Evaluation of the system of entry prices and export refunds in the fruit and vegetables sector

Executive Summary

Final

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1. EVALUATION CONTEXT

This study is part of the evaluation of the Fruit and Vegetable (F&V) Common Market Organisation (CMO). The aim of the study is to provide an assessment of the effectiveness, efficiency and coherence of the Entry Price scheme (EPS) for fresh F&V and of the Export Refunds scheme (ERS) for fresh and processed F&V sector.

The evaluation covers the period subsequent to Council Regulation No 3290/94 of 21 December 1994 up until 2006.

The products within the EPS covered by the present evaluation are those established by the Annex to the consolidated version of Commission Regulation No 3223/1994. The list of fresh F&V products benefiting from export subsidies covered by the present evaluation, is established by Article 7- paragraph 2 of the consolidated version of Commission Regulation No 1961/2001. Processed F&V products granted by ER are those listed in the Article 3 of Commission Regulation No 1429/95.

A further list of F&V products, with and without the EPS and the ERS, have been chosen for the counterfactual analysis.

The evaluation is extended to the EU 25 area (EU 15 until 2004).

2. REGULATORY FRAMEWORK

The F&V CMO was introduced in 1972 by Council Regulation No 1035/72, aiming “to stabilize the Community market by preventing the price levels in non-EU countries and fluctuations thereof from having repercussions on prices within the Community”, “to achieve a balance between supply and demand at fair prices to the producer” and finally “to protect Community participation in international trade”. This Regulation introduced the system of reference prices and general rules for granting export refunds (ER scheme).

After the 1994 GATT Uruguay round of multilateral trade negotiations (URAA), the import regime for F&V was modified. The Agreement required the conversion of all measures restricting imports of agricultural products into customs duties (“tarification”) and prohibited the application of such measures in the future. Therefore Council Regulation No 1035/72 was amended by Council Regulation No 3290/94 while Commission Regulation No 3223/94 detailed rules for the application of the EP scheme, repealing the previous system.

The reform of the F&V CMO, introduced in 1996 by Council Regulation No 2200/96 and No 2201/96 (this latter for processed F&V products), did not modify the EP and ER schemes.

The Council Regulation No 1182/2007 of 26 September 2007, reformed the F&V CMO abolishing also the ER scheme for fresh and processed F&V products.

3. METHODOLOGY

In deciding how to evaluate the two schemes, we have had to face the problem of choosing between two alternative methodological approaches. The most direct analytical approach for the assessment of the impact of the EP and ER schemes would have been that of contrasting the historically observed data on prices and traded quantities for the products that have been involved in the schemes with those that would have prevailed if the two schemes were not in place.

Given the prior existence of trade policies regulating the EU F&V market, it was not possible to take the conditions existing before 1995 as a reference. One alternative could have been to form estimates of prices and quantities that might have prevailed in the absence of the two schemes to be evaluated, based on the explicit set-up of a theoretical model capable of taking into account all the various domestic and international
factors that determine the equilibrium values of imports and exports, but we considered this an impossible task.

These considerations led us to opt for an indirect approach, according to which the impact of the two schemes has been assessed by comparison of the data on traded quantities and prices of the products subject to the schemes with those of similar products that, over the same period, have not been subject to the two schemes. The rationale for such an analytical method is that any systematic difference that would be found between the group of products subject to one scheme, as a whole, and a group of similar products not subject to the same scheme, might be reasonably imputed to the latter.

Of course, the analysis must be carried out carefully, taking into account that possible differences might be also due to factors specific to the product or to the origin/destination country.

In addition to the counterfactual approach applied to descriptive statistics of the main market variables, the evaluation also made use of other analytical tools, such as:

- an econometric gravity model, allowing statistical assessment of the factors behind the bilateral trade flows of different products, expressly taking into consideration the impact caused by relevant trade measures;
- price elasticities of demand, used to evaluate the stabilising effects of the ERS by simulating the effects of a diversion of products benefiting from ER subsidies in the EU internal market;
- trade models based on a static partial equilibrium approach, used to simulate the effects of phasing out the two schemes;
- deep interviews, used to analyse the administrative procedures and management mechanisms of the two schemes, matched across the actors involved, at the EU Commission and National level of seven MSs involved in the interviews plan. These interviews also served to give qualitative information to the other evaluation themes.

A Preparatory Analysis on trends of the most relevant variables involved in the present evaluation was also conducted.

The study is structured around five themes: stability of the EU market; development of EU trade; competitiveness of the EU fruit and vegetables sector; management, administration and efficiency of the entry price and export refunds schemes; coherence.

4. EVALUATION RESULTS

4.1 Stability of the EU market

The first theme has been divided into two evaluation questions, one relative to the stabilization of the market in general, and the second to the potential role played by the instruments in preventing market crises.

