



***EU Economic Partnership Agreements
and WTO negotiations.
A quantitative assessment of trade
preference granting and erosion in the
banana market.***

Giovanni Anania

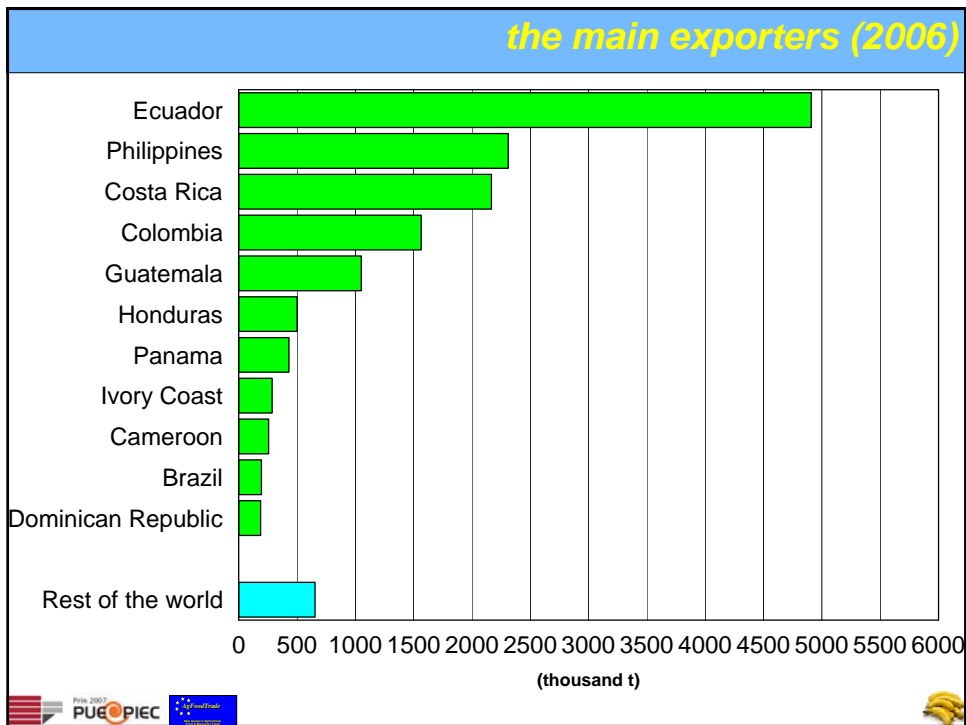
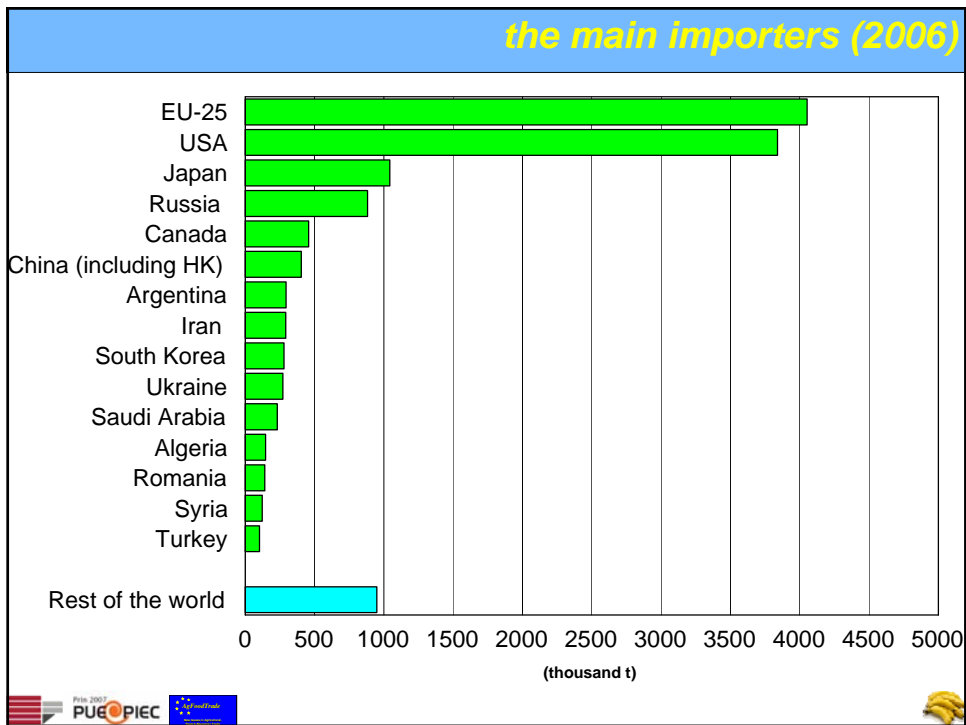
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the presentation

