by the 1987/88 marketing year and for oranges and mandarins by 1993/94.

TABLE 13

CHANGES IN THE PENETRATION PREMIUMS AND REFERENCE PRICES FOR

CITRUS

Grapefruit	Clementines	Lemons	Oranges, Mandarins, Satsumas, Tangarines and other similar citrus hybrids
No penetration premiums or reference prices	Penetration premiums to be phased out over the four marketing years 1983-84 to 1986-87	Penetration premiums to be phased out over the period 1983-84 to 1987-88	Penetration premiums to be phased out over the period 1990-91 to 1993-94
	Transport costs to be progressively added into the reference price calculations over the years 1983-84 to 1986-87	Transport costs to be progressively added into the reference price calculations over the years 1984-85 to 1987-88	Transport costs not to be included in reference price calculations up to, and including, 1989-90. Afterwards they will presumably be included
	A "protective cushion" of 1.44 ecu/100kg to be added into the reference price over the period 1983-84 to 1986-87	No "protective cushion"	Will a "protective cushion" be included?
	Reference prices to be increased by up to 15% over the two years 1984-85 to 1985-86	As Clementines	As Clementines

See Article 23 of Regulation 1035/72

SOURCE: Ritson, Swinbank, Warren (1985).

The procedure for adjustment involves the following elements:-

- a) First, for all citrus products, during the period

1975-1982, transport costs were removed from the actual reference price and instead included in the penetration premium. Now, the formula applicable to other fruit and vegetable products will apply and transport costs will be progressively added into the reference price calculations.

b) Second, citrus reference prices will increase by an arbitrary 15%, spread over the two marketing years 1984/85 and 85/86, to compensate for the fact that reference prices for citrus have not evolved in the same way as those for other fruit and vegetable products.

c) Further, for clementines, it has been agreed by the Council that a "protective cushion" or "buffer" of 1.44 ECU/100kg should be added into the reference price over the period 1983/84 - 86/87.

Speculation exists that such a "buffer" system might also be introduced for oranges when their reference price adjustment begins in 1990 but as yet there is no firm proposal.

d) Whilst these adjustments are being made, the level of the penetration premium will be reduced accordingly, and this is happening already for lemons and clementines.

Table 14 sets out the basic formulae involved in the calculation of the various forms of reference prices,

TABLE 14

REFERENCE PRICE FORMULA

- (1) Method (1) is the usual reference price calculation for non-citrus, and will be the way that citrus reference prices are calculated when their adjustment from the marketing premium system is complete.

$$\text{1986 Reference Price} = \text{the lower of either } a) \left(\frac{\text{1985 Reference Price} - \text{1985 Transport Costs}}{\text{1985 Reference Price}} \right) + \left(\frac{\text{Inflation} - \text{Productivity}}{\%} \right) \% + \text{1986 Transport Costs}$$

$$b) \text{Average 1982-84 Producer Prices} + \frac{\text{1986 Transport Costs}}{\text{1986 Transport Costs}} + \left(\frac{\text{Inflation} - \text{Productivity}}{\%} \right) \%$$

However the outcome must not be lower than 1985 reference price.

- (2) Method (2) is the way that citrus reference prices have been calculated up till 1983.

$$\text{1983 Reference Price} = \frac{\text{1982 Reference Price}}{\text{1982 Reference Price}} + \left(\frac{\text{1982 Reference Price} \times \text{Price fixing}}{\text{1982 Reference Price}} \right) - \left(\frac{\text{1983 Marketing Premium} - \text{1982 Marketing Premium}}{\text{1983 Marketing Premium}} \right)$$

- (3) Method (3) shows how in 1985 the reference price adjustments from system (2) to system (1) took shape in the calculation of the lemon reference price.

$$\text{1985 Reference Price} = \text{the lower of } a) \frac{\text{1984 Reference Price} + \text{Catching up Element } 7\frac{1}{2}\%}{\text{1984 Reference Price}} - \frac{\text{1984 Proportion of Transport Costs}}{\text{1984 Proportion of Transport Costs}} + \left(\frac{\text{Inflation} - \text{Productivity}}{\%} \right) \% + \frac{\text{1985 Proportion of Transport Costs}}{\text{1985 Proportion of Transport Costs}}$$

$$b) \text{Average 1981-83 Producer Prices} + \frac{\text{1985 Proportion of Transport Costs}}{\text{1985 Proportion of Transport Costs}} + \left(\frac{\text{Inflation} - \text{Productivity}}{\%} \right) \%$$

but must not be lower than 1984 reference prices.

SOURCE: MAFF, London, Horticultural Division.

and table 15 shows an actual example of a reference price calculation.

TABLE 15

EXAMPLE OF REFERENCE PRICE CALCULATION - LEMONS JUNE 1984

	ECU/100kg
Reference Price June 1983	35.56
<u>New Minimum Reference Price</u>	
+ 15% arbitrary increase spread over two years $\frac{4.87}{2} = 2.44$	38.00
- Transport Costs for 1983 (but not included in 1983 as reference price adjustment started in 1984) = 0	38.00
+ Increase in Production Costs of 6.5%	40.47
+ Transport Costs for the 1984/85 season - being phased in over four years :- $7.68 \times \frac{1}{4} = 1.92$	42.39
<u>NEW REFERENCE PRICE JUNE 1984</u>	42.39
This New Reference Price is compared to a maximum reference price level determined as below, to ensure it is within the minimum and maximum boundaries.	
Arithmetic mean of producer prices for June 1984 (= average of June 1981-82-83)	40.64
+ Transport Costs for the 1984/85 season = 1.92	42.56
+ Increase in Production Costs of 6.5%	45.33
<u>NEW MAXIMUM REFERENCE PRICE</u>	45.33
As the calculated reference price of 42.39 is between the lower boundary of 35.56 and the upper boundary of 45.33 ECU/100kg it may be enforced.	

SOURCE: MAFF Horticultural Division, London.

3.5 Implications of the Changed Citrus Reference Price System

The modifications to citrus reference prices could affect third countries such as Cyprus, who must strive to respect the

hypothetical minimum import price (reference price plus C.C.T.) to avoid incurring countervailing duties. The following scenarios could be envisaged:-

- a) That third country citrus entry prices are always significantly above the minimum import price.
- b) That citrus entry prices are currently above the minimum import price but the upward drift of reference prices may lead to countervailing duties being charged as entry prices fall below the rising minimum import price.
- c) That citrus entry prices are already at or below the current minimum import price levels and at times incur countervailing duties, so that increased reference prices will lead to higher countervailing duties to be paid over longer periods, making exporting to the E.E.C. more difficult.
- d) That exporters try to take actions to avoid the impact of increased minimum import prices through price control - though this has implications for competitiveness and level of sales - or try to divert produce to non-E.E.C. markets.

3.6 Projections of Citrus Reference Prices

Projections of citrus reference prices for the next ten years were calculated using the formulae established by the Commission (See table 16 and graph 3).