From the vantage point of EU producers, the most relevant kind of market stabilization is the ability to prevent excessively low prices which might form on the market for F&V because of temporary surpluses that cannot be diluted over time through flexible marketing and storage management, given the high perishability of the products. It is on this aspect that we focused the analysis.

The effects of the EP scheme on the stability of the EU market

The stabilization role of the EPS is linked to foreign production trends. Production shocks abroad might generate unwanted price instability in the EU market if exports towards the EU closely follow the dynamics of domestic production in major exporting countries. We therefore thoroughly analyzed the relationships between production and exports for all major EU trade partners.

The comparison of daily Standard Import Values (SIV) with the trigger EP identified the conditions under which the maximum tariff equivalent (MTE) should be applied, showing very different situations. In general, for a large number of products and origin countries, the relative difference between the SIVs and trigger EP
has been constant or increasing, and only a relatively small number of SIVs were below the trigger EP. In these cases, the price structure seems to be linked to the geographic origin of imported products, with transportation costs playing a key role. However there are some products, such as tomatoes, lemons and plums that show a very different picture, particularly in the case of some origin countries, often close to EU borders.

Exports towards the EU by major exporting countries have not always proportionally followed increases in their domestic production, and the years of more abundant productions have not corresponded closely to years of low priced products being exported to the EU. Moreover, in none of the analyses performed a general common effect, that could unquestionably be linked to the functioning of the EPS, has been found: the behaviour of EU imports of products subject to the EPS, as a group, cannot be set apart from that of products not included in the scheme. This is not surprising, taking into account, on the one hand, the marketing strategies of large retailers chains, aimed at increasing the array of fresh F&V offered to their customers with products imported off season from southern hemisphere countries and, on the other, the way in which the retail chains organize their supply of fresh perishable foods.

As a general conclusion, we have to say that although a stabilizing effect of the EPS cannot be ruled out, it cannot be proved either, and that the evidence gathered tends to make the likelihood and the extent of such an effect rather negligible compared to the many other factors that determine the variability of fruits and vegetables imports. However, this result does not rule out the possibility that the EPS might have had a detectable impact in some special cases, and attention has been therefore directed to three of the most debated ones, namely the cases of tomatoes from Morocco, apples from China and lemons from Turkey, for which a detailed analysis of the link between daily prices and SIVs was conducted.

Having removed the seasonal component, EU prices appear to be independent from the values of Turkish lemons and Chinese apples, although the evidence cannot be used as proof that such independence is due to the functioning of the EPS. Other factors, including the limited relevance of these imports when compared to the size of the EU market, are likely to be at the root of such finding. Moreover, the analysis conducted on daily data for quantities of tomatoes imported from Morocco, although it has been conducted only for a limited period, shows that the EPS has no effects on imports when the SIVs are below the trigger EP.

Moving on to the role of the EPS in preventing crises, we noted that the likelihood of importing surplus crises depends on various concurring factors. First, given that – apart from cases of possible strategic trade – the price of imported products is necessarily bounded from below by average per unit transportation costs, imported crises are less likely to occur for products originating in very distant countries, especially in the case of fresh fruits and vegetables, for which transportation costs are sizeable. Second, apart from products whose consumption depends exclusively or mainly on imports (and for which price crises would be a bounty for European consumers with no damage to European producers), in order to have a significant impact on EU prices imports should reach the market in periods when there is already an abundant internal supply, which makes it less likely, for example, that crises might be imported from productions originating in the Southern hemisphere.

When all this is considered, there are only few remaining cases for which the question of whether the implementation of the EPS might have contributed to avoiding crises caused by abnormally low prices on the EU market becomes relevant, and in this evaluation we have focused on those. In particular, we have analyzed the cases of tomatoes and lemons, for which the two conditions of (a) being imported mostly from neighbouring countries, and (b) for which non negligible amount of imports add to EU production, are verified. We have also explored the case of apples, mainly because of the intense debate that has been formed around the exponential growth of imports from China witnessed in recent years.

The analysis has shown no evident sign of a sheltering effect played by the EPS against the risk of imported crises. The result might be due either to the fact that because of the way in which it is devised and implemented, the EPS is not capable of effectively guaranteeing protection against imported crises, or simply that over the period considered there has been no need to provide such a protection. Given the available data, however, it is difficult to credibly link the occurrence of SIVs below the trigger EP to cases of potential imported crises. The difficulty in determining the amounts of additional imports that the EPS has blocked makes it practically impossible to ascertain, other than as a plausible theoretical possibility, the role of the EPS in preventing crises due to excess supply in EU markets.
The indirect method of exploring the coincidence of periods when SIVs have been recorded below the trigger entry prices and periods when there were low EU prices and high recourse to withdrawals for two of the most relevant products (tomatoes and apples) revealed that only for apples the months of October 1998 and October 1999 have been periods of ‘crisis’, when withdrawals were actively used and at the same time low priced imports were entering the EU market. In particular, the first of the two identified periods might well have been a period of crisis for the apple market in the EU during which imports represented a threat, as highlighted through the recording of low SIVs. How effective the EPS has actually been in terms of preventing a further more intense crisis, however, is a question whose precise quantitative answer remains to a large extent vague, given the impossibility in estimating how much additional imports might have entered the EU market, and at what price, if the EPS had not been in place.

