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Trade Policy Monitoring

Least Favored Nation: Impact of EU Trade Agreements on US Agriculture

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Report Highlights:
From a sample of the EU's free trade agreements, it would appear that they do not cover "substantially all trade," especially when looking at the agricultural sector individually. While trade may have increased overall, the percentage of fully liberalized agricultural products is considerably less than those products that continue to incur some restriction to trade.

The apparent impact of these agreements on the competitiveness of US exports is substantial. With the continuation of preferences being given to third countries the US stands to lose a considerable share in EU and third country markets. Combined with the expansion of the EU, liberalized trade between the EU and third countries will continue to grow and have an adverse effect on US producers.

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I. Introduction - The European Union and its Trading Partners

There are only nine World Trade Organization (WTO) members that do not receive tariff preferences better than those designated for the so called “Most Favored Nations” (MFN): Australia, Canada, Chinese Taipei, Hong Kong, Japan, Korea, New Zealand, Singapore, and the United States of America. So, in effect, for the EU, these countries are “least-favored nations.” The European Union has many trade agreements and preferential tariff schemes. Apart from the General System of Preferences (GSP) and Everything But Arms (EBA) schemes that provide trade liberalization for some of the least developed countries in the world, the EU has also concluded agreements with several more developed countries on a bilateral basis. While the most notable of these are Chile, South Africa, Mexico, and the countries involved in the Euro-Mediterranean Partnership, other agreements include Bulgaria, Romania, Norway, Iceland, Liechtenstein, Switzerland, Macedonia, and Croatia. There is also a preference scheme for the Africa, Caribbean, and Pacific (ACP) countries, which helps facilitate their gradual integration into the global economy.

Negotiations have also begun on establishing free trade agreements (FTAs) with the Mercosur group (Argentina, Brazil, Paraguay, Uruguay) and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates). This paper will focus on the EU’s more substantial trading partners that compete with the US: the Mediterranean Partnership countries, Chile, and South Africa, and how these bilateral relationships impact the US agricultural industry.

Recently the EU has expanded to 25 countries. Due to data availability this paper uses EU-15 trade data. The 10 New Member States have relatively small economies compared to the EU-15, but they will grow and eventually import more from the countries with preferences. The development of these economies and the possible further expansion of the EU will only compound the effects of the EU’s FTAs.

II. Product Coverage and Trade Effects of Free Trade Agreements

The 1994 General Agreement on Tariffs and Trade (GATT) provides the definition of a free trade area. Article XXIV, paragraph 8 section (b) says: “A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV, and XX) are eliminated on *substantially all the trade* between the constituent territories in products originating in such territories (emphasis added).”

The definition of “substantially all the trade” has never been made clear, and it remains a contentious point in determining the validity of some free trade agreements. Although the principle of free trade involves free movement of goods between countries, none of the free trade agreements cover 100 percent of the products traded between the EU and its trading partners. There is generally a more limited coverage of agricultural products. Agricultural products, as defined by the WTO, include CN chapters 1 – 24 excluding chapter 3 (fish) and sections 1601 & 1602 (also fish products). This partial coverage of agricultural products has been called into question as to whether it complies with the WTO requirement that free trade agreements must cover substantially all trade. Exceptions are usually made under Article XX: General Exceptions and Article XXI: Security Exceptions, but the exceptions allowed by Article XI: General Elimination of Quantitative Restrictions relate more to trade in agricultural products. Article XI is reproduced below from the WTO website.

Article XI*: General Elimination of Quantitative Restrictions

1. No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licenses or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

2. The provisions of paragraph 1 of this Article shall not extend to the following:

(*a*) Export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party;

(*b*) Import and export prohibitions or restrictions necessary to the application of standards or regulations for the classification, grading or marketing of commodities in international trade;

(*c*) Import restrictions on any agricultural or fisheries product, imported in any form,* necessary to the enforcement of governmental measures which operate:

(i) to restrict the quantities of the like domestic product permitted to be marketed or produced, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted; or

(ii) to remove a temporary surplus of the like domestic product, or, if there is no substantial domestic production of the like product, of a domestic product for which the imported product can be directly substituted, by making the surplus available to certain groups of domestic consumers free of charge or at prices below the current market level; or

(iii) to restrict the quantities permitted to be produced of any animal product the production of which is directly dependent, wholly or mainly, on the imported commodity, if the domestic production of that commodity is relatively negligible.