TABLE 16

PROJECTIONS OF CITRUS REFERENCE PRICES ECU/100kg

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	Real % increase 1982/94
Oranges	19.68	19.68	19.68	21.16	22.63	22.63	22.63	22.63	22.63	24.55	26.47	28.39	30.31	54.00
Lemons (in June)	29.81	29.81	29.81	34.17	38.52	40.44	42.36	42.36	42.36	42.36	42.36	42.36	42.36	42.10

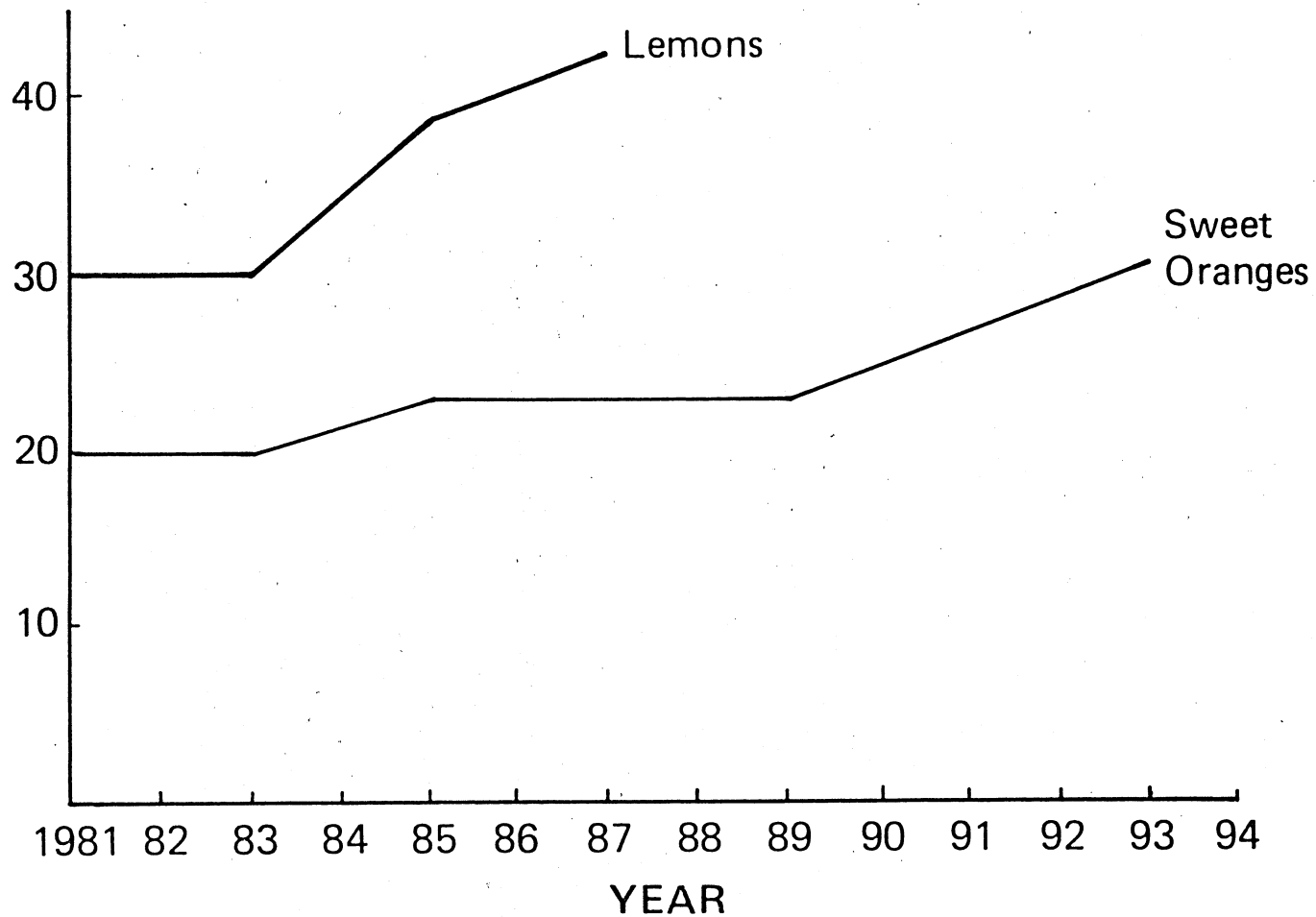
NOTE: Figures exclude any allowance for inflation/cost increases.

The projections do not include any estimates of the inflation/productivity allowance which would in reality be included in the equation. By working in the equivalent of 1984 money and productivity values, an attempt is made to establish the real increase in the reference price - the underlying assumption being that any rise in the reference price due to the allowance for inflation exceeding that for productivity would be offset by a similar development in Cyprus. It was felt that this would be a more helpful calculation than attempting to forecast the inflation/productivity elements applied by the E.E.C. over the ten year period. Actual reference prices introduced therefore may be slightly higher or lower than those shown. This calculation in effect displays the reference price which the Commission would have applied if, in 1984, instead of maintaining the reference price for oranges at 19.68 ECU/100kg and the penetration premium at 15.38 ECU/100kg, they had abolished the penetration premium and carried out fully the proposed

PROJECTIONS OF SWEET ORANGE AND LEMON
REFERENCE PRICES

(Excluding any cost and inflation increases) ☆ Lemons = June

REFERENCE
PRICE
LEVEL
ECU/100 KG



adjustments, resulting in a reference price level of 30.31 ECU/100kg (i.e. a timeless change).

These reference prices were converted to minimum import prices by the addition of the relevant C.C.T. rate and converted from ECU's to Cyprus £'s at the average 1984 exchange rate.

The table shows that in percentage terms the increase in reference prices is very substantial, (54.0% for oranges by 1994 and 42.1% for lemons by 1988), and would, one must deduce, greatly increase the E.E.C's protection of its own citrus producers. For, whereas under the marketing premium system, third country produce could, in theory, enter at relatively low prices but had to compete with subsidised E.E.C. sales, it would now be forced to enter at higher prices.

4) CITRUS MARKET ANALYSIS

In this section, actual Cyprus orange and lemon wholesale prices in the various E.E.C. markets are compared to the prevailing and projected future levels of minimum import prices, to see which of the scenarios set out in section 3.5 most closely represents the situation for Cyprus.

4.1 Wholesale Price Data

The price data used was provided by SEDIGEP (The Agricultural Products Co-operative Marketing Union). It was collected as cif prices received from agents in the main import markets for the marketing years 1981/82 to 1984/85. For each market, details were also collected on transportation, handling, duty and commission charges, so actual wholesale prices received could be estimated, by addition of these charges to the cif price. Prices were converted from the importing nation's currency to Cyprus £'s at the applicable monthly average spot rate.