As a general conclusion, we can say that, although in principle the implementation of the EPS might contribute to preventing crises due to abnormally low prices, the conditions for which this could have been needed have been rare. Although a contribution of the EPS to preventing crises due to abnormally low prices cannot be ruled out, available objective information does not allow us to ascertain, even in those rare cases when it might have been needed, what it actually was in quantitative terms.

The effects of the ER scheme on the stability of the EU market

In principle, export refunds might contribute to stabilizing the EU internal market by increasing the attractiveness of foreign destinations for products that could otherwise be sold in domestic markets. With the aim of ascertaining whether such an incentive could produce a significant effect in terms of overall market stability, we developed the following series of judgment criteria:

- How often have export refunds actually been granted?
- What is the likely effect of the ERS on the quantity of products available in EU markets?
- What effect would the absence of the ERS have had on F&V prices?

Over the period 1995-2006, export refunds were granted to non negligible quantities of exports of oranges, lemons and apples, and, to a lesser extent, of tomatoes and grapes. However, only for oranges and lemons did the quantities receiving ER make up relevant shares of EU domestic production, and therefore the question of assessing the potential impact of ER on the stability of the EU market assumes, for these two products, a particular significance. The most direct way to determine the effect of the ERS on both quantities and prices is by predicting which quantities would have reached the domestic market (and consequently the predicted price level) if the ERS has not been in place. The easiest, and to some extent over simplistic, assumption is that the quantities exported, and that have received export refunds, would have been sold in the internal market for consumption. The potential impact on quantities and prices has therefore been explored by a sensitivity analysis carried out on various possible values of relevant demand elasticity. We found that unreasonably low absolute values of the price elasticity of demand would be needed for the ERS to have produced sizeable effects in terms of overall EU price variability.

We also explored the extent to which the presence of export refunds might have been an incentive towards increased production, exports or both. The analysis of correlations between changes in export refunds and changes in total exports and in total production shows no clear sign of a potential incentive of the presence of the ERS. Although the result should be handled with due caution, given the limited number of years on which the analysis was conducted, the presence of the ERS might have generated non negligible deadweight effects, in the sense that observed exports could also have been realized without the granting of export refunds, with no significant impact on quantities and prices at the EU level. Without detailed data on the specific origin, destination and prices of products receiving refunds, however, we could not pursue the issue of the deadweight effects linked to the ERS further. It remains a very interesting question to be explored, especially in terms of who the beneficiary of the ERS might have been. It seems plausible, however, that the ERS might have had an effect in terms of the distribution of exports by destination, by increasing the amount of fresh F&V reaching neighboring countries, such as some of the Central and Eastern European countries.

We also compared variations on quantities exported and on prices, for the set of products chosen for the counterfactual analysis, and did not find a clear distinction that could be led back to the presence of the ERS. The evidence taken all together suggests that, even if a stabilizing effect on EU domestic prices of the ERS cannot be ruled out, available data does not allow us to distinguish it from the effect of other factors outweighing it.
The analysis of the ERS has been instructive in revealing the overall relevance of the phenomenon and the potential impact that the system might have had on the stability of the EU market. The two parallel roads followed in trying to isolate and highlight the possible effect of the ERS in terms of induced stability of the internal market have led to a similar result to that found for the EPS. Even if a stabilizing effect on EU domestic prices of the ERS cannot be ruled out, available data show that there have been other factors outweighing it. For the ERS, based on an objective analysis of available data, we conclude that it had negligible effects in stabilizing the EU Fruit and Vegetable market.