Any contracting party applying restrictions on the importation of any product pursuant to subparagraph (*c*) of this paragraph shall give public notice of the total quantity or value of the product permitted to be imported during a specified future period and of any change in such quantity or value. Moreover, any restrictions applied under (i) above shall not be such as will reduce the total of imports relative to the total of domestic production, as compared with the proportion which might reasonably be expected to rule between the two in the absence of restrictions. In determining this proportion, the contracting party shall pay due regard to the proportion prevailing during a previous representative period and to any special factors* which may have affected or may be affecting the trade in the product concerned.

There is significant use of barriers like tariff-rate quotas (TRQs), minimum entry prices (MEPs), and seasonal restrictions in many of the EU's agreements. Typically concessions are greater for products and seasons in which the EU imports do not compete directly with domestic production and tariff preferences are usually constrained to certain quantitative limits, i.e. TRQs or reference quantities. Tariff concessions also create a quota rent. The distribution of the rent between the exporter and the importer depends on the way import licenses are given. Quite often the licenses are issued to importers and the exporting country loses part of the rent.

The benefits or costs of including TRQs in free trade agreements can be wide ranging. A TRQ may have three different market outcomes; it may act like a pure tariff with relatively weak demand, will operate as two-tiered tariff regime with strong demand, and will act like a pure quota with intermediate demand or a very high MFN tariff. Put simply, a TRQ is ineffective if it is not fully used and prohibitive if fully used with imports equaling the quota.

It is particularly interesting to look at which products have no additional concessions for imports above the quota and how this works to restrict trade to the level of the quota.

The next sections will look at several countries that have significant trade with the EU and how their preferences have affected the US. Then our attention will turn to fruits and vegetables, which constitute a major portion of EU imports from around the world, and how trade has been diverted away from countries that do not receive preferential tariffs, particularly the US.

III. Euro-Mediterranean Partnership

The Barcelona Conference in 1995 established the basis for the Euro-Mediterranean Partnership (EMP) with the goals of creating a common area of peace and stability, establishing a zone of shared prosperity (free-trade area), and encouraging understanding between cultures and societies. Over the last ten years the European Union has grown more integrated with other countries in the region. The EU has completed various types of bilateral agreements with all of the Mediterranean Partnership Countries (MPC) in order to help reach the goals of the EMP. While the key aspects of the EMP are to promote political stability, establish a free-trade area by 2010, and to promote social and cultural interaction, there has been a significant impact on trade with other partners, mainly the US.

The recent expansion of the European Union included two countries that were originally part of the Barcelona Conference. Accession into the EU was completed by Cyprus and Malta in May of 2004. Recently Turkey has also become a candidate for accession to the Union sometime in the future, possibly by 2015. In 1995 Turkey formed a customs union with the EU, which excludes agricultural products. The other nine countries in the group (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, and Tunisia) have completed Association Agreements with the EU, but they are at various stages of implementation. The agreement with Morocco, for example, has been in force the longest and was updated in January 2004. Meanwhile the agreement with Syria was initialed in October 2004 and it still awaiting ratification. This group of trading partners would encompass more than 500 million people, roughly the same size as the proposed Free Trade Area of the Americas.

These agreements, as part of the Barcelona Process, are aimed at sustainable and balanced economic development with the view of creating an area of shared prosperity, taking into account the different degrees of development across the region. Each agreement was negotiated on a bilateral basis to provide reciprocity in industrial and agricultural trade liberalization. At the same time trade liberalization in the EMP is meant to be asymmetrical in nature. This means that the EU will grant more concessions, and at a faster rate, than the other partner countries. This is a common aspect of many FTAs that are aimed at enhancing the economies of the lesser-developed partners.

Even though agriculture may be a minor part of the trade agreements it remains an important aspect of MPC economies. The agriculture industry employs over 40% of the total labor force in some countries, and contributes over 10 – 20% of GDP for some of the less developed countries in the group.

Another key component of establishing the Euro-Med Free Trade Area is the completion of trade agreements between the MPCs themselves, the so-called South-South Regional Integration. Several agreements have already been negotiated. The Agadir Initiative, which was initialed in January 2003 but is not yet in effect, is a regional free trade agreement between Egypt, Jordan, Morocco, and Tunisia.

IV. EU-Morocco Free Trade Agreement

Product Coverage

The EU is the largest market for Moroccan exports, receiving 75.6% in 2003. This was comprised mostly of apparel and machinery, but agricultural products made up 12.8% of the value of total EU imports from Morocco. The EU also comprises 73.7% of the total Moroccan import market, and 6.2% of this figure is agricultural imports. An Association Agreement between the two countries was signed 26 February 1996 and went into effect on 1 March 2000. This agreement established the guidelines for free trade in manufactured and industrial goods, as well as progressive and reciprocal liberalization for agricultural products between the partners.