As was seen in section 2.3, SEDIGEP is responsible for a significant proportion of Cyprus' citrus exports - approximately 32% in 1982/83 - and so it might be assumed that the prices it received would be fairly representative of all Cyprus citrus export prices. However, officials within the Ministry of Commerce and Industry suggested that SEDIGEP's export prices may be somewhat lower than those received by the private exporters for the following reasons:-

- SEDIGEP receives fruit from a wide range of growers and locations and so is unable to achieve the same consistency of produce as a private firm taking produce from its own carefully controlled plantation.
- several of the private vertically integrated production marketing firms have established their own brand names and have supported these with premium quality and grading to ensure higher returns. SEDIGEP too has a brand name in the U.K. - Cypriana - but there is an opinion in the trade that this does not have the same quality image as those of the private firms.

In an interview with the General Manager of SEDIGEP, he refuted the idea of a price differential, but comparison between SEDIGEP prices and a limited series of private exporter prices received for oranges sold in the U.K. showed the private firm's prices being anything from 30 to 300% higher.

As no consistent price series for both oranges and lemons for all European markets could be obtained from a private exporter, the SEDIGEP prices have been used to evaluate potential impacts of the changing reference price level. It must be borne in mind that these prices may reflect the lower end of prices secured for Cyprus produce in wholesale markets. However, given that countervailing duties could be introduced on Cyprus citrus if 30% of its supplies, of say oranges, to the E.E.C. did not respect the minimum import price, and in view of the fact that SEDIGEP sends about one third of orange exports, SEDIGEP supplies at lower prices could alone be sufficient to trigger countervailing duties on all subsequent supplies of Cyprus oranges.

4.2 Comparison of Wholesale Prices and Minimum Import Prices

Graphs 4 and 5 show wholesale prices for oranges (graph 4) and lemons (graph 5) in the E.E.C. markets of France, Holland, West Germany and the U.K. for the citrus marketing years 1981/82 to 1984/85.

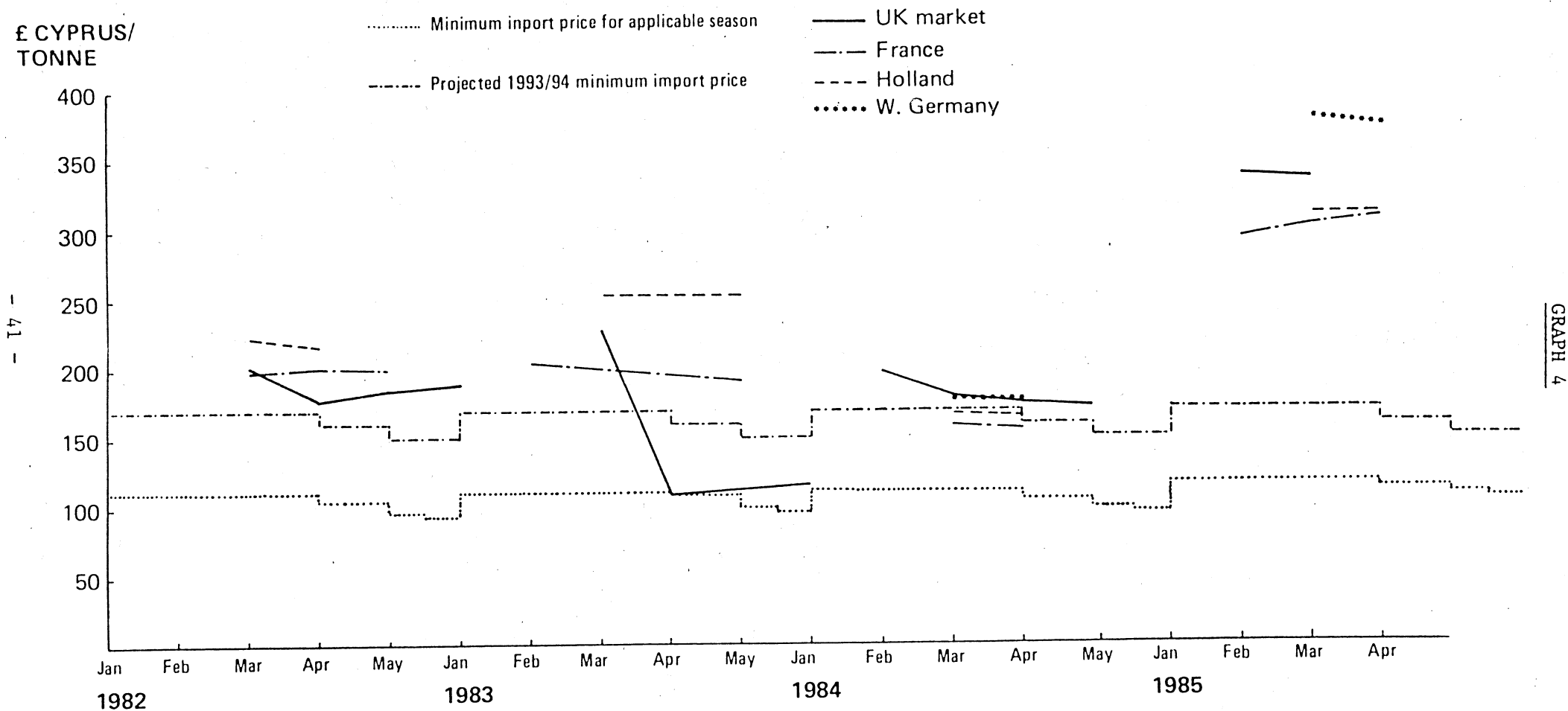
Looking first at graph 4, this shows minimum import prices prevailing in the citrus seasons represented and also the projected minimum import price level of 1993/94 (excluding inflationary allowances) based on the new method of calculating citrus reference prices. It can be seen, first, that wholesale prices are typically significantly higher than the minimum import price, especially in the 1984/85 season. This was due to a shortage in the Spanish citrus crop - Spanish citrus production being down by 13.2% compared to the 1983/84 season.

Cyprus Valencia oranges incurred no countervailing duties during the period 1982-85. However if future wholesale prices were to be at levels similar to those for the 1982-84 seasons, when compared to the projected 1993/94 minimum import price, it can be seen that difficulties may arise in importing, and such problems appear most likely at times of peak exports of Valencias between March and May.

