

Examining EU Policies Applied to Processing Tomatoes

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Introduction

International trade in fruits, vegetables, processed products and other high unit-value products has been expanding rapidly relative to trade in bulk commodities. For example, in the United States trade in high-valued exports rose from 30% of agricultural exports in 1976 to 63% in 2002 (Whitton 2004). At the same time, most analysis of the effects of agricultural border measures and domestic support on trade patterns has dealt with grains, cotton and similar bulk commodities with much less analysis of trade and trade policy for horticultural products. Here we examine policies applied to the processing tomato industry.

California produces 95 percent of U.S. processing tomatoes, and the processing tomato industry is a major part of California agriculture. Total revenue was \$670 million in 2004, ranking eleventh among all crops and second among vegetable crops in California (USDA). Processed tomato products are also a major export commodity. Over \$260 million of processed tomato products were exported in 2005 accounting for approximately 15 percent of the crop. The industry ranks tenth among California agricultural commodities in value of exports (Bervejillo and Sumner 2007).

The United States and the European Union (EU) each supply approximately one-third of the world's processing tomatoes (Figure 1). There is little or no direct subsidy for processing tomatoes in the United States; however, processing tomato production is directly subsidized in the EU with payments to growers. The EU subsidy regime for processing tomatoes is a part of their overall system of subsidy that applies also to other fruit and vegetable industries.

The current Doha Round of trade negotiations under the World Trade Organization (WTO) is attempting to reduce subsidies, lower import barriers, and eliminate export subsidies on a global basis. The framework for the ongoing agricultural negotiation suggests eliminating export subsidies and a 50 percent cut in both tariffs and domestic support for agricultural commodities (WTO 2004). Our analysis shows what the California processing tomato industry may expect if these negotiations are successful in reducing EU subsidy and protection.

An Overview of Support for the Processing Tomato Industry in the EU

From 1978 to 2000, EU domestic support included a complex array of direct transfers to processors (processor aid), minimum prices for growers, and a quota that set a limit on the quantity eligible for the processor aid and the minimum price. In 2000, processor aid was approximately 180 euros¹ per ton² of tomato paste, the minimum price for processing tomatoes was 88 euros, and the minimum price was applied to approximately 7 million tons of processing tomatoes. This subsidy program was changed beginning with the 2001 crop, and the changes have been shown to further stimulate EU production (see Table 1). Since February 2001, EU growers have received 34.50 euros per ton of processing tomatoes from the EU, so long as total EU production does not exceed the threshold limit of 8.25 million metric tons. The subsidy rate is approximately 43 percent of per unit revenue. (The typical market price is about 45 euro per ton.)

Since 2001, the EU tariff has been set at 14.4 percent for processed tomato products, down one-fifth since 1995 in accordance with the Uruguay Round GATT deal that is administered by the WTO. This tariff is refunded when the imported product is used in, or offset by, exports of processed tomato products. The EU also allows reduced or zero tariffs for imports from selected developing countries. Export subsidies apply to selected canned tomatoes products that comprise a relatively small share of total processed tomato production in the EU. For reference, the United States applies an import tariff of 12.5 percent for processed tomato products, and the average (non-weighted) tariff in other tomato importing regions is approximately 20 percent.

Effects of Policy Reform

Simulations are performed to characterize how potential changes in EU export subsidies, global tariffs, and EU domestic support policy would affect prices, quantities, and net benefit measures (*e.g.*, revenues and government expenditures). Here the focus is on the effects in the EU and California.

First consider the export subsidy. Complete elimination of the export subsidy would lower EU export tonnage by only 0.6 percent. The small impact of the export subsidy reform is mostly attributed to the fact that the export subsidy rate is low and applies to a small portion of total EU production. Since the impact of the EU export subsidy on the California industry is so small, we only focus on the effects of reductions in import tariffs and EU domestic support.