- the policy issue**
- the model**
- the results of the simulations**
- conclusions**





the 2006 EU import regime for bananas

- on 1 January 2006 the EU unilaterally introduced a new **import regime** for bananas:

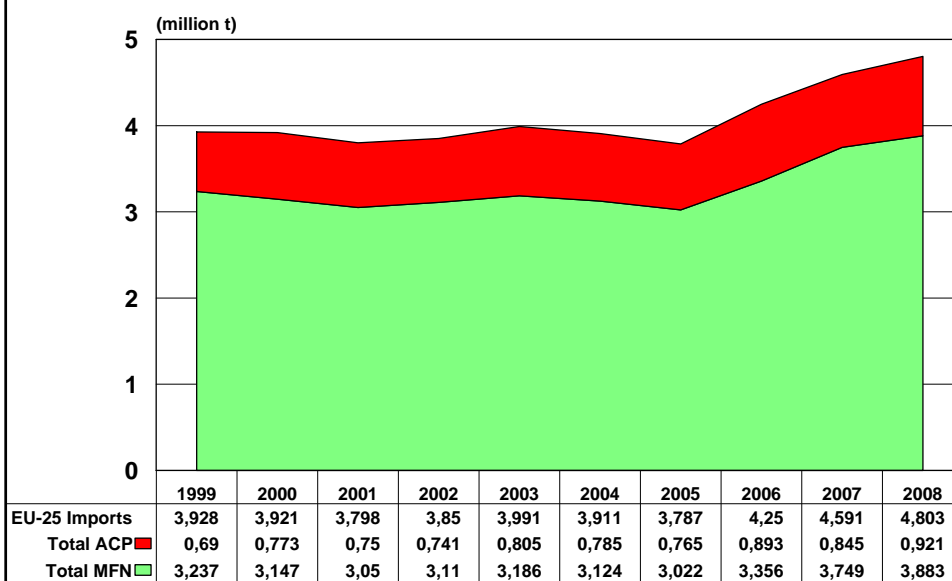
MFN imports were subject to a 176 €/t tariff, with no quantitative restrictions

ACP imports were benefiting from a duty-free TRQ of 775,000 t

in addition, from 1 January 2006 **EBA** has been fully implemented for bananas (duty-free, quota-free access for LDC)



EU imports composition by source



the policy issue: the 2007 EPA

- on 1 January 2008 the EU implemented the (full and “interim”) **Economic Partnership Agreements** it negotiated in 2007 with many ACP countries
- bananas from ACP countries now enter the EU **quota- and duty-free**
- **bananas**, rice and sugar are indicated as the three single agricultural commodities where most of the export benefits for ACP countries from the EPA are to be gained



the policy issue: negotiations on bananas

- **bilateral/multilateral negotiations**
 - EU, MFN exporters and the US have been looking for a mutually acceptable solution to end WTO disputes on bananas (“**banana war**”)
 - the WTO Doha Development Agenda Round
- a tentative bilateral agreement reached in July 2008 in Geneva within the WTO DDA round negotiations: EU MFN tariff to be reduced **by 2016 from 176 to 114 €/t**



the policy issue: a very complex political game

- ⓐ EPAs → preference expansion
- ⓐ WTO agreement → preference erosion
- ⓐ both → increased access to the EU market
- ⓐ WTO & RTAs negotiations
- conflicting interests of different groups of developing countries exporting bananas:
ACP vs. MFN, LDCs vs. ACP&MFN, MFN Andean vs. MFN CAFTA vs. ACP, ...
- conflicting interests of EU *domestic producers* of bananas and *developing country exporters*



the 15 December 2009 agreement

- EU MFN tariff to be progressively reduced **by 2017 from 176 to 114 €/t**
- EU vs MFN exporters and US WTO banana disputes settled (the end of the “**banana war**”)
- MFN exporters agreed not to ask for further tariff cuts in DDA negotiations
- EU will provide ACP banana exporters 200 million euro to finance adjustments to increase their export competitiveness
- EU, ACP and MFN countries agreed on a joint proposal for “**preference erosion**” and “**tropical products**” in the DDA round



the 15 December 2009 agreement

The banana wars are over. And at a personal level I'm sorry to see them go. You see, ever since the third edition of the world's leading textbook in international economics, we've had a box on bananas titled "Do trade preferences have appeal?" The original box ended by saying "At the time of writing, efforts to negotiate a resolution to Europe's banana split had proved fruitless". And we were able to keep some version of that line in every subsequent edition. But ninth edition (with Marc Melitz on board) will have to be debananified. Darn.