In December 2003 the tariffs for agriculture were reviewed in accordance with the Association Agreement, and for many products this led to an increase in trade liberalization. The amended protocols went into force on 1 January 2004.

Free Trade in Agriculture – 2000 Agreement

As mentioned above, agricultural products comprise 12.8% of all EU imports from Morocco. Of this group 87.96% is covered under the FTA, but only 13.7% of this figure is fully liberalized. Products that have a minimum entry price and a TRQ were 44.9%, those with a TRQ and further concessions were 4.2%, and those with a TRQ and no further concession were 2.4% of the value of the agricultural products in the FTA. Table 1 shows EU imports from Morocco under the FTA.

Table 1: EU imports from Morocco	Millions of United States Dollars					
Description	2000	2001	2002	2003	Source: EuroStat	
All Commodities	5,497.83	5,522.97	5,859.11	6,915.56	Percentage of 2003 Values	
Agricultural Products	604.68	621.83	717.71	884.80	12.79%	of Total Imports
Products Covered by the FTA	527.71	543.62	632.35	778.30	87.96%	of Total Ag Imports
Products Fully Liberalized by the FTA	78.86	86.49	84.27	106.83	13.72%	of FTA Ag Value
Products with a Minimum Entry Price and TRQ	255.76	251.72	300.37	349.49	44.91%	of FTA Ag Value
Products with TRQ and 20 - 80% reduction	24.50	27.26	23.47	32.67	4.21%	of FTA Ag Value
Products with TRQ and no reduction	10.39	12.01	13.48	18.29	2.35%	of FTA Ag Value

The remaining products in the agreement included those that had a seasonal restriction, reflecting a desire to protect European producers during their usual growing season, but most involved a reference quantity or the ability to set a quantity that could possibly be used in a similar fashion to tariff quotas. Article 1, paragraphs 4 and 6 of Protocol 1 of the association agreement explain that these products are reviewed annually to determine if restrictions were required to protect against “difficulties on the Community market.” Data reflecting to what extent these restrictions were put into force was unavailable.

Trade in fully liberalized goods has increased by 35.4% over the years 2000 – 2003, but has only exceeded the 1997 level of $105.8 million in 2003. Table 2 shows that nearly half (49.4%) of the value of fully liberalized goods in 2003 came in the form of olives prepared otherwise than by vinegar (CN code 2005 70), and another 30% came from locust bean

Table 2: EU – Morocco	Millions of United States Dollars				Source: EuroStat
Description	2000	2001	2002	2003	Percentage of Fully Liberalized Imports
EU FTA fully liberal agriculture imports	78.9	86.5	84.3	106.8	
Olives Prep/Pres Ex Vinegar/Acetic Acid Not Frozen	49.0	48.2	47.7	52.8	49.44%
Locust Bean Seeds	4.9	8.7	9.2	19.8	18.54%
Plants For Pharmacy/Perfume	9.4	9.8	11.0	13.1	12.27%

seeds (CN code 1212 1091, 18.5%) and plants used in perfumery/pharmacy (CN code 1211, 12.2%). From these statistics it is easy to see that many of Morocco's most important agricultural exports (i.e. fruits and vegetables) were subject to some form of trade restrictions.

Tariff rate quotas were the most common instruments used in this agreement. Over 45% of the value of 2003 agricultural trade was subject to some form of TRQ. While some products received no reduction in the tariff for imports in excess of the quota, for others there were further concessions of 20% - 80% of the customs duty rate. By far the largest portion of these products, specifically: tomatoes, oranges, mandarins, courgettes, artichokes and some grapes, have an agreed entry price as well as the TRQ. While the agreed entry price is below the MFN minimum entry price, any further reduction is only applied to the *ad valorem* portion of the customs duty. Trade in these products is severely restricted by this form of multi-layered protectionism.

Tomatoes (CN code 0702 00) are an example of one of the most restricted product groups. Trade is liberalized only in the months of October through May, limited to a specific quantity per month, totaling 150,676 MT per year. There is an agreed entry price of 500 €/MT, to which there is no duty applied. This is well below the MFN entry price that ranges, depending on the month, between 681 and 939 €/MT including the applied duty.

It is easy to see that trade has not been significantly altered by this liberalization. For the three years prior to 2000, EU imports of tomatoes from Morocco averaged 22.68% of the value of all the agricultural products covered in the FTA. For the three years since 2000 that percentage was 22.02%. From this it is clear that even though preferences for Moroccan tomatoes existed prior to the entry into force of the FTA, the extension of preferences to other products has not changed their proportion of imports.