Export refunds might have contributed to avoid crises to the extent that some of the excess in domestic production has found an outlet in the foreign markets that would not have been profitable without the refunds. Given that withdrawals have been effected by EU producers to avoid such occurrences, the role of the ERS in preventing crises, if any, should be considered as complementary to that of withdrawals. We therefore compared the timing of ER to that of recourse to withdrawals on a per product basis. Moreover, we compared the levels of prices of the products most involved in withdrawals with the amount of exports of the same products (if any) that have received refunds, to emphasize any possible link between crises identified by the high use of withdrawals and the recourse to export refunds. The analysis was conducted for the most highly disaggregated periods for which data on ER granted, by product, were available, that is on a bi-monthly basis, and for the products which have been subject to withdrawals, namely tomatoes, peaches and nectarines, table grapes, apples, oranges and lemons. The conclusion has been that, the exploitation of the possibility of exporting surpluses and receiving refunds has, only in the case of peaches and nectarines, complemented the use of withdrawals. Even in that case, however, the quantities involved are small when compared to the total EU production, which leads us to conclude that export refunds have not been used in the EU to prevent crises due to abnormal low prices. For table grapes, lemons and oranges, the role of export refunds as a mechanism for crisis prevention must be considered secondary. To the extent that the role of withdrawals in the recent past has been considered of minor relevance, in terms of protection of the market from possible crises, our conclusion is that the role of the ERS must also be considered limited for the recent past.

4.2 Development of EU trade

As regards the EPS, the study combined the analysis of trade flows, calculation of protection levels on preferential and non preferential imports and an assessment of the phasing out of the EPS by using a partial equilibrium model. As regards the ERS, the analysis looked at the dynamism of EU export flows, the extent to which export changes can be associated with changes in ER and the use of a partial equilibrium model to assess the phasing out of the ERS for selected products.

The effects of the EP scheme on the development of EU trade

Development of EU imports of products within the EPS. The analysis considered 9 products within the EPS (tomatoes, artichokes, cucumbers, oranges, clementines, apples, pears, table grapes and courgettes) and 8 products outside the EP scheme (onion, beans, asparagus, sweet peppers, grapefruits, melons, strawberries, kiwifruit). There is no evidence that the EPS has constrained import growth of the relative F&V products in the period 2000-2002 to 2004-2006, at least in comparison with the post-URAA period (1995-97 to 2000-2002). A first explanation refers to the implementation of the URAA agreements that pointed to a significant reduction of the protection provided by the system during the period 1995-2001. A second explanation concerns other reasons why value upgrading can take place, such as the increase in transport costs and the quality demand of retailers. This trend is supported by the fact that the value of imports in the EU, valued in USD for most of the considered F&V, has grown faster than corresponding volumes, as is happening in other major importer countries. Nevertheless, the EPS functions when an import surge, at a price below the trigger EP level, takes place as happened for pear and apple products in recent seasons. The EPS can also be relevant for certain seasons, products and suppliers, in particular products of a perishable nature and origins having lower transport costs to the EU market. We consider the EPS as a way of signalling market perturbations rather than a relevant trade restriction.

Protection and preferences. Ad Valorem Equivalents were calculated to measure the protection level implied by the EPS, under different preferential partners and products. In short, except for the cases of tomatoes and
cucumbers in certain seasons and surplus situations, reduced EPs have had little influence on trade flows. The value of the preference margin or tariff revenue forgone by the EU with the preferential schemes is in general of little importance. There was only a significant relevance of the EP reduction in monetary terms in the case of Moroccan tomatoes and, to a lesser extent, Moroccan clementines.

**Analysis of policy changes.** A partial equilibrium trade model helped to simulate the impact on monthly import flows in the EU-25 from main sources that would result from the phasing out of the EPS. For the products considered in the model application (two vegetables; tomatoes and cucumbers; and two fruits: table grapes and clementines) the impact of removing the entry price seems negligible in several months. Vice-versa the model shows significant effects on EU imports only in given months by product (e.g. November for tomatoes). The maintenance of the system could therefore be restricted, by product, to those periods of the marketing year when occurrences of SIVs below the trigger EP are most recurrent.

**The effects of the ER scheme on the development of EU trade**

**Development of EU exports of products within the ER scheme.** In the period 1995-97 to 2004-2006, the dynamism of EU exports of F&V products within the ERS was generally worse than that of products not benefiting from the ERS. Nevertheless, it seems difficult to isolate the impact of the ERS from other effects that determine export competitiveness. In the case of fresh fruits such as oranges and apples, the increasing competition of a wider variety of fresh fruits, many of them exotic in nature, does not favour export growth. Because of non-price factors including the role of private standards, we cannot come to firm conclusions about the reasons why products within the ERS performed worse than products outside the scheme.

**Extent to which the reduction of export refund reduces export growth.** Total ER expenditure for total fresh F&V reached about 38% of the WTO ceiling in 2005-2006. In the last two seasons expenditure increased slightly for some products, in particular fresh apples, which is clearly related to EU Enlargement. The percentage of exported quantities eligible for ER also declined dramatically. For total fresh F&V this percentage decreased from 53% in 1995-1995 to 20% in 2005-2006. For processed F&V the decrease was even larger, from 31% in 1995-1996 to 14% in 2005-2006. Average expenditure figures are presently about 5% of the export price for products like oranges and lemons, with significantly lower rates for all other products covered by the ERS. These levels cast doubts as to the effectiveness of the ERS for export promotion strategy, unless the subsidies are concentrated on targeted shipments or destinations. There is no evidence of an association between ER expenditure and export changes. This supports the hypothesis suggested by some trading experts, who see the ERS as a measure to alleviate the EU market in times of saturation rather than an export promotion strategy.

