Agricultural Issues in the EU Association Agreement

by

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The **negotiating position and strategy** of Egypt in the renegotiation of the Association Agreement on agricultural and food trade should:

- Build upon the **aims** of the existing Agreement;
- Strive toward a **unified and internally consistent outcome** that assures gains in the completive position in the EU market through growing access for existing agricultural commodity trade, as well as assured access for new products and processes, coupled with development and adjustment assistance.
- Recognize that the **context and format** of the existing association agreement will be, to a large extent, those of the outcome of the renegotiation.

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"The **aims** of this Agreement are to:

- provide an **appropriate framework** for political dialogue, . . . development of close political relations . . .;
- establish **conditions for the progressive liberalization** of trade in goods, services and capital;
- foster . . . balanced economic and social relations . . . through dialogue and cooperation;
- contribute to the **economic and social development** of Egypt;
- **encourage regional cooperation** . . . peaceful co-existence and economic and political stability;
- **promote cooperation** in other areas . . . of mutual interest."

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Unified and Internally Consistency Strategy and Position

Framework

Progressive Liberalization

If gains can not be realized in a trade outcome, then compensation or adjustment should be sought in development aid.

Economic and social development

Regional Cooperation

Framework

<u>CHAPTER 2</u> Agricultural, Fisheries And Processed Ag. Products

<u>**ARTICLE 13**</u>: ". . . shall progressively establish a greater liberalization of their trade in agricultural, fisheries and processed agricultural products . . ..”

<u>**ARTICLE 14**</u>:

(1) Ag. products <u>originating in **Egypt**</u> listed in <u>**Protocol 1**</u> . . .;

(2) Ag. products <u>originating in the **Community**</u> listed in <u>**Protocol 2**</u>

(3) Trade for <u>**processed agricultural products**</u> . . . shall be subject to the arrangements set out in <u>**Protocol 3**</u>.

<u>**ARTICLE 15**</u>: “shall examine . . . to determine the measures to be applied . . . from the beginning of the fourth year.”

“shall examine . . ., product by product . . ., the possibility of granting each other further concessions.”

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Propose New Framework

- Replace Articles 14 and 15 (Chapter 2) with:
  - Commit to treatment like industrial products – total elimination of tariffs and other barriers;
  - A timetable for elimination of barriers to food and agricultural trade (as in industrial products);
  - Agreement for a phased elimination of all barriers to trade in all food and agricultural products
    - Could be modified with (product-by-product) exceptions to total elimination.

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What is Protocol 1?

"... arrangements applicable to ... ag. products originating in Egypt"

<u>Protocol 1 specifies</u>:

- CN Code;
- Product Description;
- <u>Reduction of the MFN customs duty</u> (Column A);
- <u>Tariff quota</u> (Column B);
- <u>Reduction of the customs duty beyond the tariff quota</u> (Column C); and
- <u>Specific provisions</u> (Column D)

<u>Specific provisions</u> include:

- Agreement to application of [minimum] entry [import] prices

(See notes on slide 8 for further information)

Approach to Protocol I

- Protocol I includes ‘sensitive’ products.
- Overall: reduce its importance/use by
  - Eliminating entirely (see slide 6);
  - Reducing number of products covered;
  - Reducing the number of columns (see next slide);
  - Reducing or eliminating special provisions;

CN Code	Description	Reduction MFN customs duty (A)	Tariff quota (Tons) (B)	Reduction . . .beyond the tariff quota (C)
0805 20	Mandarins. . .	100	–	–
ex 0701 90 51	New potatoes, fresh or chilled, from 1 January to 31 March	100	year 1:130 000 year 2: 190 000 year 3 :250 000	60

Format of Protocol I: It establishes, first, general agreement and coverage, (See 0805 above) and, second, exceptions (See ex 0701 90 51)

Position Strategy: Prioritize estimated gains from changes (which tariff lines/products are most important to Egypt.)

Negotiating Strategy*:

Eliminate all exceptions (doubtful, but very helpful).

Eliminate or modify special provisions. (**1st priority**) (See slides 10 and 11)

Increase tariff-rate quota at an agreed/specified annual rate (3%). (**2nd priority**)

Increase reduction in tariffs for above quota imports. (**3rd priority**)

*(Product-by-product; 8 digit CN code)

Special Provisions: Para4 & Letters

"4. For the products for which the specific provisions in column "D" refer to this paragraph, the tariff quota volumes listed in column "B" shall be increased annually by 3% . . . ."