EU exports to Morocco are also covered under a portion of the FTA; Protocol 3 pertains to agricultural products. In contrast to the different types and levels of concessions granted to EU imports under the agreement, Moroccan imports are simply subject to a TRQ with a specific maximum customs duty applied within this limit. This duty is then reduced to an agreed upon level. Consistent with the theme of asymmetrical liberalization, the tariff reductions given by Morocco do not cover as many products. In fact, only 70% of Morocco's agricultural imports from the EU are products eligible for preferences. The extent to which preferences were applied was unascertainable due to the nature of the quotas.

Of particular interest are those products for which imports are near (+/- 30%) the tariff rate quota (Table 3). As mentioned previously, tariff quotas can have different effects depending on the level of demand. For those products for which imports are slightly less than the quota, many of them have very little tariff to begin with, so the fact that there is a complete reduction of duty under the quota has little impact.

Table 3: EU-15 Export Statistics To Morocco					Sources: EuroStat, European Commission			
Annual Data: 1997,2000, 2003		Quantity in Metric Tons			Quota for 2003 in Tons	Percentage of Quota Filled	Customs Duties on Imports	Reduction in Customs Duties
Commodity	Description	1997	2000	2003				
0701 1000	Seed potatoes, fresh or chilled	32,968	43,037	48,107	50,000	96.21%	40.0%	37.5%
1108 1300	Potato starch	361	481	499	500	99.80%	32.5%	23.1%
1001 9099	Spelt, common wheat and meslin	757,383	2,074,181	1,127,242	1,060,000	106.34%	135.0%	38.0%
2005 4000	Peas and beans, prep or pres	120	477	119	100	119.00%	50.0%	50.0%
2003 10	Mushrooms Prep/Pres Ex By Vinegar	83	253	260	200	130.00%	50.0%	70.0%

Free Trade in Agriculture – Changes for 2004

As previously mentioned, the original agreement pertaining to agriculture was revisited in December 2003 and the amended protocols went into effect on 1 January 2004. Unfortunately, trade statistics for the EU-15 are not yet available for the complete year of 2004.

When applying the new preferences to the 2003 data, despite the elimination of reference quantities and some tariff quotas, the percentage of total agricultural trade covered by the FTA would have been just 86.7% for 2003. This represents a very minimal decrease in total value. It is also worth noting that the value of fully liberalized trade would have only increased to 14% from 13.7%. For many of the products that had their reference quantities removed there still remain significant seasonal restrictions. This is especially prevalent in the fruit and vegetable sectors.

V. EU-Egypt Free Trade Agreement

Product Coverage

Egypt has a relationship with the EU that is similar to that of Morocco. Even though their FTA was not completed until December 2003 and entered into force the first of June 2004, the EU is Egypt's largest trading partner. Total trade in 2003 amounted to more than $10 billion. Agriculture made up less than 10% of total EU imports from Egypt. This is indeed an improvement as agricultural imports have grown by 50% since 2000 while total imports grew just 20%.

Free Trade in Agriculture

As already mentioned, the FTA between the EU and Egypt only went into effect in June 2004, but by looking at the trade flows from 2003 we can see the likely impact of liberalization. Protocol 1 of the Association Agreement concerns agricultural commodity imports into the EU. These products all have a specific reduction in the MFN customs duty (25%, 60%, or 100%) limited by a tariff quota that may or may not increase annually. Of all the EU agricultural imports from Egypt in 2003, only 67% would have been covered by this agreement. One interesting note is that while fruit and vegetables (chapters 7 & 8) make up about 51% of the EU's agricultural import value from Egypt, products from those chapters make up nearly 77% of the value of agricultural imports covered by the FTA. This indicates that the agreement more heavily favors the historical trade pattern of fruit and vegetables, and suggests that it may be restrictive to trade in other products.

Protocol 2 concerns the arrangements applicable to exports from the EU into Egypt. This section lists the product codes, the applicable reduction of duty, and the tariff quota. As with the agreement with Morocco, liberalization of agriculture is asymmetrical. The value of products that are eligible for preferences represents 32.7% of total agricultural exports to Egypt. Of this figure, only 40% of trade would have been fully liberalized. The rest is subject to some form of possibly trade limiting scheme, either TRQs or an incomplete reduction in tariff or both.

Protocol 3 on the other hand concerns the arrangements applicable to processed agricultural products, but the trade data shows that these products are not very prevalent in trade between Egypt and the EU. Annex II of this Protocol, which covers imports into the EU of processed agricultural products originating in Egypt, accounts for less than 2% of total agricultural imports to into the EU.