Turning to graph 5, for lemons a complication arises in that adjustments to the reference price including cost and inflation allowances have already begun. Thus while for lemons, as for oranges, it is possible to compare wholesale prices received with

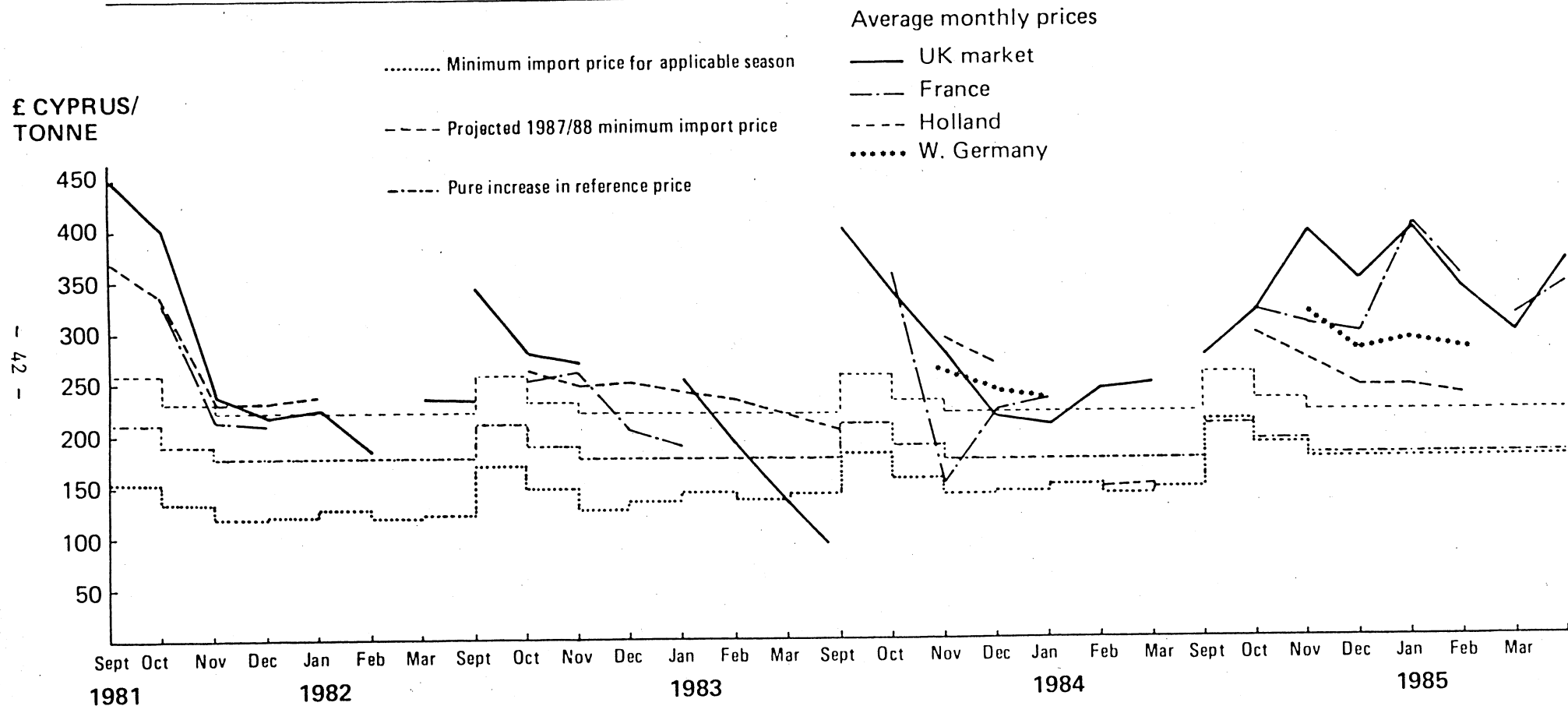
VALENCIA ORANGES

WHOLESALE PRICES OF CYPRUS VALENCIA ORANGES IN EEC MARKETS – 1982–85 RELATIVE TO “MINIMUM IMPORT PRICE” AND PROJECTED 1993/94 “MINIMUM IMPORT PRICE”



LEMONS

WHOLESALE PRICES OF CYPRUS LEMONS IN EEC MARKETS 1981-1985 RELATIVE TO "MINIMUM IMPORT PRICE" AND PROJECTED 1987/88 "MINIMUM IMPORT PRICE"



the projected pure increase in the reference price (i.e. a timeless change) it also appears of importance to compare the wholesale prices with the new adjusted minimum import price already in operation for the appropriate season, as both sets of prices developed in the same cost environment.

When moving from events that have already occurred to look at the likely future situation it was felt necessary to develop a third set of projections, which estimate the 1987/88 minimum import price level from the 1984/85 adjusted prices (which include cost elements built in by the Commission to date). Indeed due to these changes the minimum import prices actually in operation in 1984/85 were already higher than the projected pure reference price increases for 1987/88. There are grounds for believing this third set of projections may be conservative. Trends in supply within Cyprus and other third country suppliers (an issue discussed in more detail in section 4.3(i)) and demand patterns within the E.E.C. imply that future real price increases for Cyprus citrus exports are unlikely to keep pace with cost increases included by the Commission in future reference prices, based on E.E.C. citrus production structures.

In graph 5 it can be seen that, in each season, the U.K. market initially is a higher priced outlet compared to other E.E.C. markets. Prices over the study period have typically been well in excess of the minimum import price applicable, with the exception of March 1983 sales to the U.K. market and to France in November 1984, where wholesale prices do "graze" the minimum

import price. Cyprus Government officials did speak of "warnings" from the Commission that countervailing duties would be applied for lemons at specific incidences, but none were actually enforced during the study period.

However, when wholesale prices are compared to the projected 1987/88 minimum import price level (calculated in 1984 money terms) it can be seen that, for large parts of the 1981/82, 82/83 and 83/84 seasons, countervailing duties would have been in force at times of peak Cyprus supplies (i.e. November to January). The 1984/85 prices reflect the tight supply situation.

From this market analysis it would seem that scenario (b) is the most likely representation of the actual situation - that citrus entry prices are currently (in the main) above the minimum import price but if wholesale prices remain at current levels in real terms, then countervailing duties will be incurred as the minimum import price rises; indeed importing of lemons, especially, by 1987 would appear difficult.

4.3 Related Factors Influencing Future Citrus Market Development

The above scenario concerning the implications of the amended reference price system for Cyprus orange and lemon exports, may be influenced by a range of other factors and events to the advantage or disadvantage of Cypriot exporters. These include:-

(i) A Change in the Level of Citrus Entry Prices

- If import prices of citrus to the E.E.C. were to increase at the same, or a faster, rate than the increases in the M.I.P. the impacts of increased reference prices would be minimal. However Sarris in 1983 used world trade models to project export prices on world markets for fruit and vegetables. His projections for the broad product grouping of fresh fruit - given current world trends in import demand and export supplies - showed a decline of 12% in world terms of trade between 1977-1986. This is attributed to increasing export supplies in the medium term and a decline in world import demand. Thus it appears unlikely that a general upward movement will occur for citrus entry prices from all third country suppliers. (Sarris, 1983).

- Given our previous comments on the static European markets for citrus as a group, markets upon which Cyprus is heavily dependent, the potentially huge increases forecast in Cypriot lemon and orange production and the general decline in export prices predicted, it would seem unrealistic to expect Cyprus citrus export prices to rise sufficiently to avoid incurring countervailing duties by market forces alone. Further, although demand in the E.E.C. for citrus is relatively static, the figure hides differing trends for particular species. For example, while lemon demand is expanding, that for the traditional varieties of orange and grapefruit exported by Cyprus is in decline, though that for soft citrus and Ruby-Red grapefruit is expanding.