**Assessment of policy changes in the ERS.** A partial equilibrium trade model was used to simulate the impact of a full removal of export subsidies on apples, table grapes, fresh tomatoes and oranges, products that account for 80% of export refunds for fresh F&V. Only oranges appeared to be slightly affected by the phasing out of the ERS. Therefore phasing out of the ERS appears to be a welfare improving measure that would allow budgetary resources to be used more efficiently.

### 4.3 Competitiveness of the EU fruit and vegetable sector

The evaluation theme is aimed at understanding the effects caused by the EP and ER schemes on the ability of the EU F&V sector to compete both on the internal and on the world market, and in terms of market orientation, which can be considered as the ability to react to changes in market signals. The analysis for fresh F&V was carried out using descriptive indexes calculated for different products and origin or destination countries, using the counterfactual analytical approach, by:

- building indexes that measure the competitiveness of EU products in the period following the implementation of the new ERS and of EPS (post-URAA);
- estimating the effects of the EPS and ERS on producer prices.

In the case of processed F&V our analysis was based on the previous Agrosynergie “Evaluation of measures regarding processed tomatoes” and “Evaluation of measures regarding fresh and processed peaches, nectarines and pears”.
The effects of the EP scheme on the competitiveness of the EU fruit and vegetable sector

The various indexes proposed to synthesise the competitiveness of the EU F&V sector have compared the performance of products covered by the EPS with that of products outside the system. In general, the indexes show that the ability of the EU F&V sector to compete in world markets is significantly affected by Euro exchange rate trends. This phenomenon does not seem to be related to the kind of external protection characterising different products, since it affects both F&V under the EPS and products outside it. In this situation it is difficult to isolate the effect played by the EPS. What can be said, in keeping with the findings of the previous evaluation theme, is that the EPS has not kept imports of F&V products out of the EU market, particularly those from southern hemisphere countries, in periods in which they do not compete directly with EU production.

The counterfactual analysis showed that prices of products either imported out of the EU production season, or from faraway countries, are generally higher than EU farm prices, while the prices of products competing directly with EU domestic production are often lower. However, the effect of the EP is not clearly separable, since what has been observed for farm prices is also true for F&V under the EP scheme and for products outside it. In this situation it is not possible to firmly conclude that the EPS is able to affect price signalling by reducing the market orientation of EU farmers.

The effects of the ER scheme on the competitiveness of the EU fruit and vegetable sector

After the implementation of the ERS, the competitiveness of EU exports of F&V in world markets showed an improvement for some fruits outside the ER scheme. On the other hand, the competitiveness of EU exports of oranges, the product that benefited most from ER, was reduced. Given the large and continuous decrease of both the unit subsidy and the quantity of oranges that received ER, it is possible that in the past, before the implementation of the URAA and immediately after, the ERS helped the external competitiveness of that product.

The analysis has not been able to assess the effects of ER granted to processed F&V on their competitiveness. This is due to several factors linked to the joint effect with the processing aid, in the case of processed tomato, or because of the lack of data on the ER for sugar added in processed fruit.

The effects of the ERS on farm prices are more difficult to assess. Our analysis does not allow us to conclude that the ERS had effects on farm prices by distorting price signalling. Therefore it has not been possible to ascertain if the ER had a distorting effect on farm market orientation.

We have already underlined that price competition is becoming less important than in the past, while competition is increasingly linked to non-price factors like the ability to meet supply requirements requested by large retailer chains. These requirements are related both to the timing and articulation of supply and to the fulfilment of the private quality standards that have become compulsory when supplying large retailers. In this framework, it is quite understandable that the configuration given to the ERS was growingly unfitted to provide a support to external competitiveness of EU fresh F&V.

4.4 Management, administration and efficiency of the Entry price and Export refunds schemes

To evaluate the management and administration system we focused on the assessment of the simplicity of the most relevant procedures, of both EP and ER schemes, and on their proportionality in achieving the specific objectives of both the schemes. This was carried out by means of:

- deep interviews with 55 organisations in seven MSs,
- analysis of regulatory frameworks and of procedure implementation at different levels (both EU Commission and MSs level),
- analysis of Commission Audit reports, Court of Auditors special reports, as well as guidelines and other documentation published at national level.

The evaluation judgement on efficiency of both EP and ER schemes was formulated as a synthesis of specific analysis paths that deal with the efficiency of each instrument vis-à-vis its objectives and financial sustainability. The analysis carried out in this evaluation theme has been based on: (i) the results of the
previous themes, (ii) deep interviews, (iii) the comparison of each scheme with measures/instruments having similar market stabilization and support objectives.

