

Note by Giovanni Anania regarding questions concerning his presentation raised at the Conference on “The future of European Strategy for the Outermost Regions” (Bruxelles, May 14-15 2008).

1. I was invited by the Commission to give a presentation at the Workshop on Agriculture (May 15, 2008) on the expected market impact of the reform of the EU CMO for bananas and of the EPA. Because of the severe time constraint, I was not given the opportunity to answer some of the questions concerning my presentation raised in the Workshop and in the afternoon plenary; the goal of this note is to make these answers available.
2. Some of the interventions focusing on my presentation in the Workshop and one in the plenary session raised concerns about the assumption made in the model that banana producers in the Canary Islands, Guadalupe and Martinique will find profitable under the new domestic policy scenario to produce the minimum quantity of bananas required for them to receive the full amount of support they are entitled to (this is given by a percentage of the individual farm’s production in a given reference period). I found these concerns legitimate and relevant. As a matter of fact, I explicitly said in my oral presentation that, because the model does not incorporate uncertainty, it generates a volume of production in these regions exactly equal to the minimum required for farmers to receive the full amount of support; I added that, however, it is true that rational risk-averse farmers will take *ex ante* production decisions which will aim at overshooting this target in order to reduce the risk of not producing the minimum quantity required for them to have access to the full amount of support. Those who intervened claimed farmers will produce at least 100% of what they produced in the reference period (while the minimum required to receive the full amount of support is 70% for Canary Islands and 80% for Guadalupe and Martinique). How much farmers will actually *ex ante* plan to produce is an empirical question involving, among the others, the following elements: (i) the stochastic nature of banana production in each region; (ii) information regarding the distribution of the degree of risk aversion of banana producers in each region and their decision (utility) function; (iii) the amount of information banana producers have on risks in production which are their-own-farm specific (under the assumption that extremely severe adverse climatic events which effect their region as a whole will likely bring to an adjustment for all farms of the minimum required in the region to receive the full support); (iv) information on farmers’ perception of what will be the policy decision on what is an adverse event at the regional level which will bring to an adjustment of the minimum quantities. The issue of what should be expected regarding production decisions under uncertainty and the specific policy regime in place is an empirical one and not an easy one to tackle from an applied modelling point of view; I doubt producers will *ex ante* plan to produce “*at least 100% of what they produced in the reference period*”, but this remains a matter on which different views are legitimate.
3. Some of the interventions in the Workshop and one intervention in the plenary in the afternoon on May 15 claimed that the model was incorrect and expressed strong disagreements with the content of a presentation I gave in Guayaquil (Ecuador) on April 16 2008 as an invited speaker at a *V International Forum on Bananas and Fresh Fruit* organized by AEBE (the Association of Ecuadorean Exporters of Bananas); both the English and Spanish versions of this presentation are downloadable from <http://www.ecostat.unical.it/Anania/Guayaquil.htm> .
4. With respect to the model being hill designed, unfortunately, none of those who expressed this view made any reference whatsoever to what is wrong in the model and why. Hence, not having any specific criticism to reply to, the only thing I can do to respond to these criticisms claiming the scientific unsoundness of the model *per se* is to recall the main assessments by the international scientific community the model has gone through so far:
 - (a) a paper focusing on the 2005 WTO arbitration using the first version of the model, after going through a severe peer review selection process, appeared on the December 2006

issue (this is volume 33, issue no. 4) of the *European Review of Agricultural Economics*; notoriously this Journal has a very careful and selective review process and was at the time the top ranked Journal in the area of agricultural economics in the world;