- The 1983/84 and 84/85 citrus seasons have been described in the trade as "exceptionally good" due to the destruction of large parts of the Florida and Spanish crop by frosts. If all producing countries were to have a "normal" growing season, prices would be likely to be much lower than in the previous two seasons. Indeed a recent O.E.C.D. Forecast (Fruit Trades Journal, 1985) for the 1985/86 citrus season predicts a 27% increase in orange export supplies from the Mediterranean Basin and a 21.5% increase for lemons.

- The fragmented nature of citrus export marketing, in a situation of increasing Cyprus supplies and diminishing demand, may lead to further problems as competition for outlets between exporters increases and margins are cut to a minimum. The nature of the reference price system, with countervailing duties being charged on subsequent shipments from all the particular offending country's suppliers, once the entry price is too low, implies advantages for exporting nations where one organisation or company has significant control.

For example in 1982/83:-

Cyprus exported 93,000 tonnes of citrus through 10 organisations

Israel exported 480,000 tonnes of citrus to Europe alone through its Citrus Marketing Board

The Israeli Citrus Marketing Board has the potential to regulate and discipline suppliers to ensure that minimum import prices are observed. Under the current structure of Cyprus citrus exporting it seems unlikely that agreement to

restrict export quantities at periods of low prices to achieve such an end would be feasible.

Thus overall, it seems improbable that any long term trend towards higher export prices for Cyprus citrus is likely to develop through market forces, or through control of exports under the current export marketing structure.

(ii) The Enlargement of the Community

On January 1st 1986, Spain and Portugal became new members of an enlarged, twelve member Community. The accession of Spain, which already supplies 40% of the E.E.C's citrus requirements, will have important implications for third country citrus suppliers such as Cyprus. Portugal is neither a large scale producer or exporter of citrus.

Within Spain the citrus industry is highly developed - in 1984 it was the most important sector for net foreign currency earnings and is in the first three Spanish exporting sectors. Production is mainly concentrated in the Autonomous Communities of Valencia, Murcia and Andalusia, with large, well-organised private enterprise co-operatives undertaking most export marketing. Currently Spain has a surplus of citrus production, being approximately 250% self-sufficient. E.E.C. markets already take more than 85% of Spanish citrus exports, with the French market being the most significant in the last decade (Anuario Hortofruticola Espanol, 1985) (See table 17 below).

TABLE 17

MOST SIGNIFICANT E.E.C MARKETS FOR SPANISH CITRUS

1983/84 Season

	Export Quantity (tonnes)
France	780,231
West Germany	532,493
U.K and Ireland	230,372

SOURCE: Anuario Hortofruticola Espanol 1985.

Currently Spain does not receive the same level of tariff concessions on her exports to the Community as Cyprus, but during the 10 year transition period all customs duties faced by Spain will be phased out and an abated reference price system will apply until 1996. Internal E.E.C. market support arrangements and structural aids for the sector will be introduced to Spain. It would seem probable that the change over to the higher priced E.E.C. system will act as an incentive to expand production potential in Spain. One recent estimate from the E.E.C. Commission predicts that by 1990 the E.E.C. 12 will have an extra 1.2 million hectares of irrigated land - of which one third will be in Spain, where most is expected to be used for intensive fruit and vegetable production (Agra Europe, 1985).

Spain has some of the lowest production and transport costs of the Mediterranean countries who export citrus to the E.E.C. and it appears that Spanish exporting organisations

have in the past made conscious policy efforts to avoid incurring countervailing duties - which would imply that once the reference price barriers and C.C.T. are removed Spain could profitably sell at lower prices if necessary, and sell greater quantities.

The following quotation is from Anuario Hortofruticola Espanol, 1985):-

"At present there are 50 standards of quality for the export of fruit and vegetables in force in Spain, of these 20 are complemented by Resolutions of the National Export Office which lay down more restrictive provisions with the aim of arranging the consignments so as to avoid the imposition of compensatory duties by the E.E.C....."

In December 1984, on the initiative of the Valencia based Citrus Management Committee, a statutory limit on the quantity of clementines that could be exported from Spain to all the European destinations was enforced, as prices had become too low and were grazing the reference price.

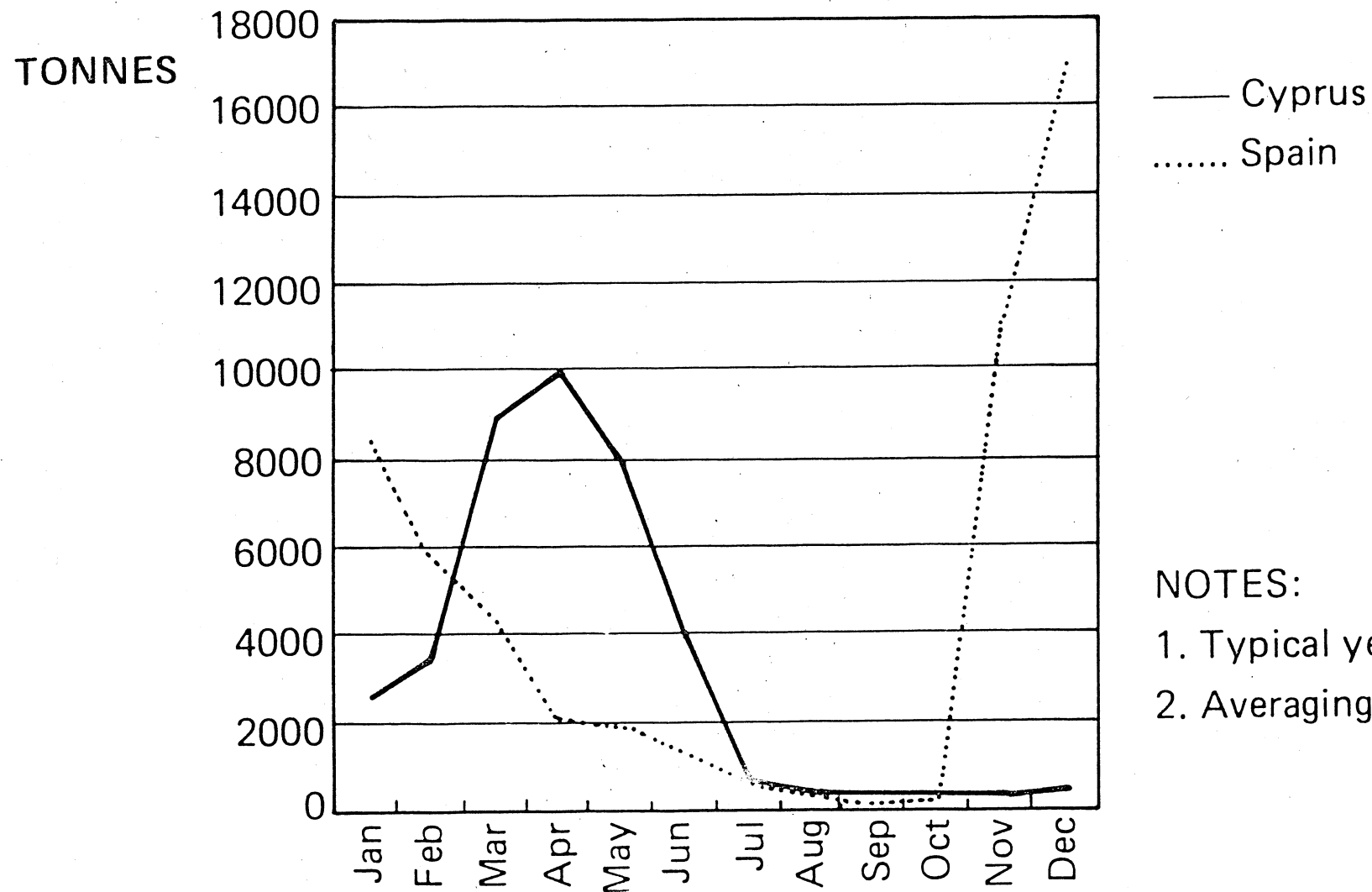
For Cypriot citrus producers the major concern must be the impact of accession on the U.K. market, upon which Cyprus is so dependent. In 1984 Spain was by far the most important supplier of lemons to the U.K. - supplying 52% of imports -, whilst providing 25% of sweet orange imports, the second most important exporter after Israel. Spain's significance has been increasing in the U.K. citrus market, which was previously dominated by Israel and South Africa. Fears are expressed within Cyprus, that post-accession, the U.K. market will be flooded with huge quantities of low priced citrus. This trade diverting effect would necessitate