VI. VI. EU-Chile Free Trade Agreement

Bilateral Trade Relations

The EU is also the primary trading partner of Chile. Their FTA was signed in November 2002 and it entered into force February 2003. The style of this agreement is considerably different than those of the EMP. While the previously mentioned agreements list products and their corresponding tariff reductions, this agreement contains lists of different products grouped by the number of years until total liberalization. This indicates not just a simple reduction of tariff rates from MFN levels, but a firm commitment to completely eliminate tariffs on certain products over a scheduled timeframe.

Free Trade in Agriculture

Overall agriculture accounted for 23% of EU imports from Chile in 2003. And while total imports from Chile decreased 3.4% from 2000 to 2002 and agricultural imports grew 24.9% over this same time period, total imports grew 22.7% and agricultural imports grew 28.9% from 2002 to 2003. This would indicate that the effectiveness of the FTA, which began in February 2003, had a more significant impact on overall trade than on the agricultural sector specifically.

Table 4: EU Agricultural Imports from Chile

Source: EuroStat	2000	2001	2002	2003	Percentage of Total Ag Imports
	Millions of United States Dollars				
Total Ag Imports	789.04	948.70	985.58	1,270.75	
Year 0 Imports	129.52	156.74	181.86	245.71	19.34%
Year 4 Imports	301.48	372.05	375.14	417.50	32.85%
Year 7 Imports	66.58	75.09	91.83	94.81	7.46%
Year 10 Imports	0.57	0.34	0.60	0.26	0.02%
Restricted Imports	267.00	327.49	325.65	481.95	37.93%

Nearly 48% of agricultural imports came from Chapter 8: Edible Fruits and Nuts, with almost 31% from Chapter 22: Beverages, Spirits, and Vinegar in 2003. Growth in these two sectors has also been considerable, 40% and 11% respectively from 2002 to 2003.

The lists of EU imports of agricultural products from Chile covered by the FTA are grouped based on the complete elimination of tariffs in year 0, 4, 7, or 10 of entry into force with proportional reductions during the intermittent years. While this appears to be a very effective way to liberalize trade, almost 38% of EU agriculture imports from Chile in 2003 were subject to some form of non-tariff barrier (TRQ, Minimum Entry Prices, or Seasonal Restriction). Table 4 shows the level of free trade as represented by a percentage of total agricultural imports.

Products fully liberalized at Year 0 amounted to over 19% of total EU agricultural imports from Chile in 2003 after substantial growth of 90% from 2000 to 2003. As shown in Table 5, imports of Flour, Meals, and Pellets of Fish (CN code 2301 2000) constituted the largest portion of these fully liberalized products at 27%. Dried Prunes (CN cone 0813 2000), to be discussed in a subsequent section, also made up 6% of fully liberalized imports.

Table 5: EU-15 (External Trade) Import Statistics From Chile

Commodity: EU-Chile Year 0, EU imports fully liberalized at year 0

Annual Series: 2000 - 2003

Commodity	Description	2000	2001	2002	2003	Percentage of 2003 Year 0 unrestricted imports
		Millions of United States Dollars				
EU-Chile Year 0	EU imports fully liberalized at Year 0	129.52	156.74	181.86	245.71	
2301 2000	Flour Meals and Pellets of Fish	32.41	42.10	44.10	66.78	27.18%
0813 2000	Dried Prunes	7.71	8.48	10.58	16.78	6.83%

Year 4 products were subjected to a 20% reduction in customs duty at the entry into force of the FTA and will be reduced by an additional 20% a year until the tariff is completely eliminated in January 2007. These products that are without any other restriction were 33% of the imports in 2003. An overwhelming majority of these products were from Chapter 22 with Wine of Fresh Grapes (CN code 2204) making up nearly 92%. Imports from the Year 4 list have increased at a rate similar to other products, roughly 38% since 2000.

The product liberalized in Years 7 and 10 without any other restrictions made up a very small portion of total agricultural imports in 2003, 7.5% and 0.2% respectively. These lists contain mainly fresh or processed fruits and vegetables. With these products playing such a small role in overall imports from Chile it is easy to see that such a long liberalization period coupled with other forms of trade barriers has kept the benefits of free trade from being fully realized. Oranges (CN code 0805 10), for example, have a minimum entry price as well as different tariff rates for different seasons. Unsurprisingly the seasons with the highest tariff (October through March, 16% *ad valorem*) are liberalized over the longer time periods (Year 10).