Of importance: Specifies, on a product by product basis, an increase in certain import quotas by 3% annually. This could be negotiable on a 'blanket' basis; that is, accepting that Paragraph 4 applies to the currently specified products, at a minimum a continuation of the 3% annual growth could be accepted, but something greater might be achieved.

Exchange of letters: Further special provisions are laid down in an 'exchange of letters." For cut flowers, this lays down the determination and acceptance of (minimum) entry price.

Special Provisions: Oranges

5. From 1 December to 31 May, for sweet oranges, . . . within the limit of the tariff quota of 34 000 tons . . ., the agreed entry price . . ., from which the *specific duty provided in the Community's list of concessions to the WTO* is reduced to zero, is:

– EUR 266/tonne, from 1 December 1999 to 31 May 2000,

– EUR 264/tonne, for every period thereafter, from 1 December to 31 May.

If the entry price for a consignment is 2, 4, 6 or 8 % lower . . ., the specific customs duty shall be equal respectively to 2, 4, 6 or 8 % of this agreed entry price. If the entry price . . . is less than 92 % of the agreed entry price, *the specific customs duty bound within the WTO shall apply.*

Of importance: EU's WTO commitments guide this special provision. Could accept less than that, but can not achieve more. Could negotiate an increased quota, which is not bound in the WTO, but the basic organization of the EU market regime will be unchanged/can be challenged.

Within Marketing Year Quota: "Tariff quota applicable from 1 July to 30 June. Of this volume 34 000 tons for sweet oranges, fresh, falling within CN codes ex 0805 10 10,ex 0805 10 30 and ex 0805 10 50, during the period from 1 Dec. to 31 May

Top 10 Egyptian Agricultural Exports, Value, Current Regime and Negotiating Strategy

Item CN	Exports (mil $)	Current Policy Regime	Negotiating Strategy
New Potatoes 0701 90 50	55.4		Increase import quota. Prior increases were generous. Decrease out-of-quota tariff
Cotton 5201 00 90	53.8	Articles 7 and 12	
Beans 0708 20	27.9	Protocol I: Import quota (15, 17.5, and 20 tons. Tons)	Increase import quota
Table Grapes 08061010	20.8	Protocol I: Exception, but not acted upon.	Maintain status
Sausage Casing 0504	20.5		
Onions, Dried 0712 20	14.7	Protocol I: Import quota	Protocol I Para. 4.
Molasses, Cane 17031000	11.5		
08051030 Oranges, navel	11.3		
Strawberries 08101000	10.9		
08051020 Oranges, Sweet	9.2		

Potential Gains

- For products facing a quota and an entry price*:
  - Entry price multiplied by change in quota is directly the change in export revenue;
  - Producer price change is the price flexibility of excess supply multiplied by the proportional change in the quota;
  - Producer surplus/profit change can be calculated directly, and can use sensitivity analysis (on price flexibility) to show ranges.

*See Annex slides 1,2 and 3.

Potential Gains

- For products facing only a quota*:
  - If Egypt is a small player in the market (with little impact on consumer prices) the export unit value multiplied by the change in the quota is directly the change in export revenue;
  - Producer price change is the price flexibility of excess supply multiplied by the proportional change in the quota;
  - Producer surplus/profit change can be calculated directly, and can use sensitivity analysis (on price flexibility) to show ranges.
- If Egypt affects internal EU prices, the analysis must be modified accordingly.

*See Annex slides 1,2 and 3.

Top 10 Egyptian Agricultural Exports, Negotiating Strategy and Potential Gains/Losses

Item CN	Exports (mil $)	Negotiating Strategy/Outcomes	Potential Gains/Loses
New Potatoes 0701 90 50	55.4	Increase import quota. Prior increases were generous. Decrease out-of-quota tariff	
Cotton 5201 00 90	53.8		
Beans 0708 20	27.9	Increase import quota	
Table Grapes 08061010	20.8	Maintain status	
Sausage Casing 0504	20.5		
Onions, Dried 0712 20	14.7	Protocol I Para. 4.	
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Internal Consistency

- If elimination in barriers is not achieved, or if barriers are not significantly reduced, to be internally consistent and to be in line with the aims of the Agreement:
  - Development aid should be negotiated:
    - Agricultural Product Quality Initiative (APQI)
    - Opening of small windows for higher quality/consumer attribute products.
  - Adjustment aid should be negotiated:
    - New Agricultural Product Initiative (NAPI);
    - Opening of small windows for these ‘new’ products.