Cypriot exporters finding alternative, non-E.E.C. markets for supplies, as Spain increases its hold on the high price European markets and squeezes out third country suppliers (Maddock, 1985).

However graphs 6 and 7, showing the marketing seasons for Spanish and Cypriot citrus, reveal that the respective seasons are not co-incidental and that a more pertinent problem for Cypriot producers would be that E.E.C structural supports may encourage Spanish farmers to extend their production season with new varieties. Concentration on early orange varieties has led to marketing problems for Spain with heavy supplies early in the season being very susceptible to sudden frosts and insufficient supplies to keep a presence in the market later in the season. The grubbing up of plantations, which is now taking place in some parts of Valencia as a result of the serious frost damage in the 1984/85 season, is being followed by planting of later varieties more likely to clash with Cypriot Valencia Late marketing in February - May (Agra Europe, 1985).

Cyprus citrus is renowned for its high quality but it is debatable whether consumers in the U.K will be prepared to pay a price premium for Cypriot produce if perfectly adequate, cheaper Spanish supplies, possibly entering below the minimum import price, are widely available. In terms of quantity and foreign exchange earnings, though, grapefruit are the prime Cyprus citrus export. As quantities exported

SWEET ORANGES
CYPRUS AND SPAIN EXPORTS TO UK

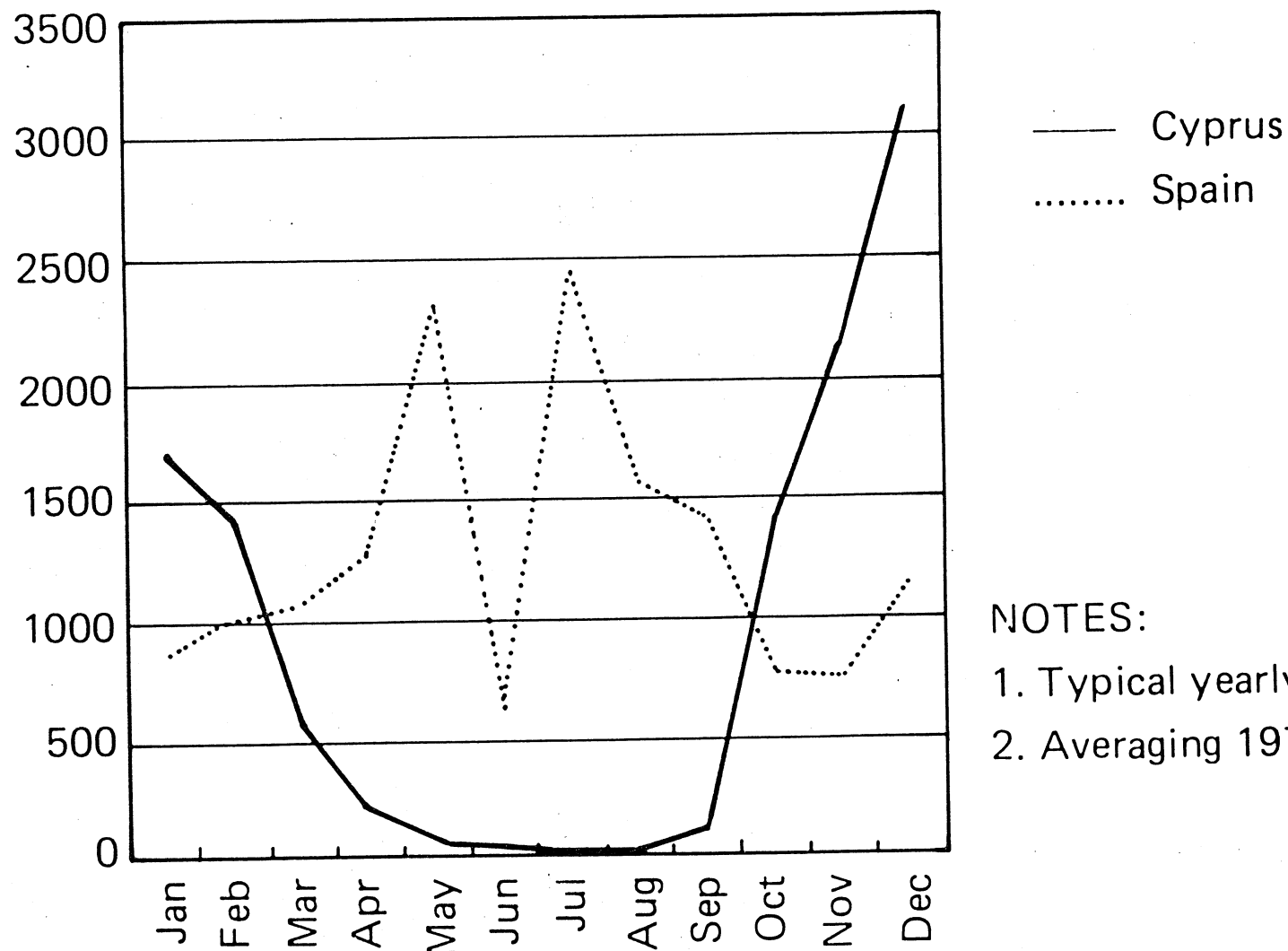


NOTES:

1. Typical yearly pattern
2. Averaging 1979-84 data

LEMONS CYPRUS AND SPAIN EXPORTS TO UK

TONNES



NOTES:

1. Typical yearly pattern
2. Averaging 1979–84 data

by Spain are minimal and grapefruit are not as yet covered by the E.E.C. price regulations, the effects on this sector might be expected to be negligible, (although Italy has made some calls for it to be included).