VII. VII. EU-South Africa Free Trade Agreement

Bilateral Trade Relations

South Africa is the EU's largest trading partner in Sub-Saharan Africa. Although South Africa is a member of the ACP Group of countries, the Trade, Development and Co-operation Agreement (TDCA) that was signed in October 1999 governs its relationship with the EU bilaterally. According to the European Commission, "The main objective [of the TDCA] is to create a free-trade area between South Africa and the EU over an asymmetric, transitional period of 12 years – which means that the EU and South Africa will open their markets to each other at a different pace." Additionally, there are separate, provisional agreements on wines and spirits that were signed in January 2002.

Agricultural products make up 11.5% of all EU imports from South Africa. And while total imports have increased 26% since 2000, agricultural imports have increased by 55%. EU exports to South Africa have increased as well, 40.2% for total exports and 29.5% for agricultural exports. This is representative of the fact that liberalization of agricultural sectors by South Africa has been scheduled for a longer implementation period than that of the EU.

Free Trade in Agriculture

The time period of the TDCA presents some difficulties in analyzing the impact of free trade in this case. As many of the product codes have changed since the signing of the agreement it was not feasible to study the change in trade on a product-by-product basis. However, the overall impact of liberalization in agricultural trade has been substantial. Annex IV of the agreement covers EU imports from South Africa. This annex is divided into lists that determine the timeline for liberalization. Table 6 shows the value of each list in 1997, which was the last year that the data is accurate.

Table 6: EU-15 Import Statistics From South Africa Source: EuroStat

Millions of United States Dollars

Commodity	1997	Percent of 1997 Ag Imports from SA
Total Agricultural Imports	1,268.00	
EU imports from SA List 1	92.00	7.26%
EU imports from SA List 2	188.03	14.83%
EU imports from SA List 3	71.83	5.66%
EU imports from SA List 4	303.47	23.93%
EU imports from SA List 5	3.02	0.24%
EU imports from SA List 6	205.17	16.18%
EU imports from SA List 7	355.35	28.02%
EU imports from SA List 8	2.04	0.16%

List 1 is liberalized starting at the entry into force of the agreement and is fully liberalized at the beginning of year three. List 2 is liberalized over 10 years. List 3 begins in year three and is fully liberalized in year ten. List 4 is also fully liberalized in year ten, but it does not begin until year five. List 5 is for processed agricultural products, and it gives the tariff that is to be added to the rate for the agricultural component. The products on List 6 are heavily restricted. They are all subject to a TRQ, MEP, or a partial reduction in duty. List 7 is made up of products that are on other lists that may be reviewed periodically on the basis of future developments in the common agricultural policy of the EU. List 8's products are all protected denominations in the EU and thus tariff concessions are not applicable.

As mentioned above, the increase in EU agricultural imports from South Africa has significantly exceeded the rate of total imports. Table 6 shows that there have been increases in EU imports from South Africa in several key categories like meat, plants, vegetables, cereals, oil seeds, and beverages.

Table 6: EU-15 Import Statistics From South Africa							Source: EuroStat
Annual Series: 2000 - 2003							
Commodity	Description	Millions of United States Dollars				Percent Change 2003/2000	Percent of Total Ag Imports in 2003
		2000	2001	2002	2003		
Total Ag Imports	1 to 24 not 3. 1601 and 1602 only plus others post 24	1,230.50	1,468.84	1,605.12	1,912.54	55.43%	
Chapter 02	Meat And Edible Meat Offal	16.72	38.77	27.96	31.46	88.12%	1.65%
Chapter 06	Live Trees, Plants, Bulbs Etc.; Cut Flowers Etc.	25.75	27.63	33.42	44.69	73.51%	2.34%
Chapter 07	Edible Vegetables & Certain Roots & Tubers	9.36	11.94	17.07	19.56	108.94%	1.02%
Chapter 08	Edible Fruit & Nuts; Citrus Fruit Or Melon Peel	656.69	775.13	814.20	997.42	51.89%	52.15%
Chapter 10	Cereals	0.60	1.23	1.26	2.27	278.56%	0.12%
Chapter 12	Oil Seeds Etc.; Misc. Grain, Seed, Fruit, Plant Etc	15.23	29.64	46.95	30.52	100.32%	1.60%
Chapter 20	Prep Vegetables, Fruit, Nuts Or Other Plant Parts	85.09	74.00	92.63	117.01	37.51%	6.12%
Chapter 22	Beverages, Spirits And Vinegar	253.82	320.03	376.51	473.11	86.40%	24.74%

Now that we have seen how several of the EU's free trade agreements work, and that they struggle to meet the definition of "substantially all trade" we will turn to the topic of how these agreements affect the US and the competitiveness of its exports to the EU.