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Other Items: Sensitive Products

- "Sensitive Products"
  - Interest: importance placed on defining sensitive products, and agreeing on special treatment, in the WTO negotiations; opinion is that such an approach will survive to the final agreement.
  - Defining certain products as sensitive now may lead to an application of the WTO outcome in the bilateral association agreement.
  - Egypt should resist an approach that uses this approach, and argue that it will be addressed in the WTO agreement.
  - Egypt should argue that Protocol I is the approach to use.

Other Items: Safeguards

ARTICLE 24

1. The . . .Article XIX GATT 1994 and the WTO Agreement on Safeguards shall apply . . ..

Before applying . . .shall supply the Association Committee with all relevant information required for a thorough examination of the situation with a view to seeking a solution acceptable to the Parties.

. . .to find such a solution, the Parties shall immediately hold consultations . . .. If, . . .do not reach an agreement within thirty days . . . the Party . . . may apply the provisions of the . . .GATT 1994 and the WTO Agreement on Safeguards.

3. . . . Parties shall give priority to those which cause least disturbance . . .

4. Safeguard measures shall be notified immediately . . .and shall be the subject of periodic consultations . . ..

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Other Items: Safeguards

Analysis

Has it worked over the past three years?

Does Egypt want to maintain the framework of a separate agreement on safeguards with the WTO as a fallback position?

Is it to Egypt's advantage to codify the kinds of actions that can be taken?

Opinion: No change is necessary.

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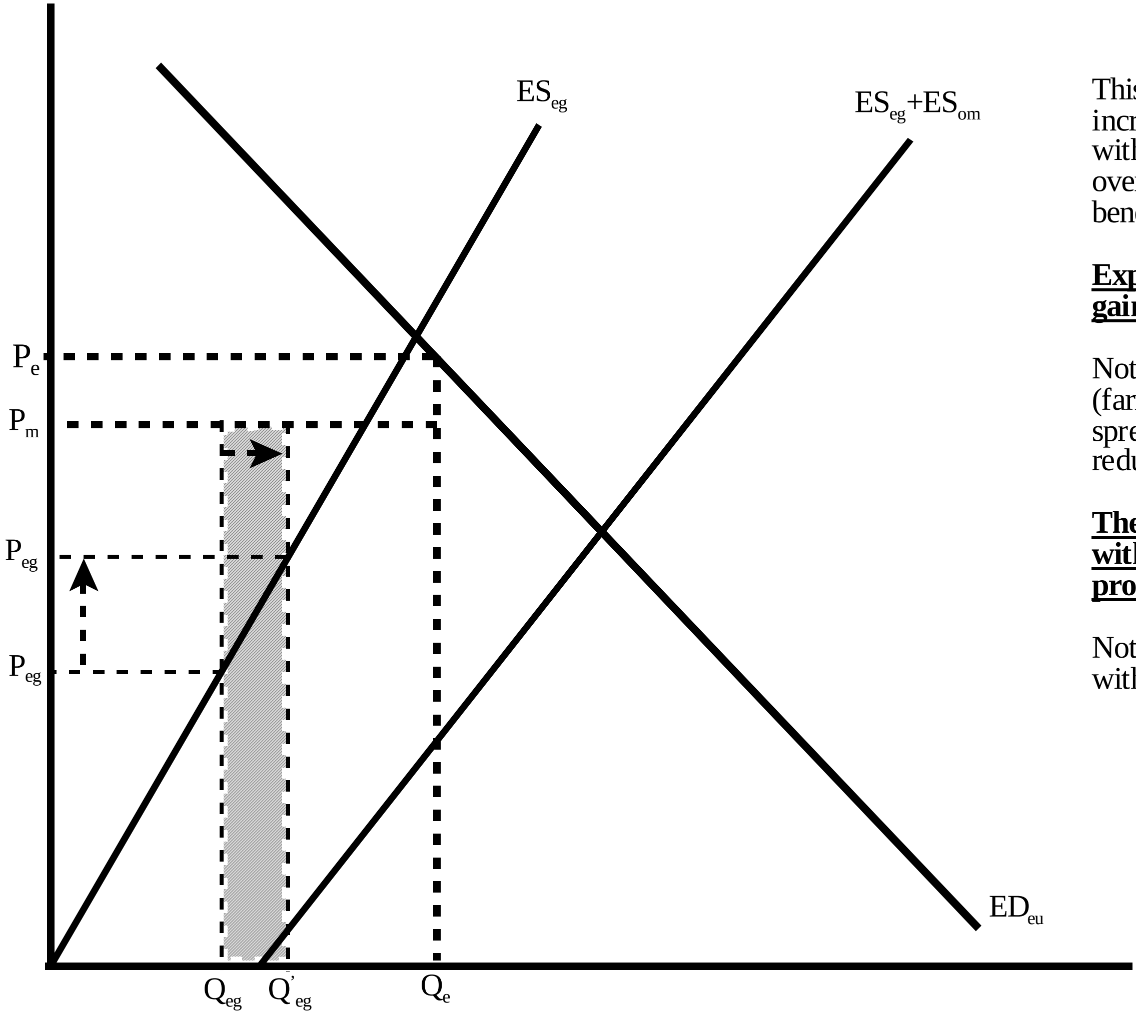
Concluding Comments