(iii) Development of Alternative Citrus Markets

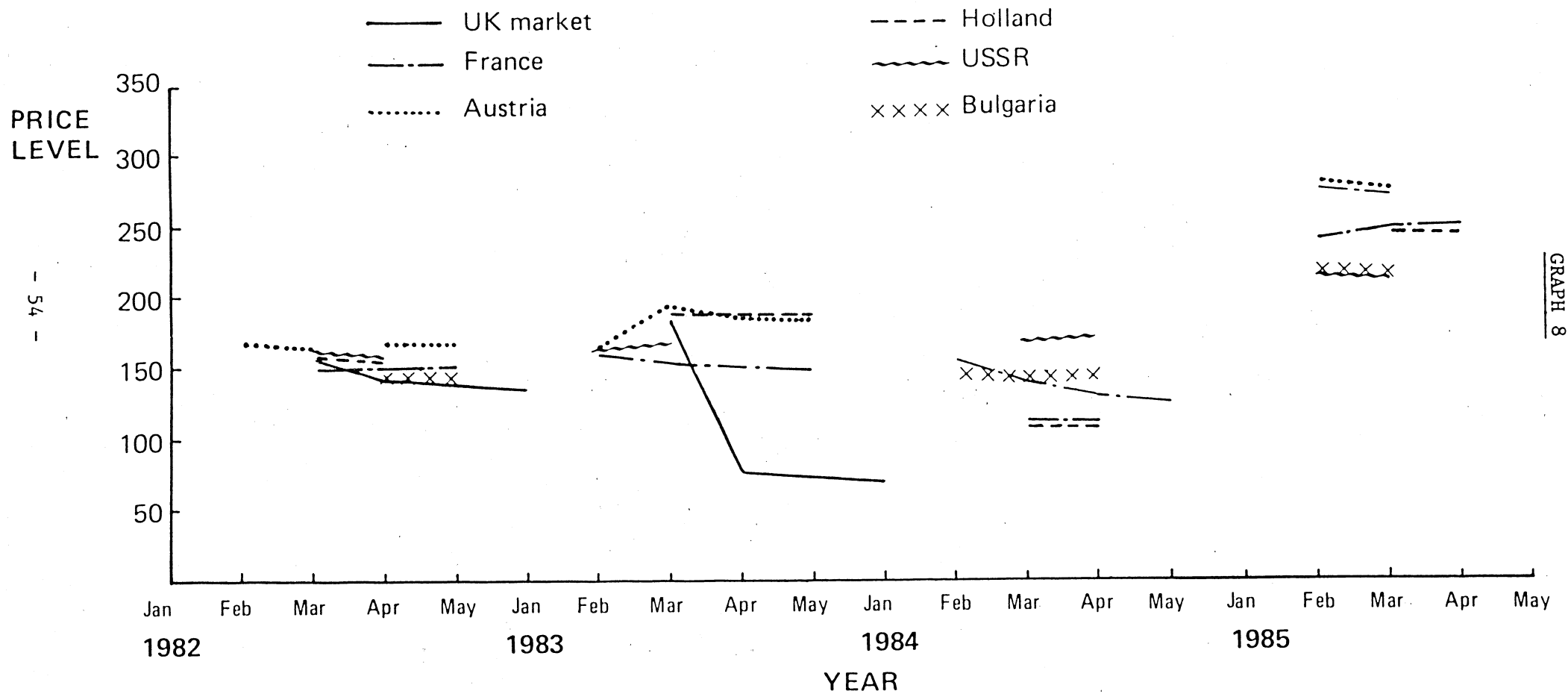
Section 2.2 described the current limited size and unreliability of Middle East and Eastern Bloc citrus markets. Cyprus does however already export limited quantities of citrus to other non-E.E.C. European markets which have been pinpointed as potential future growth markets - e.g. Austria, Switzerland, Sweden (Laurence Gould Consultants Ltd., 1985).

Graphs 8 and 9 show a comparison of C.I.F. prices received in the various export markets by Cyprus citrus. For both Valencias and lemons there seems to be no marked pattern of one particular market or geographical group of markets providing consistently higher returns. If alternative market outlets could be secured, then this may not necessitate a fall in incomes to citrus exporters. An interesting feature of the graphs is the price received for exports to Eastern bloc countries, which are frequently on a par with those in European markets, although traders claim such sales are of residual produce at low prices.