VIII. The Effect on US Competitiveness

The EU Fruit and Vegetable Market

The EU-15 has consistently been the world's largest importer of agricultural products, and more specifically fruits and vegetables. The combined total of imports from products in Chapters 7 & 8 was worth $13.6 billion in 2003. The market is also growing at a considerable rate, 42% for vegetables and 21% for fruit since 2000. Meanwhile the growth of imports from the US has been far less, 29% in vegetables (Table 7) and a decline of 16% in fruit (Table 8) when compared to countries with extended preferences. This change away from US products has amounted to a loss in market share of the EU import markets for vegetables and fruit of 2% and 1% respectively. This may not appear to be significant, but when expressed in dollar terms this was a loss of $175.2 million in 2003.

Table 7: EU-15 (External Trade) Import Statistics					
Commodity: 07, Edible Vegetables And Certain Roots And Tubers					
Annual Series: 2000 - 2003					Percent Change 2003/2000
Partner Country	Millions of United States Dollars				
	2000	2001	2002	2003	
World	7,474.25	7,824.77	8,419.45	10,621.06	42.10%
United States	837.76	803.85	869.31	1,081.05	29.04%
South Africa	656.69	775.13	814.20	997.42	51.89%
Chile	348.84	403.65	435.65	609.11	74.61%
Morocco	208.82	209.54	230.79	303.82	45.50%
Egypt	14.73	23.10	36.14	47.85	224.87%

Table 8: EU-15 (External Trade) Import Statistics					
Commodity: 08, Edible Fruit And Nuts; Peel Of Citrus Fruit Or Melons					
Annual Series: 2000 - 2003					Percent Change 2003/2000
Partner Country	Millions of United States Dollars				
	2000	2001	2002	2003	
World	2,497.70	2,595.43	2,617.02	3,026.43	21.17%
Morocco	204.31	216.28	288.50	338.68	65.77%
United States	175.00	159.53	134.58	146.22	-16.45%
Egypt	77.66	89.02	107.99	131.89	69.82%
Chile	19.34	24.97	29.86	29.95	54.82%
South Africa	9.36	11.94	17.07	19.56	108.94%

The EU has completed several bilateral trade agreements with countries that compete directly with the US in fruit and vegetables. Free Trade Agreements (FTAs) with Morocco, and South Africa went into force in 2000, and the agreement with Chile began in 2002. Although the FTA with Egypt did not go into effect until 2004 there was already considerable growth in the preceding years, and this trend will no doubt continue. Some specific concerns have been raised by US producers about the affect these agreements have on the competitiveness of their products in the EU.

The California Prune Industry has also recently become concerned with the agreement between the EU and Chile. This agreement removes the 9.6% duty from prunes imported from Chile. Table 10 shows that growth of the import market for prunes has been good, 14% from 2000 – 2003, but imports from the US have grown by a slow rate while imports from Chile have grown significantly. This represents a significant loss of market share for the US, over 8%, which was directly taken up by Chile.

Table 10: EU-15 (External Trade) Import Statistics									
Commodity: 081320, Prunes, Dried									
Annual Series: 2000 - 2003					Percent Change 2003/2000	Percent Change 2003/2002	Market Share 2000	Market Share 2003	Change in Market Share 2000 – 2003
Partner Country	Millions of United States Dollars								
	2000	2001	2002	2003					
World	82.61	83.84	83.10	94.34	14.20%	13.53%			
United States	65.43	67.30	62.66	66.78	2.05%	6.58%	79.21%	70.78%	-8.42%
Chile	7.71	8.48	10.58	16.78	117.75%	58.60%	9.33%	17.79%	8.46%

It might be argued that some of this change in trade value may be due to changes in the value of the US dollar, but Table 11 shows that the quantity of prunes imported into the EU has followed a similar pattern even though the changes may not be as high.

Table 11: EU-15 (External Trade) Import Statistics									
Commodity: 081320, Prunes, Dried									
Annual Series: 2000 - 2003					Percent Change 2003/2000	Percent change 2003/2002	Market Share 2000	Market Share 2003	Change in Market Share 2000 – 2003
Partner Country	Quantity (MT)								
	2000	2001	2002	2003					
World	43,860	44,925	44,347	47,629	8.59%	7.40%			
United States	31,429	32,280	28,933	29,874	-4.95%	3.25%	71.66%	62.72%	-8.94%
Chile	5,282	5,634	6,809	10,670	102.01%	56.70%	12.04%	22.40%	10.36%

The Sunkist Growers' 2005 National Trade Estimate Report expressed concerns that the EU was practicing a scheme of discriminatory tariff preferences that applied to Mediterranean basin countries. These agreements give up to an 80% discount from the common external tariff rate for citrus fruit while the full 20% duty is levied on sweet oranges from the US. From Table 12 we can see that the value of imports of fresh oranges from the US has declined since 2002 while imports from countries with preferences has increased. The percent change from 2000 – 2003 is slightly misleading because in 2000 EU imports of oranges fell to its lowest point in the last eight years, down over 38% from the high of $449.6 million in 1997. The decrease was even greater for imports from the US, nearly 90% from the 1997 level of $1.1 million.