Management and administration of the EP scheme

The procedures we first identified, through a desk analysis on existing Community regulations, as the most relevant for the functioning of the EPS and therefore to be analysed, are as follows:

1 - Data collection at a national level in representative markets,
2 - SIV calculation,
3 - EP data publishing,
4 - Implementation of TARIC data at the national level,
5 - Operator’s choice of method for EP declaration,
6 - Customs clearance, controls and duty payments.

In order to gauge the simplicity level perceived by stakeholders for each procedure, a grid was constructed cross-referencing on the one hand the identified procedures and on the other the opinions given by the various actors interviewed, classified by 4 specific criteria chosen to measure the simplicity of procedures: (i) Clearness and transparency, (ii) Accessibility of operators to the scheme, (iii) Level of “non-bureaucracy”, (iv) Procedure's adequacy for the correct functioning of the scheme. The analysis highlighted that these procedures are generally perceived as sufficiently simple. The only exception was the “Deductive method”, as part of procedure 5 – “Operator’s choice of the method for the EP declaration”, which is considered to be too risky and complex by operators and not sufficiently transparent by customs offices.

The analysis of proportionality was based chiefly on detecting possible shortcomings and excesses of procedures. It emerged that procedures are considered as being adequately proportionate to the goals of the EPS, nevertheless the following major criticalities emerged:

- At present “Data collection at the national level in representative markets” is differentiated by MS, with direct data surveys in the market and telephone-based data collection. Therefore some proposals were put forward to improve the actual system and to eliminate the lack of homogeneity among MSs.
- SIV calculation method and parameters (i.e. deductions for transport and insurance costs) have not been updated since 1994, to address the structural and context changes over time of the F&V market, thus resulting in the risk that SIVs levels could be considerably lower than the actual market prices.
- Both procedures “EP data publishing” and “Implementation of TARIC data at the national level” proved to be sufficiently simple and proportionate to the objectives. However, there emerged the need to replace daily SIV publishing with a weekly (or a twice-weekly) publication of the average of daily SIVs in order to guarantee the stability of domestic prices and remedy the unpredictability of daily SIV fluctuations.
- The implementation of the general Custom clearing procedure, which is based on the importer’s free choice among three different duty calculation methods, although in accordance with Commission Regulation No 3223/94 appears to be at odds with the Community Customs Code, which does not allow this free choice.
- The “Customs clearance, controls and duties payments” procedure is perceived as being very clear, standardized and sufficiently simple.

Efficiency of the EP scheme

The analysis of operating costs concerning Entry Price management might have given some interesting elements for the evaluation of the efficiency of the instrument. However, apart from a qualitative representation of the phenomenon, we do not have sufficiently detailed information. Moreover, the results described in the previous evaluation themes failed to isolate the actual contribution of the EPS in terms of price stabilization and product’s competitiveness. Therefore as a possible alternative methodology to assess whether the EPS is justified (or not) with respect to the results it could achieve, we compared it with other existing border measures, namely: 1) the EU import regime applied for F&V products outside the EPS; 2) the new simplified system for the valuation of certain fresh F&V imported on consignment. The analysis
shows that the EPS can achieve a broader range of results, if compared to these two border measures, although the functioning and management of these alternative measure entails a notably smaller amount of human resources than the EPS.

According to the results obtained in the previous evaluation themes, we conclude that, as efficiency is concerned, the maintenance of the system could be restricted, by product, to those periods of the marketing year when occurrences of SIVs below the trigger EP are most recurrent.

Furthermore if the concept of efficiency also includes the improvement of market transparency conditions, for the purposes of its stabilisation, one must recognise the contribution of the EPS in this sense, thanks to the publication of the prices of products (daily SIVs publication) entering Community borders.

As far as the “opinion of stakeholders on the EPS efficiency” is concerned, it resulted strongly tied up to the productive or trading character represented by the stakeholders we interviewed, and the overall positive or negative perception resulted as overestimated by the stakeholders if we match it with the overall analysis results we reported on actual effectiveness of the EPS.

**Management and administration of the ER scheme for fresh and processed products**

Our analysis focused on 4 most relevant procedures and it is based on the opinions collected by means of deep interviews to only 28 of the 55 organisms interviewed. It must be stressed that the restricted number of interviews is due to both: (i) in some MSs there has been any actual application for ER in recent years; (ii) very few operators benefiting from ER for processed products made themselves available for our interviews.

