



Economic Partnership Agreements and WTO negotiations.

*A quantitative assessment of trade
preference granting and erosion in the
banana market.*

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the 2006 EU import regime for bananas

- on 1 January 2006 the EU 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)



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: on-going negotiations on bananas

- **“bilateral” & multilateral negotiations**
 - EU, MFN exporters and the US are looking for a mutually acceptable solution to end WTO disputes on bananas (the **“banana war”**)
 - the WTO Doha Development Agenda Round
- a tentative **“bilateral”** agreement reached in July 2008 in Geneva within the WTO DDA round negotiations

the agreement cannot not hold outside the “single undertaking” agreement (if any) concluding the DDA round



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 paper provides 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 either the multilateral or “bilateral” WTO negotiations which are currently taking place**



- 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



- 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



**Base model
2005**



2016



*demand and supply
shifts in all countries
(yields, per capita
income, population)*

**EU enlargement (27)
new EU import regime**

**new EU domestic
policy regime**

EBA initiative

€/\$ ex rate = 1.5



- 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 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

total ACP exports are expected to increase in 2016 by 84%, MFN exports to the EU to decline by 24%



- **if the July 2008 tentative agreement were to be implemented, it would effect EU imports of bananas and domestic price**
- **MFN exports would increase by almost 400,000 tonnes, but would remain below pre-EPAs levels**
- **ACP exports would decline by 240,000 t but would remain well above pre-EPAs levels**



- 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



- a successful **conclusion** of the WTO **negotiations** would imply an **erosion** of the **trade preferences** associated to the **EPAs** which would significantly reduce their positive effects on the relative competitiveness of ACP vs. MFN exports
- for example, the implementation of the agreement reached in July 2008 in **Geneva** would 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 share at least **one common interest**: *if a WTO agreement is to be reached, this should be 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



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%**



...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





Grazie!