Table 2 outlines the benefits and costs to stakeholders in the U.S. processing tomato market from various policy changes. The first two rows in Table 2 show the effects on

¹ The U.S. Dollar-Euro exchange rate has varied recently. In June 2001, \$1 was equivalent to €1.17, and in November 2007, \$1 was equivalent to €0.70.

² Tons refers to metric tons which are approximately 2204 pounds or 1.102 short tons.

annual net benefits to producers and processors in the United States. The results show clearly that the only policy that has any significant effect on tomato producers and processors in the United States is the reduction in tariffs on a global basis. The benefit to U.S. producers of tomatoes is approximately \$67 million per year with about \$63 million per year for growers in California. The increase in benefits to U.S. processors is approximately \$37 million per year with almost all of that return to processors in California. Benefits to tomato producers and processors total about \$104 million per year. Part of this revenue increase comes from U.S. markets and part from additional export revenue. Costs to U.S. consumers from higher prices for U.S. tomato products is about \$90 million. The United States also loses about \$3.6 million in tariff revenue, so the net gain for the United States is about \$10 million per year.

Implications

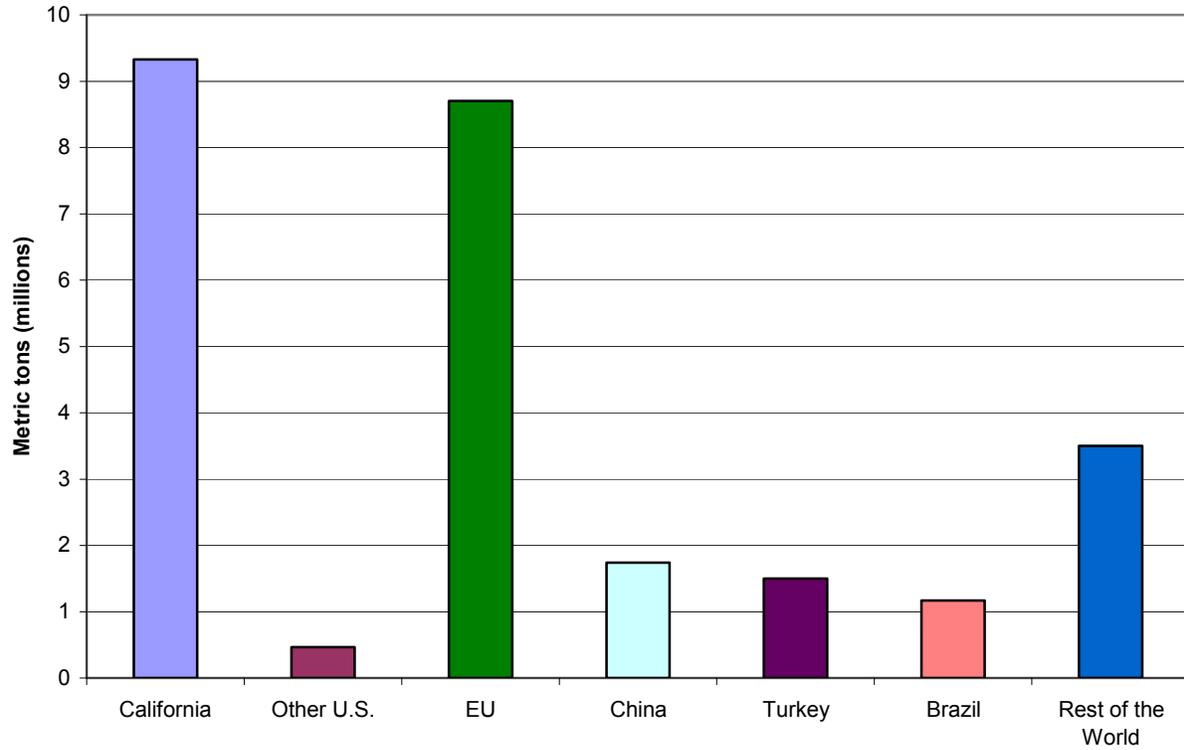
Farmers and processors in the United States would benefit more from reductions in import tariffs than reductions in EU domestic support even though that would also mean reductions in the U.S. tariff. We note, however, that reductions in import tariffs would place pressure on the EU domestic support regime. Reducing import tariffs would increase production of tomatoes in the EU, and thereby increase the taxpayer cost of the EU domestic support regime. This would place additional pressure on EU budgets.