- Gains from further, incremental liberalization will likely be small relative to the Egyptian economy but potentially large for each individual product;
- Equity of distribution of surpluses will increase as the degree of liberalization increases;
- Greatest gains may be realized from structural changes and evolution of the food and agricultural sector (APQI and NAPI); and

Annex

Potential Gains I



This diagram shows the market impact of an increase in the Egyptian quota in those markets with a [minimum] entry price. In this case, the overall quota is not increased and so Egypt benefits at the expense of another exporter.

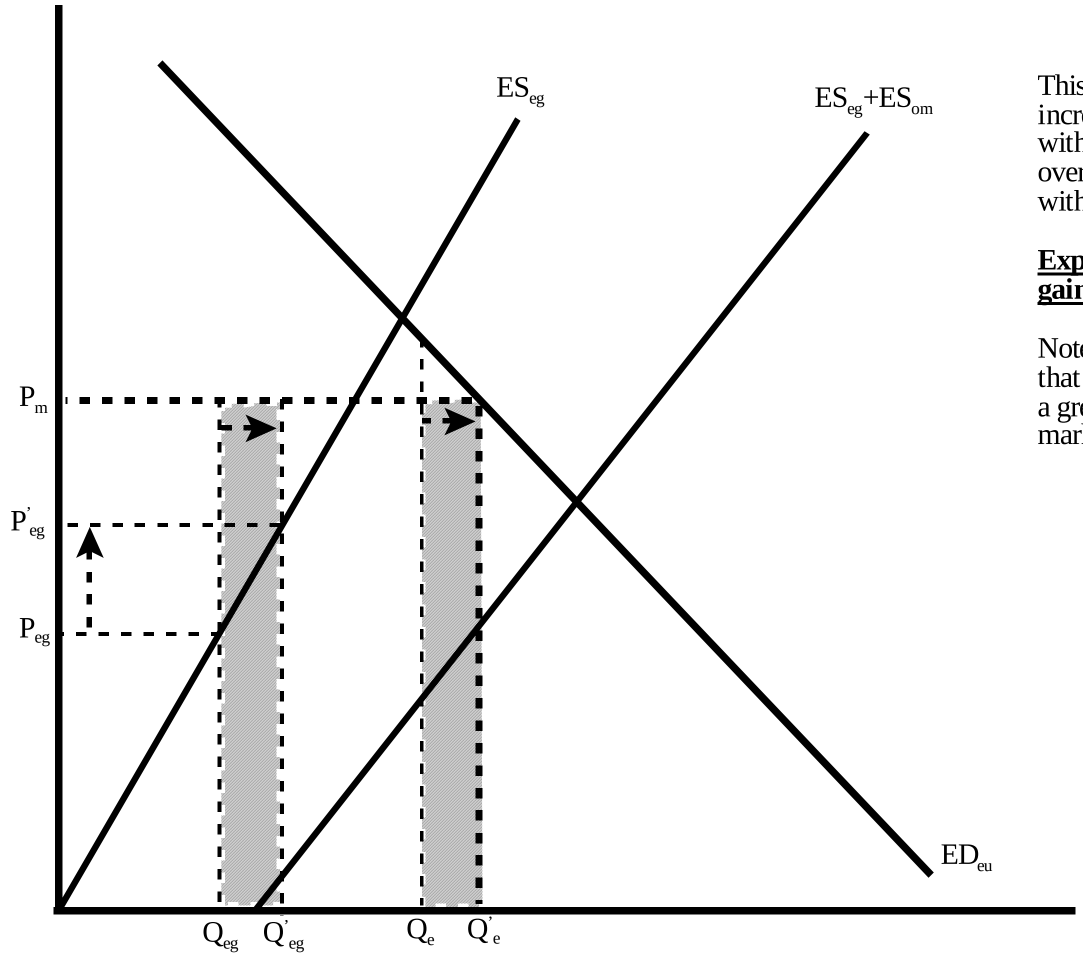
Export revenue gains are straigth forward: the gain in the quota multiplied by the entry price.