It emerged that procedures are generally perceived as being sufficiently simple but not always proportionate to the objectives, although also in this case with some differentiations:

- The lodgement of a 20 euro/ton security requested for “A3 Application system with advance fixing refunds” seems to work as a constraint for medium and small exporting firms.
- The unpredictable availability of ER in the “B Application system without advance fixing refunds”. Indeed, each periodical allocation of ER by product is exhausted very frequently in the first 8 to 15 days.
- Customs checks procedure is excessively bureaucratic and complicated for fresh and processed products.
- The excessively high number of documents requested and checked within the “ER payments” procedure is not proportionate to benefits received.

**Efficiency of the ER scheme**

The efficiency of ERS both for fresh and processed F&V was assessed by comparing the cost of support instruments with results obtained in terms of price stabilisation as well as in supporting the EU F&V products’ competitiveness.

The efficiency of the ER instruments in achieving their goals was also assessed by comparing expenditure for ER with measures having similar market stabilisation objectives: F&V withdrawals and promotion measures for agricultural products, as developed in third countries (Council Regulation No 2702/1999).

Resuming the analysis on ER conducted in Theme 1, it emerged that while the expenditure for withdrawals generated concrete effects for price stabilization, the ERS’s actual contribution in terms of efficiency is not clearly identifiable, and is only linked to some products, like oranges and lemons, in conditions of unreasonably low price elasticity, while in other cases the impact was considered negligible.

The general appreciation for the instrument, provided by operators, appeared to be overestimated if compared to actual effectiveness of the ERS we reported, although it is to be stressed that some relevant elements of the world F&V scenario as: (i) the growth in production and in trading of F&V at a world level; (ii) changes in consumption patterns worldwide; (iii) changes in the organisation of the supply chain; (iv) lowering of transportation costs, have to be considered in evaluating operators perceiving on the ERS efficiency.
The comparative analysis on efficiency we conducted between ERS and measures having similar objectives of boosting exports, as promotion measures for agricultural products in third countries, showed that in terms of cost these two policies are running on the same levels, but in terms of impact, pending a specific appraisal of efficiency, it has been ascertained from mid-term analyses that stakeholders have expressed great interest in promotional programmes focused on the internal market rather than in third countries. Therefore we can conclude that this instrument cannot be considered at present as an efficient alternative to the ERS in “ensuring export sales at world market prices”.

### 4.5 Coherence

The analysis conducted within Theme 5 was aimed at assessing the existing degree of coherence or contradiction between the objectives of the two different schemes, EPS and ERS, vis-à-vis the objectives of a requested set of policies and measures. Therefore we have defined as:

- **“internal coherence”** the existing interactions between both EPS and ERS and, on the one hand the objectives of F&V CMO trade measures, and on the other hand the overall objectives of the CAP, as reformed by the Council of Ministers in June 2003.
- **“external coherence”** the relationships between both schemes (EPS an ERS) and the objectives of the Common Commercial Policy (CCP) and the Development Policy (DP).

#### Internal coherence of EP and ER schemes

The internal coherence matrix we created between the trade measures of the F&L CMO (EPS; ERS; TRQs - tariff rate quotas; SSP - special safeguard provisions and the resulting duties on additional quantities) clearly shows the absence of measures that impede the attainment of the objectives of both EP and ER schemes. Furthermore, a general convergence of trade measures towards the global objectives of the two schemes was found: “stabilising community markets” and “ensuring a fair income to the rural population”.

A specific matrix was built to perform an internal coherence analysis between EPS and ERS and the reformed CAP, comparing Council Regulation (EC) No. 1782/2003 objectives with the intermediate objectives of the two schemes (EPS and ERS) provided for in Council Regulation (EC) No 2200/96 and No 2201/96). The analysis highlighted that the two schemes, introducing elements of distortion within the F&V sector, appear as being theoretically not coherent with the principle underpinning the reform: stronger market orientation. The ERS operates using incentive systems, such as the encouragement to produce: this theoretically encourages production choices that do not fully correspond to the logic of competition promoted by the reformed CAP. With reference to the EPS, it makes theoretically possible to keep internal prices (for the products within the EPS) higher than would have been obtained in its absence, thus the scheme theoretically influences the productive choices. This first conclusion of an existing contradictory relationship between both schemes with the reformed CAP has to be carefully considered taking into account relevant contextualization elements of the actual functioning of these analysed schemes. The results of quantitative analyses on effectiveness we have previously reported show that no clear result has been achieved by the ERS, as well as it is not possible to firmly conclude that the EPS is able to affect prices and the market orientation of EU farmers. Therefore although at a first glance we can deduct a theoretical contradictory relationship between both the ERS and EPS with the reformed CAP, the quantitative results we achieved lead us to conclude that the actual functioning of both schemes did not result in an concrete distortion of the free functioning of EU market.