Paul Krugman



the paper

- a quantitative assessment of
 - (a) the expected benefits from EPA for ACP banana exporters, i.e. from the elimination of the EU preferential import quota in place until December 2007, and
 - (b) the reduction of these benefits as a result of the erosion of preferential margins deriving from the conclusion of multilateral and/or bilateral WTO negotiations



the model

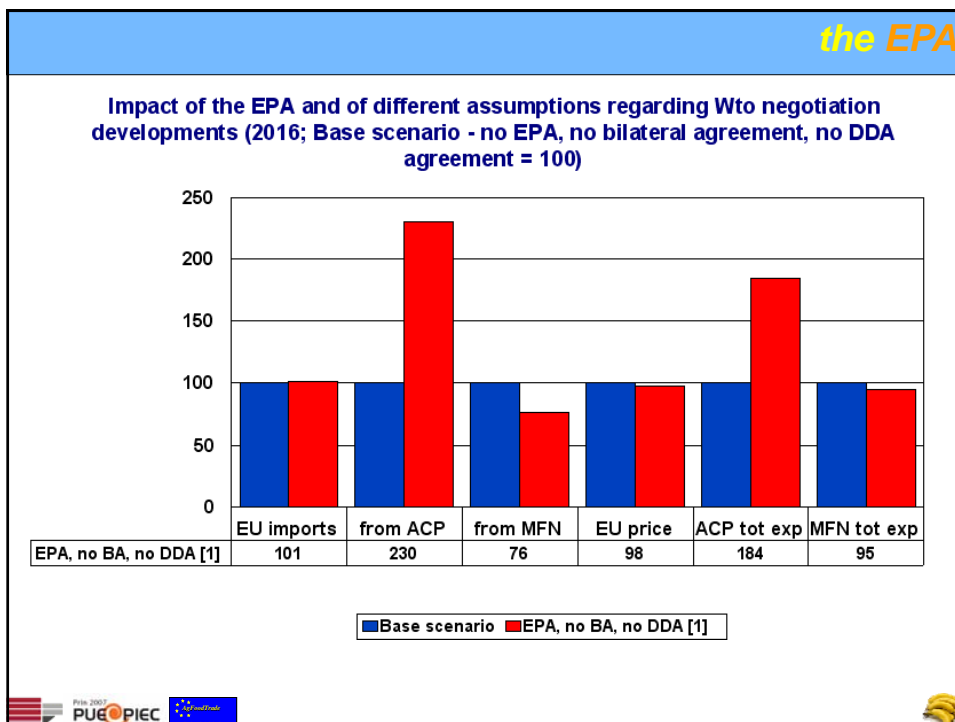
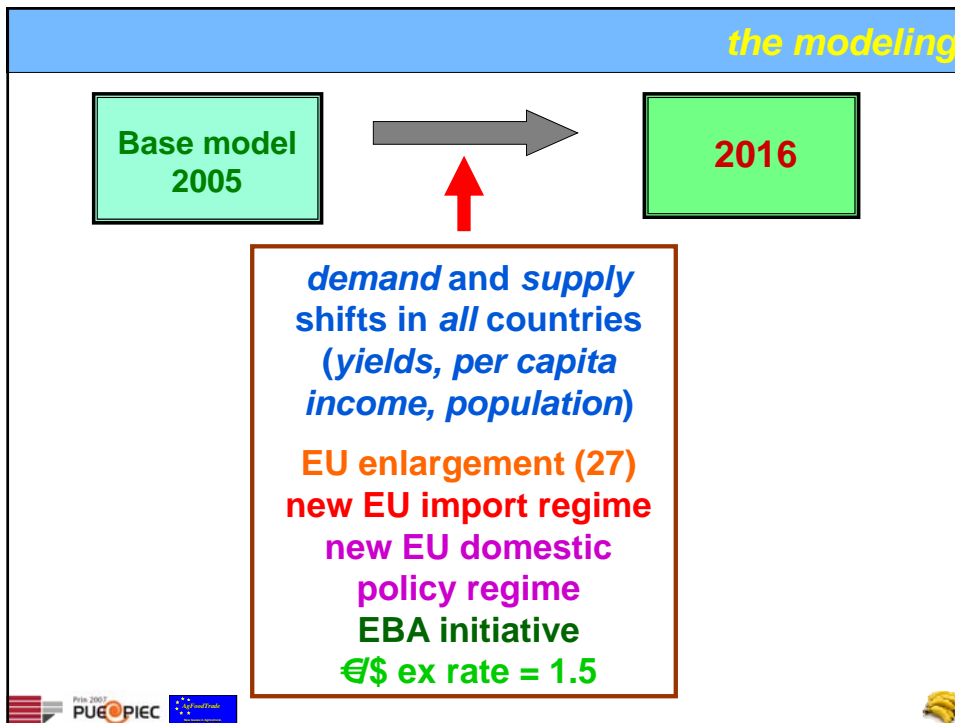
- a revised, updated and expanded version of the model used in Anania (*ERAE 2006, JIATD 2008*)
- mathematical programming model
- partial equilibrium
- **spatial**
- one commodity only
- banana as a **homogeneous** product
- **perfect competition** is assumed, both in domestic and international markets