Table 12: EU-15 (External Trade) Import Statistics						
Commodity: 080510, Oranges, Fresh						
Annual Series: 2000 – 2003					Percent Change 2003/2000	Percent change 2003/2002
Partner Country	Millions of United States Dollars					
	2000	2001	2002	2003		
World	275.48	436.76	308.09	406.96	47.73%	32.09%
South Africa	96.37	155.70	116.94	147.19	52.73%	25.87%
Morocco	62.89	73.04	59.59	82.85	31.74%	39.03%
Egypt	4.39	6.23	10.20	14.45	229.00%	41.68%
Chile	0.09	0.55	0.31	1.08	1064.91%	242.32%
United States	0.11	0.24	0.53	0.38	227.07%	-29.50%

There are many other products that have suffered declines in the value of imports from the US similar to those of oranges and prunes. Many of the EU's FTAs include preferences for fresh grapes within the limits of tariff rate quotas. Not only are grapes subject to significantly high MFN tariff rate (up to 17.6%), but they also have a minimum entry price and certain seasonal restrictions. Table 13 shows that imports from the US have declined nearly 45% since 2000 while imports from countries with tariff preferences have increased markedly. Between 2000 and 2003 the US share of the import market fell over 4.6%. That represents a loss of roughly $30.8 million of imports in 2003.

Table 13: EU-15 (External Trade) Import Statistics						
Commodity: 080610, Grapes, Fresh						
Annual Series: 2000 - 2003					Percent Change 2003/2000	Percent change 2003/2002
Partner Country	Millions of United States Dollars					
	2000	2001	2002	2003		
World	447.35	486.55	560.44	664.93	48.64%	18.65%
South Africa	188.31	207.51	240.63	255.81	35.85%	6.31%
Chile	107.44	115.25	109.04	161.20	50.04%	47.84%
United States	32.92	28.88	34.31	18.12	-44.95%	-47.18%
Egypt	5.12	8.14	16.14	17.68	245.45%	9.51%
Morocco	1.39	2.52	3.61	9.80	606.22%	171.34%

While we can see from this data that trade patterns have shifted there may be several reasons for this. It is beyond the scope of this paper to determine the exact cause of these effects, and further research on this subject is warranted.

The US also has several free trade agreements. The most notable of these is the North American Free Trade Agreement (NAFTA) with Canada and Mexico, but there is also an agreement with Chile (2004), and an FTA with the Southern Africa Customs Union has been under negotiation since June 2003. The US also has agreements with several members of the Euro-Mediterranean Partnership, including Morocco, Jordan, and Israel. The arrangements have allowed the US to make up some of the lost ground due to EU trade agreements with these countries.

While US agricultural exports have increased over the years of 2000 – 2003, 10% worldwide, exports to the EU have been stagnant at 0.8%. Aside from trade with the EU, a good example of the detriment of EU trade agreements to the US is trade with Morocco. After the

EU-Morocco FTA became effective, US exports to Morocco fell by nearly 52% from 1999 – 2001. After a steady increase from 2001 - 2003, US exports were still almost 17% below the 1999 level. Once the US completed its own FTA with Morocco, essentially giving the US the same level of preferences as the EU, US exports of agricultural products jumped 13% from 2003 – 2004. This trend was mostly prevalent in US exports of dairy, cereals, and beverages to Morocco.

IX. Conclusion

The EU's free trade agreements do not cover "substantially all trade," especially when looking at the agricultural sector individually. While trade may have increased overall the percentage of fully liberalized agricultural products is considerably less than those products that continue to incur some form of restriction to trade. Tariff rate quotas, minimum entry prices and seasonal restrictions continue to protect many of the EU's sensitive agricultural sectors.

The apparent impact of these agreements on the US is substantial. With the continuation of preferences being given to third countries the US stands to lose a considerable share in EU and third country markets, especially in fruits, vegetables, grains, and other agricultural products. Combined with the expansion of the European Union and an increase in the standard of living in New Member States, liberalized trade between the EU and third countries will continue to grow and have an adverse effect on US producers.

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