#### External coherence of EP and ER schemes

By means of a logical analysis on the theoretical effects of the EPS, DP and CCP, it appeared that the simultaneous interaction of the three different policies - CAP, DP and CCP - provides for a “system coherence”. The Preferential Duty Rates indeed, granted through the implementation of CCP preferential arrangements to all of the developing countries where DF provides for financial and technical aid, rebalances the possible existing incoherence between the EPS (based on a differentiated system of import duties which could represent a barrier to developing countries’ exports to the EU) and Development policy measures. Furthermore, considering the results of the analysis conducted in Theme 1 on how often SIVs have fallen
below the trigger EP (thus determining a concrete barrier for EU imports from third countries), it emerged that farm specialization, as well as climate conditions in developing countries, determine that possible production and exports to the EU market of F&V products within the EPS are not actually frustrated by the functioning of the EPS.

For ERS external coherence too our first approach was a logical analysis of the possible interactions and/or theoretical effects of the ERS, DP and CCP. It first emerged that the ER scheme is fully coherent with the CCP, the latter implying uniform conduct of trade relations with third countries, in particular by means of a common customs tariff and common import and export regimes.

On the other hand, we established the existence of a theoretically contradictory relationship between the ER and DP schemes. Namely the absence in EC Regulations of limitations or differentiations on export subsidy levels, depending on the destination country of exports, may directly or indirectly interfere with DP objectives due to: (i) a loss of domestic market shares of domestic production in developing countries, caused by the access to those markets of products granted by EU subsidies; (ii) a loss of possible international market shares of developing countries’ production, caused by competitive exports granted by EU subsidies. Furthermore, specific findings of actual occurrences of EU exports granted by ER, also in developing countries where DP is effective, lead us to conclude there could be a contradictory relationship between ER effects and Development policy objectives. These first conclusions have to be carefully considered taking into account relevant contextualization elements of the actual functioning of ER and DP schemes, which are clearly pointing to the general conclusion that the ERS does not necessarily interfere with developing countries production, thus limiting the general and theoretical incoherence judgement of ERS vis-à-vis EU DP, which might appear at first glance.

5. RECOMMENDATIONS

After the start of the evaluation exercise, Council Regulation (EC) No 1182/2007 of 26 September 2007 reformed the CMO of the F&V sector, abolishing the granting of ER for F&V. Therefore we do not put forward recommendations on this scheme.

With this premise, our main recommendations for possible ways of improving the current EP system, following the evaluation themes’ order, are as follows:

1. A simulated phasing out of the EPS resulted in a negligible impact on import flows in several months and significant effects only in given months by product. Consequently, as efficiency is concerned, we recommend the maintenance of a flexible system restricted, by product, to those periods of the marketing year when occurrences of SIVs below the trigger EP are most recurrent.

2. The daily SIV fluctuations, which can be relevant, have resulted in a destabilizing effect on operators’ decision making processes. In order to remedy the unpredictability of daily SIVs fluctuations and to further simplify this procedure, it is therefore recommended that daily SIVs publications be replaced with a weekly (or twice-weekly) publication of the average of daily SIVs. Therefore this should not modify the daily data collection of prices and volumes on representative markets which represents, at present, a useful market monitoring instrument.

3. This evaluation has highlighted the absence of a standard and homogeneous procedure to collect data on market prices and volumes. As a consequence, the quality of data supplied to the EC can differ widely from MS to MS. Therefore, we recommend the definition of a standardized procedure for collecting, at national level, and cross-checking or validating data on market prices and volumes.

4. The results of our analysis reveal that procedures to calculate SIVs do not take into account the changes that have occurred in prevalent marketing channels of F&V. The increasing share of large retailer chains in the fresh food retailing sector has substantially modified the marketing channels of these products. Growing quantities of F&V are procured through long-term contracts between large suppliers and distribution platforms of large retailers, thus reducing the relevance of traditional marketing channels.
These elements lead us to recommend a study on how to revise the process of price data collection for a better assessment of the real relevance of imported fresh F&V.

5. One of the major criticisms detected by the present evaluation concerns methods and parameters for computing SIVs. We have reported that SIV levels are frequently noticeably lower than the actual market prices to which they refer. Possible causes of this distortion can be related to the fact that SIV calculation methods and parameters: (i) have not been adjusted to increasing transportation and insurance costs; (ii) are based on wholesale prices and not on the final prices of the large-scale retailers, who have the most weight on markets; (iii) still consider as reference the prices on representative markets as established by Commission Regulation No 3223/94, despite the fact that, over the years, some of those markets/entry points have lost their relevance and are now marginal. This leads us to recommend a possible updating of SIV computation methods and parameters.

6. The evaluation has highlighted an apparent contradiction between Commission Regulation No 3223/94, which introduced the three EP declaration methods from which to choose “at the discretion of the importer” and the Community Customs Code (CCC), which does not allow this free choice. Thus we recommend that a single interpretation be found by the EC to clear up this dispute.