Note that this can cause a signficant prodcer (farmer) price increase within Egypt, and so spread the benefits of the gain more equitable by reducing export agent rents.

The price rise within Egypt can be calcuated with the price flexibility of the Es_{eg} and the proportional increase in the quota.

Note that it can argued that this has no impact within the EU market.

Potential Gains II



This diagram shows the market impact of an increase in the Egyptian quota in those markets with a [minimum] entry price. In this case, the overall quota is increased and so Egypt benefits with no impact on competing exporters.

<u>Export revenue gains are straigth forward: the gain in the quota multiplied by the entry price</u>.

Note that EU importers lose (economic rents) but that EU consumers are better off as price falls and a greater quantity is placeed on the internal market.

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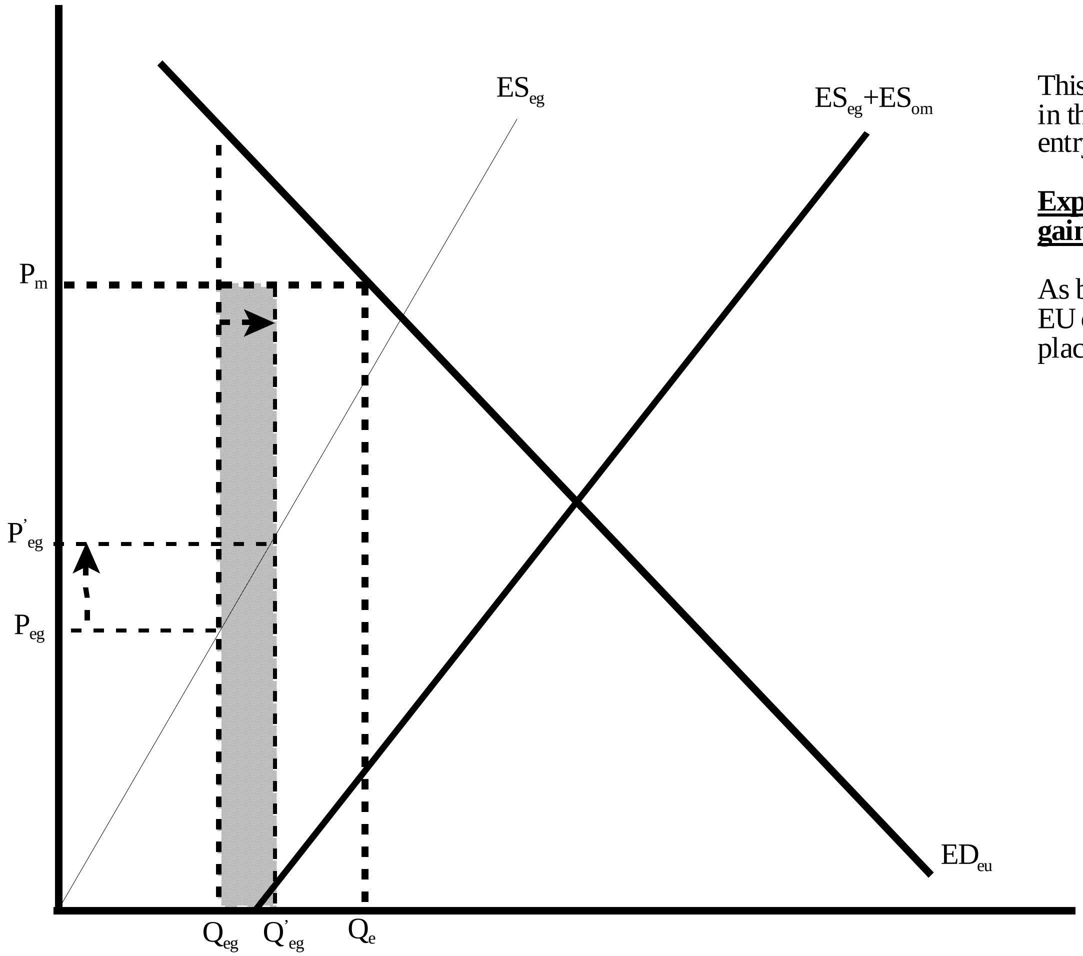
Potential Gains III



This diagram illustrates the impact of an increase in the Egyptian quota, but imports do not face an entry price.

Export revenue gains are straigth forward: the gain in the quota multiplied by the entry price.

As before, producer prices within Egypt rise, but EU consumers are unaffected as the quantity placed on the market does not change.