Extensive market research would be necessary to isolate

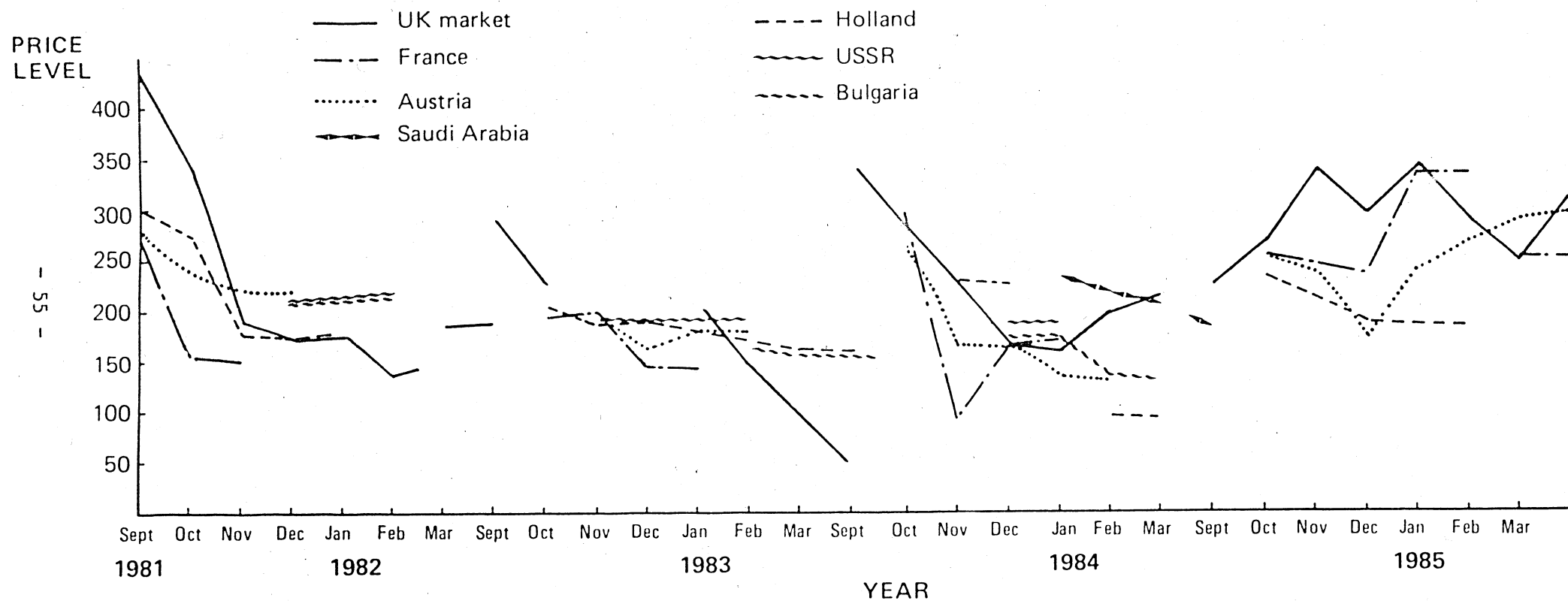
VALENCIA ORANGES

COMPARISON OF CYPRUS C.I.F. PRICES IN VARIOUS MARKETS 1982-85



LEMONS:

COMPARISON OF CYPRUS C.I.F. PRICES IN VARIOUS MARKETS 1981/82 - 84/85



possible new marketing opportunities for Cyprus citrus. For example, currently the idea of exporting citrus to Canada to make up for shortfalls from the American crop is being investigated.

(iv) Re-Negotiation of the Cyprus - E.E.C. Association Agreement

The Cyprus Government is currently engaged in negotiations with the European Community over a set of measures relating to the envisaged transition to the second stage of the Association Agreement, which should eventually lead to full customs union (Ritson, Swinbank and Warren, 1985).

Parallel to these discussions, the E.E.C. is also holding talks with other Mediterranean Associates in connection with Spanish and Portuguese accession, to negotiate a package of measures which will affect fruit and vegetable supplies from third countries in the Mediterranean. Special arrangements are hoped to be established by the Commission:-

"on the basis of the general principle: to enable traditional trade with the Mediterranean countries to be maintained, within the limit of present quantities, because of their importance to the stability of these countries"
(Swinbank, 1985)

For Cyprus, the current proposals cover a fourteen year time scale split into two phases with the first phase predicted to be complete by December 1992. Remaining customs duties on citrus products entering the E.E.C. would be phased out over a seven year period, based on a ceiling of the

traditional amount of exports (the average of 1980-84), with exports above this level presumably paying full duty. This tariff quota will increase by 5% per annum. The reference price system for oranges and lemons will be modified in 1990 with entry prices being calculated in a different manner, as below:-

Prior to 1990

Entry price = wholesale price in representative E.E.C. market
- full rate of C.C.T.

Post 1990

Entry price = wholesale price in representative E.E.C. market
- an abated level of customs duty which progressively drops away to zero

These arrangements would apply to

67 000 tonnes of oranges
15 000 tonnes of lemons

During the second phase of Cyprus' Association Agreement, in principle between 1993-99, abolition of all reference prices against Cyprus exports is proposed (European Commission, 1985).

Whilst these proposals, if agreed, might be sufficient to protect Cyprus' current level of citrus exports to the Community prior to 1993, there appears little case for optimism of her increasing exports to the E.E.C. in line with her projected increased citrus export availability, particularly since similar concessions on customs duties have been offered to Israel and Morocco, two main competitors in citrus markets who are also seeking to expand exports to the E.E.C.

(v) Re-Organisation of Citrus Export Marketing

Previous consultant's reports to the Cyprus Government have advocated the restructuring of export marketing arrangements in order to maintain and improve the position of Cyprus in overseas markets for citrus. This study has shown that, in addition, a centralised marketing board or exporting company could play a significant role in reducing the potentially harmful impacts of increasing reference price levels by exercising control over consignments, strengthening market positioning with a recognisable, quality national brand (currently being discussed) and encouraging producers to move their production towards citrus varieties for which demand is buoyant. Although such a move would be within the brief of the current Fruit and Vegetable Export Project, there is considerable opposition to such a change from large private exporters who are at present achieving satisfactory profit levels in E.E.C. markets. The scenario developed in section 4, though, indicates that even private exporters to the E.E.C., who obtain high levels of wholesale market prices, may suffer if a significant amount of citrus from other sources enters at the lower price levels indicated, and so triggers countervailing duties as the reference price rises. Further discussions within Cyprus revealed an attitude that any recent warnings from the Commission that countervailing duties might be necessary on citrus were due to low-priced produce from the Occupied Sector. If this is the case, the establishment of a Citrus Marketing Board,

whilst currently unable to control supplies and prices from the Occupied Sector, should be able to ensure that the majority of citrus of Cyprus origin respects minimum import prices and so is to the benefit of all exporters.

5) CONCLUSION

To conclude, it appears that the future evolution of citrus reference prices will make import of Cyprus oranges and lemons to the E.E.C, at current wholesale prices, very difficult without frequent, protracted, periods of countervailing duty application at times of peak exports. The self-reinforcing character of the countervailing duty mechanism eventually makes profitable, or even cost-covering, exporting impossible until the charge is removed. This implies that Cyprus would have to withdraw from the E.E.C. market until a suitable length of time had elapsed with no supplies imported from the country. The much discussed Spanish Accession will exacerbate this problem with falling citrus prices predicted in European markets as barriers on Spanish trade fall away. It may not be the accession of Spain, per se, that is the major problem; rather the undoubtable addition to the Mediterranean countries political bargaining power within the Community, which could lead to further strengthening of the level of protection against third country supplies, a factor noted in a recent Agra Europe report (Agra Europe, 1985):-

"Changes in the E.E.C. policy are likely to have a more significant effect on imports from non-member third countries than the enlargement of the customs union.....increases in protection through a more rigid reference price system or the extension of the list of products subject to the reference price system would be far more damaging than enlargement"

Prospects for diverting produce to alternative markets are limited and it would appear that the concentration of citrus exporting arrangements into one organisation able fully to

utilise any concessions gained from the current negotiations between the E.E.C. and Cyprus, and to exert stricter discipline on exporters in the coming seasons, in terms of prices and varieties grown, would be the most viable way to minimise the impacts of the increased reference prices and maximise returns from E.E.C. markets.

FOOTNOTES

- (1) For example: Ritson, C., Swinbank, A. and Warren, R. (1982). The Proposed Cyprus - E.E.C. Customs Union in the context of the Common Agricultural Policy.

Ritson, C., Swinbank, A. and Warren, R. (1985). The Proposed Cyprus - E.E.C. Customs Union: Implications for the Marketing of Agricultural Products within Cyprus.

Both are confidential reports to the Government of Cyprus.

- (2) Private Consultation with C. Apostolides, Planning Bureau, 1985.

- (3) For example: Ritson and Swinbank (April 1983), House of Lords (1981), Harris et al (1983), Ritson, Swinbank and Warren (1985).

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