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

Giovanni Anania *

Department of Economics and Statistics, University of Calabria, 87036 Arcavacata di Rende (Cs), Italy

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ABSTRACT

The paper provides a quantitative assessment of the impact on the banana market of the expansion of trade preferences the European Union granted Africa, Caribbean and Pacific (ACP) countries with the Economic Partnership Agreements (EPA) and of the possible erosion of these preferences as a result of different possible conclusions, if any, of on-going WTO negotiations. The results of the simulations performed suggest that the impact of the EPA on production and consumption of bananas in the EU will be limited, while benefits for ACP countries will be significant (at the expense of Most Favoured Nation (MFN) exporters). An agreement between the EU and MFN countries to end the outstanding WTO disputes on bananas and/or the conclusion of the WTO Doha round may bring an erosion of the preferential margins currently enjoyed by ACP countries of such an order of magnitude as to cancel out most of these benefits.

Introduction

Trade preferences for developing country exports are widely used, either under a multilateral umbrella, such as the Generalized System of Preferences (GSP) schemes, on a regional basis, such as the US African Growth and Opportunity Act (AGOA) scheme, or bilaterally. The expected *a priori* effects of preferential trade agreements are well known; obstacles which may limit their effectiveness in practice have been discussed, among the others, by Bureau et al. (2007), Candau and Jean (2005), Gallezot and Bureau (2004), Manchin (2006) and Panagariya (2002). A reduction of Most Favoured Nation (MFN) tariffs as a result of multilateral negotiations would imply a reduction of existing trade preference margins, or their disappearance. Applied MFN tariffs in agriculture are much higher than those for manufactured goods; this implies that both the value of existing preferences and potential losses associated with the reduction of MFN tariffs are much more pronounced in agriculture than in other sectors (Alexandraki and Lankes, 2004; Bouët et al., 2005, 2006; Bureau et al., 2007; Goodison, 2007; Lippoldt and Kowalski, 2005; Low et al., 2006; Tangermann, 2002; Yang, 2005; Yamazaki, 1996; Yu and Jensen, 2005; Wainio and Gibson, 2004). It has already been decided that the final agreement of the Doha Development Agenda (DDA) round of WTO negotiations on agriculture, if there is one, will include provisions on the issue of preference erosion (WTO, 2004, p. A-7, # 44).

This paper focuses on trade preferences and preference erosion with reference to the banana market, possibly the one market in which benefits from trade preferences and potential losses from preference erosion are the largest (Alexandraki and Lankes, 2004; Low et al., 2006; Yang, 2005) and conflicts among the different interests involved are the most evident and vocal. Using an original model of the banana market, the paper first provides a quantitative assessment of the expected benefits for African, Caribbean and Pacific (ACP) banana exporters of the elimination, as a result of the Economic Partnership Agreements (EPA), of the European Union (EU) preferential import quota for ACP banana exports in place until the end of 2007, and then of the reduction of these benefits as a result of the erosion of preferential margins deriving from the conclusion of WTO negotiations currently taking place. In particular, the paper considers the effects of the preference erosion which

* Tel.: +39 0984 492406; fax: +39 0984 492409.
E-mail address: ganania@unical.it

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would derive from the lowering of the EU MFN tariff as a result either of the conclusion of the DDA round in accordance with the general consensus on agricultural market access reached in Geneva in July 2008 or, if the DDA round should not end, of the successful conclusion of the bilateral negotiations on bananas involving the EU, on one side, and several MFN exporters and the US, on the other.

The results obtained suggest that the impact of the EPA on production and consumption of bananas in the EU will be limited, while benefits for ACP countries are definitely expected to be significant. However, the final agreement of the WTO DDA round (if any), or a conclusion of the negotiations between the EU and MFN exporters to put an end to the banana dispute, may bring an erosion of the preferential margins currently enjoyed by ACP countries of such an order of magnitude as, in the worse case, to wipe out most of these benefits.

Trade preference granting and erosion in the banana market

The EU is the world's largest importer of bananas and among the top 20 largest producers. Domestic production covers around one sixth of domestic consumption, with imports from MFN and preferred ACP countries covering two thirds and one sixth of the EU market, respectively. All major exporters of bananas are developing countries and in most of them bananas account for an important share of export revenue. For Costa Rica, Ecuador and Panama in 2006 this share was around 10%; for Guatemala and Honduras around 7.5%, but the share was much higher for some of the smaller banana exporting countries, such as Dominica and Saint Vincent and the Grenadines, where it was equal to 21% and 29%, respectively. Historically the EU import regime for bananas has been a source of heated political confrontations, involving the conflicting interests of domestic producers and consumers, multinational firms that control a large share of international trade, holders of quota licences under the previous EU trade regimes, LDC (least developed country) exporters, preferred developing country exporters and developing country exporters subject to MFN conditions (Anania, 2006; Goodison, 2007; Josling, 2003; Read, 2001; Tangermann, 2003a,b; Thagesen and Matthews, 1997).