The results of these simulations may be surprising to some. Even though EU domestic support subsidizes processing tomatoes by 43 percent and EU import tariffs are 14.4 percent, reducing import tariffs by 50 percent world wide would bring far greater benefits to growers and processors in California. This result is driven by three factors. First, the supply response of processing tomatoes in the EU to reduced per acre returns (including policy benefits) is relatively inelastic over the intermediate time horizon because we envision reduction in support for processing tomatoes as part of a larger multi-commodity package. Second, EU domestic support applies to the farm-produced product, and import tariffs apply to processed products. The farm product represents only 45 percent of the cost of the processed product and a barrier that applies at the border has a bigger effect on trade than a subsidy on raw materials. Third, the EU domestic support drives a wedge between the price the growers receive, and the price the processors pay, for tomatoes. Reducing EU domestic support would reduce that wedge, and the burden of any reduction is shared between the grower and processor.

Conclusion

Trade negotiations have the potential to reduce trade barriers and farm subsidies on a global basis. The California processing tomato industry has long been concerned with subsidies and import barriers in the EU. Our research shows that this interest is well placed, but to increase net returns, emphasis should be on trade barriers much more than on domestic subsidies in Europe. We also show that the California processing tomato industry would receive considerable benefits from global tariff reduction, even though that would mean giving up some of its own protection from imports.

Figure 1: Average processing tomato production in selected countries from 1999 to 2003



Source: World Processing Tomato Congress: Production Table. <http://www.wptc.to>

Table 1. EU processor aid, minimum price, grower payment, and production^a

Year	Processor Aid, 1978 to 2000; (Ecu/ton of Paste) Grower Payment, 2001 to 2007; (Euro/ton of tomatoes)	Minimum Price (Ecu/ton of Tomatoes)	Total EU Production (thousand Metric tons)
1978	475	96	4,810
1979	462	101	6,050
1980	448	106	5,801
1981	487	112	5,492
1982	550	119	5,493
1983	568	122	6,774
1984	483	121	9,078
1985	326	117	7,097
1986	341	112	4,880
1987	359	108	4,981
1988	395	108	5,504
1989	384	108	6,923
1990	377	107	6,786
1991	374	107	6,427
1992	354	107	5,619
1993	332	101	6,231
1994	313	97	6,214
1995	302	95	6,740
1996	296	95	7,882
1997	268	94	6,846
1998	244	91	8,098
1999	216	88	9,063
2000	172	88	8,384
2001	34.5	n/a	8,423
2002	34.5	n/a	7,904
2003	34.5	n/a	9,083
2004	34.5	n/a	11,048
2005	34.5	n/a	10,093
2006	34.5	n/a	8,779
2007	34.5	n/a	8,710
2008	SFP	n/a	

Source: USDA/FAS/GAIN Reports, various issues.

^a Processor aid and minimum prices are shown in nominal terms.

Table 2: Simulated effects of policy changes in the U.S. processing tomato industry*

Benefit or Cost to:	<i>A 50 Percent Reduction in:</i>		
	Import Tariffs	EU Domestic Support	All Policies
	<i>Change in million \$US</i>		
U.S. Tomato Producers†	66.7	~0	66.7
U.S. Tomato Processors	36.8	~0	36.8
U.S. Government Budget	-3.3	-0.2	-3.6
U.S. Consumers of Processed Tomato Products	-90.3	-0.1	-90.1
Total U.S. Economy	9.9	-0.3	9.6

* A ~0 is used to denote a non-zero, but very small, change. Effects for the EU are available from the authors.

† More than \$63 million of the \$66.7 million would be earned by California growers. This is approximately \$6.30 per ton, and represents 12.6 percent of total producer revenue and a larger percent of net revenue.

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