the model

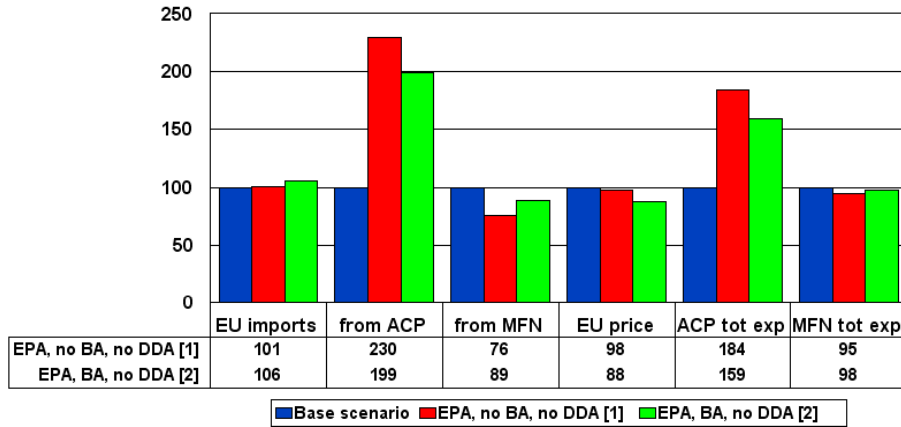
- based on country/region import demand/export supply, or domestic demand/supply functions
- linear functions (at least in the relevant intervals)
- time reference for base model: **2005**
- **explicit modeling of domestic and trade policies, including:**
 - the EU import regime in 2005 (3 regimes; preferential tariffs, 2 TRQs)
 - the EU domestic policy regime in 2005 (deficiency payments)





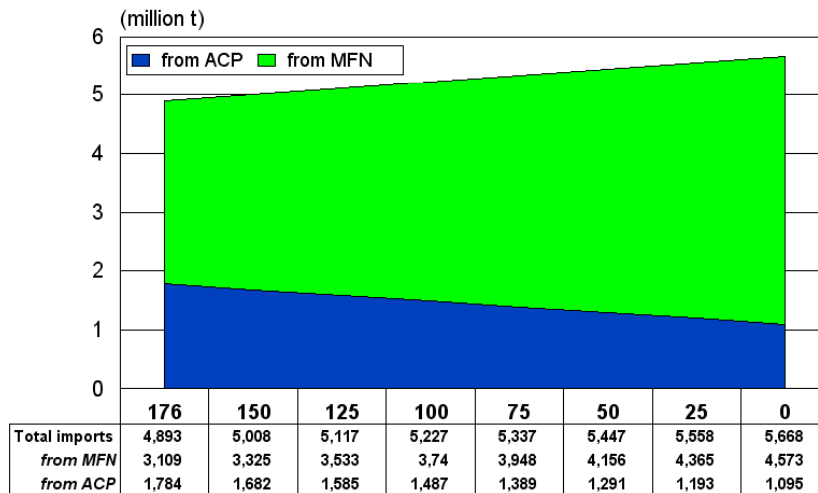
the July 2008 (& December 2009) bilateral agreement

Impact of the EPA and of different assumptions regarding Wto negotiation developments (2016; Base scenario - no EPA, no bilateral agreement, no DDA agreement = 100)