On 1 January 2008 the EU implemented the EPA it negotiated with many ACP countries (EC, 2007).[1] The EPA will progressively remove barriers to trade between the EU and several groupings of ACP countries, creating free trade areas which are expected to be compatible with WTO rules.[2] All agricultural exports from ACP countries which have successfully concluded the negotiations are now allowed duty- and quota-free access to the EU. Bananas (along with sugar and rice, for which, however, the EPA call for a progressive removal of EU market protection by 2010) have been indicated as the three single agricultural commodities for which most of the export benefits of the EPA for ACP countries are to be gained.

In July 2008 negotiators gathered in Geneva in an attempt to find a compromise to conclude the WTO DDA round. Bananas were considered among the sensitive issues which could potentially lead certain countries to block any final agreement. In fact, early in 2008 Pascal Lamy, the Director General of WTO, decided to take negotiations on bananas in his hands to prepare the ground for a mutually acceptable solution. The Geneva meeting failed to find an agreement to conclude the round, but not because of bananas. In fact, on July 26 eleven Latin American countries, the US and the EU found an agreement to bring to an end the long-standing so called "Bananas III" dispute at the WTO.[3] The agreement called for a reduction of the EU MFN tariff on bananas from 176 to 114 €/t between January 1 2009 and 2016, with a 28 €/t tariff cut in the first year, and for this tariff to be excluded from further cuts resulting from the conclusion of the DDA round.[4] ACP countries expressed dissatisfaction with this agreement, but the general impression was that they were ready to accept it in exchange for concessions from MFN banana exporters in the definitions of the list of the tropical products (including dropping sugar from the list, the other commodity for which preference erosion is a serious concern for them) and for aid from the EU to improve the competitiveness of their agricultures. Products defined as tropical are to be subject to larger tariff reductions to be more rapidly implemented than the other products; for ACP countries the key issue in the negotiation on tropical products are the losses resulting from the erosion of the preferences granted by the EU. A tentative agreement regarding tropical products had been reached in Geneva to set equal zero all tariffs below or equal 20% and to reduce by 80% over five years all other tariffs (ICTSD, 2008b)[5]; bananas were to be included among the tropical products for all countries except the EU and a separate "banana protocol" containing the agreement reached between the EU, MFN exporters and the US was to be included as an Annex into the final Agreement on agriculture.

The failure of the WTO meeting in Geneva to find an agreement to conclude the DDA round left the banana dispute unresolved. In fact, the tentative bilateral agreement reached by the EU, on one side, and MFN exporters and the US, on the other, cannot hold without the agreement of all other countries. In principle, an agreement on bananas can still be signed by all the countries involved without a conclusion of the DDA round. However, in this case, on the one hand, ACP countries cannot be sure that the DDA round will ever be concluded and that what they asked in exchange for accepting the agreement on bananas will ever be delivered (in addition, they have an obvious interest in the reduction of the EU MFN tariff being delayed as long as possible); on the other hand, only if the agreement is "multilateralized" by making it part of the final agreement of the DDA round can the EU be sure that the reduced tariff it is willing to impose on its MFN banana imports will not be subject to further cuts.

Finally, not surprisingly, negotiations on bananas have been among the most sensitive elements in the negotiations on regional trade agreements between the EU and the Andean Community, as well as those between the EU and Central American countries. As a result, these negotiations are interlinked with those taking place at the WTO, and interfere with them. In fact, countries that reach a regional trade agreement which provides them new significant banana export opportunities to the EU are

[1] These are actually "interim" agreements, with the exception of the one signed with the Caribbean CARIFORUM countries.

[2] A WTO waiver allowing the EU to grant ACP countries under the Cotonou Agreement unilateral trade preferences which discriminated against other developing countries expired at the end of 2007.

[3] The dispute dates back to 1996. The most recent episodes of the dispute refer to complaints by Ecuador in November 2006 and the US in June 2007 that the "tariff only" regime the EU had introduced on 1 January 2006 did not comply with WTO rules. In both cases the panels concluded that preferences granted by the EU under the pre-EPA import regime in place until January 1 2008 to bananas originating in ACP countries were not compliant with its Most Favoured Nation obligations; these conclusions were upheld by the WTO Appellate Body in November 2008.

[4] A tariff equal to 114 €/t is greater than that resulting from the provisions on market access for both agricultural products in general and tropical products on which a wide consensus existed in the negotiations (the EU had already made known its intention not to include bananas among its "sensitive" products).

[5] The December 2008 revised draft of the modalities for agriculture, acknowledges the progress made in July in Geneva in the negotiations on the provisions regarding tropical products, but chooses to maintain, unaltered, the text of the July 10 version of the modalities (WTO, 2008: 2), the one circulated before the gathering in Geneva of negotiators. This version offers two alternatives: one is the elimination in four years of tariffs imposed by developed countries not exceeding 25% and the reduction by 80% of those above 25%; the alternative text is less generous in terms of liberalization and foresees the elimination of tariffs not exceeding 10%, a lower reduction of tariffs above this threshold, and cuts being implemented over the longer general tariff reduction implementation period (WTO, 2008: 26).