- (b) a draft version of the same paper had been selected for presentation (and presented) at the 2005 annual winter meeting of the *International Agricultural Trade Research Consortium*, San Diego (CA), December 5 2005.
 - (c) a paper focusing on the impact on trade of the 2006 reform of the EU CMO for bananas using, with minor improvements, the first version of the model has been accepted for publication, after going through a peer review selection process, by the *International Journal of Agricultural Trade and Development* (it will appear in issue no. 2 of 2008 of the Journal);
 - (d) a draft version of the same paper had been presented as a contributed paper, after going through a peer review selection process, at the 2007 annual meeting of the *American Agricultural Economics Association* (Portland, OR, July 30-August 2 2007);
 - (e) the preliminary version of a paper on the implications of the EPA and of the possible conclusion of on-going multilateral and regional negotiations based on an updated version of the model has been accepted for presentation, after going through severe peer review selection processes, (a) at the 15th World Congress of the *International Economic Association* (Istanbul, 25-29 June 2008) and (b) at the XII Congress of the *European Association of Agricultural Economists* (Ghent, August 26-29, 2008). The same draft paper has been selected for presentation at the International Banana and Plantain Conference, organized by IITA (International Institute of Tropical Agriculture), which will be held in Mombasa (Kenya), October 5-9, 2008.
5. Some of the interventions in the Workshop and one of the two interventions in the plenary session referring to my presentation made explicit reference to the presentation I gave in April in Guayaquil, claiming that it contained an assessment of the impact of EU trade policies (a) different from the one I had been providing in my previous research and (b) inconsistent with the one presented at the Workshop. Both claims are factually false.
6. When at the end of the plenary session in the afternoon of the 15th I approached the one participant who had intervened in that session to express this concerns, it became clear that his intervention (and those, along the same lines, made in the Workshop in the morning) were based on a misunderstanding on his part, with no possible justification, of the content of the presentation given in Guayaquil. His concern was that in Guayaquil, in his view, I had suggested that the MFN tariff equivalent to the pre-2006 EU trade regime was 90 €/t, while the assessment I had made of this equivalent tariff in other presentations (which is offered as well in the paper published in the *European Review of Agricultural Economics* cited above) was much higher (264 €/t). Again, this claim is factually false and no justification exists for it. His concern was based on the content of the last slide of my presentation in Ecuador (which he pointed to me), which reads “*El arancel sobre las bananas de la UE, que podría dejar inalteradas las exportaciones de los países NMF en 2013 con respecto a un escenario sin los AAE, es de unos 90 €/ton. si éste fuera el resultado de un acuerdo bilateral, o de unos 85 €/ton. si éste fuera el resultado de la conclusion de la Ronda ADD*” (in the English version of the presentation the corresponding text is “*the EU tariff which would leave MFN exports unchanged with respect to a scenario without EPA is close to 90 €/t if it is the result of a bilateral agreement, to 85 €/t if it is the result of the conclusion of the DDA round*” (several participants in the Conference in Bruxelles, both from France and Spain, had with them in Brussels a copy of my presentation in Guayaquil). Obviously, the 90€/t tariff referred to in the Guayaquil presentation is equivalent for MFN exports to the scenario with the EU trade policy regime in place since 1 January 2006 and no EPA and has nothing to do with the tariff equivalent for EU imports with respect to the

scenario under the pre-2006 EU trade policy regime. It is evident from the presentation (with no possibility of misunderstanding, of any kind) that the tariff equivalence provided in the simulations presented in Guayaquil has nothing to do whatsoever with the tariff equivalence of the pre-2006 EU import regime for bananas, since they refer (a) to different equivalences and (b) these equivalences are calculated with respect to completely different scenarios.

7. Some of the interventions raised concerns about the simulation results presented in Guayaquil being substantially different from those presented in Bruxelles. These concerns have no justification. In fact:
 - (a) the simulation results of the market impact of the EPA presented in Bruxelles are **the same** of those presented in Guayaquil. The results presented in slide #15 of the presentation in Guayaquil and those in slides #11 and #12 of the presentation in Bruxelles are identical, they are only presented with a different reference benchmark; in the presentation in Bruxelles what is set equal to 100 is a scenario with no EPA and no reform of the CMO; in Guayaquil it is a scenario with no EPA but including the reform of the CMO (this benchmark scenario is the CMO reform scenario in the presentation in Bruxelles; i.e., for example, the 100,8 representing the impact of EPA on EU imports in the Guayaquil presentation is nothing else than 103,9 divided by 103,1 in the Bruxelles presentation);
 - (b) the simulation results of the impact of the reform of the CMO for bananas presented in Brussels are obtained using the revised version of the model, the same version used to produce the impact assessment of the EPA (the structure of the model is unchanged, but this version uses an updated data base, from 2002 to 2005); this simulations was not yet available when the presentation given in Guayaquil was prepared and the results presented there regarding the impact of the reform of the CMO are based on the first version of the model (the one using the 2002 data base; slide #7 of the presentation in Guayaquil provides the web reference for the downloading of the paper which provides full information about this simulation; slide #14 informs that a different version of the model has been used to assess the impact of the implementation of the EPA and of possible conclusions of on-going multilateral and regional agreements - this is the second version of the model, the one based on the 2005 data base - that this was “work in progress” and that a paper providing full information about these simulations was to become available soon); the assumptions made in assessing the impact of the reform of the CMO in the two versions of the model are identical (i.e. only the data base is updated) and, not surprisingly, the results obtained are similar and have the same normative implications; in fact, the text used in the conclusions offered in the presentations in Guayaquil and Bruxelles, based on the simulations performed using the two versions of the model, is identical (slide # 23 of the presentation in Guayaquil and slide # 14 of the presentation in Bruxelles) and reads “*The December 2006 reform of the EU domestic policy regime for bananas reduced the distortions in domestic production decisions and will bring a significant decline in EU domestic production of bananas and an equally significant increase in EU imports*”.
8. Finally, I will be happy to provide all documentation needed to fully understand the characteristics of the model, the assumptions it relies on and the results it yields to those interested (the paper which appeared in the *European Review of Agricultural Economics* and the one to appear soon in the *Journal of International Agricultural Trade and Development* are downloadable from the web page <http://www.ecostat.unicat.it/anania/ananiae.html>; on the same page the paper using the updated version of the model will be made available for downloading soon). I am willing and interested to present the model and its characteristics, as well as the results it yields, in *ad hoc* meetings with interested stake holders with the view of making potential end users of the results of the model more informed and, on my part, to collect ideas and information which may help updating and improving the model.