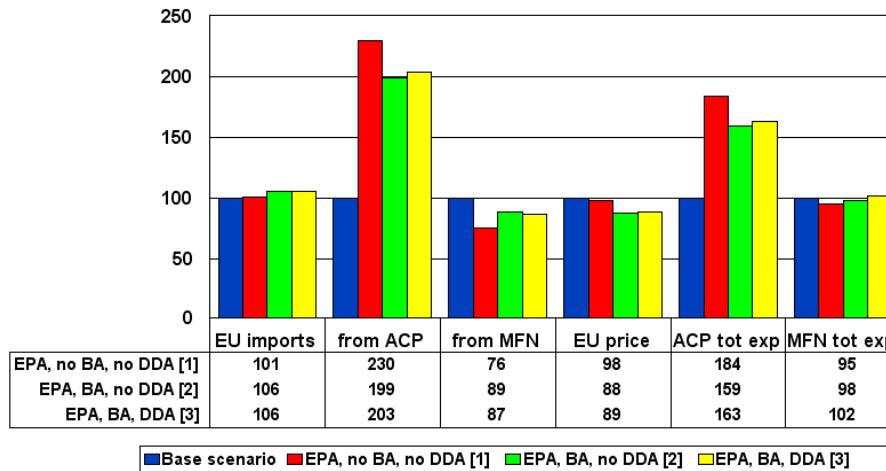
a different bilateral agreement

EU-27 banana imports by source as a function of the EU MFN tariff (2016; EPA in place, no DDA agreement)



a DDA agreement in addition to the bilateral one

Impact of the EPA and of different assumptions regarding Wto negotiation developments (2016; Base scenario - no EPA, no bilateral agreement, no DDA agreement = 100)



...limitations of the modeling exercise

■ some of the issues associated with the assumptions made:

- ⊗ quality of data available
- ⊗ perfectly competitive markets
- ⊗ bananas being a homogeneous product
- ⊗ perfectly elastic transportation services
- ⊗ non stochastic production/risk neutrality of agents
- ⊗ supply response to policy and price changes in each country
- ⊗ demand response to changes in incomes and prices in each country



sensitivity analyses

- ⓐ **€\$ exchange rate: 1.80 and 1.20 (1.50)**
- ⓐ **per year yield increases not to exceed 2%**
- ⓐ **production in France and Spain equal 115% of minimum needed in order for farms to have access to the full amount of support they are entitled to**
- ⓐ **export supply elasticities in the main ACP exporters, Ivory Coast and Cameroon: 1 (1.5)**
- ⓐ **all per unit international transaction costs increased by 30%**



conclusions (1/7)

- **the EU production of bananas is largely independent of changes in trade policies**
- **however, banana producer incomes, (everywhere in the EU) are affected by trade policy changes through their effects on domestic prices**
- **the Economic Partnership Agreements will not significantly effect EU prices, consumption and imports of bananas**



- the preference **EPAs** grant to ACP countries will significantly effect the **relative competitiveness** of their exports to the EU vs. those of MFN countries
(ignoring the December 2009 agreement)
total ACP exports are expected to increase in 2016 by 84%, MFN exports to the EU to decline by 24%



- the (July 2008 tentative) December 2009 agreement will effect EU imports of bananas and domestic price
- MFN exports are expected to increase by almost 400,000 tonnes, but will remain below no-EPAs levels
- ACP exports will decline by 240,000 t but will remain well above no-EPAs levels



conclusions (4/7)

- the effects of the EPAs and WTO agreements extend to all markets
- the more open the EU market to **ACP** imports, the lower the price of bananas in the other importing countries and the higher their imports
- the more open the EU market to **MFN** imports, the higher the price of bananas in the other importing countries and the lower their imports



conclusions (5/7)

- successful **conclusions** of **WTO negotiations** imply an **erosion of the trade preferences** associated to the **EPAs** which significantly reduce their positive effects on the relative competitiveness of ACP vs. MFN exports
- the implementation of the agreement signed in December in **Geneva** is expected to imply the erosion of **1/3** of the benefits resulting from the preferences granted by the EU to ACP countries with the **EPAs**



- MFN and ACP banana exporters shared at least **one common interest**: *if a WTO agreement was to be reached, this should have been the conclusion of the Doha round rather than a deal between MFN countries and the EU alone*



- results appear to be relatively **sensitive** to expected changes in yields
this suggests that that negative effects of preference erosion can be offset by providing preferred countries with the financial and in-kind resources needed to improve the relative market competitiveness of their bananas by enhancing technical efficiency in production





Grazie!

