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Liberalising agricultural trade between the EU and Tunisia

Analysis of trade relations and recommendations for the negotiation of a new trade agreement

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Registered offices
Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 36 + 40
D-53113 Bonn, Germany
T +49 228 44 60-0
F +49 228 4460-17 66

E info@giz.de
I www.giz.de

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Author:
This Policy Brief is based on research by Dr. Bettina Rudloff (Stiftung Wissenschaft und Politik, SWP) and sector project „Agricultural Trade, Agribusiness, Agricultural Finance"

Responsible for the content:
Heike Höffler, GIZ Sector project „Agricultural Trade, Agribusiness, Agricultural Finance"
agritrade@giz.de

Editing:
Kristina Mensah, GIZ

Design:
DIAMOND media, Neunkirchen-Seelscheid

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Liberalising agricultural trade between the EU and Tunisia

Analysis of trade relations and recommendations for the negotiation of a new trade agreement

Since 2015, Tunisia and the EU have been negotiating the renewal of their existing trade deal, the Association Agreement, signed in 1998. This entails reciprocal market access, but is restricted to the industrial sector. Now a new deal, the Deep and Comprehensive Free Trade Agreement (DCFTA), is set to liberalise new sectors such as investments and services, as well as the agriculture sector. Moreover, in addition to removing duties it will reduce and harmonise standards between the EU and Tunisia. Ever since the negotiations began in 2015, however, there has been considerable resistance to an agreement among nearly all actors on the Tunisian side.

This policy paper provides an overview of the agricultural trade relations between Tunisia and the EU, and suggests possible ways to overcome the resistance to the negotiations or, following an agreement, to support the agricultural sector, which is strategically very important to Tunisia.

1. Background: Tunisian agriculture sector and trade flows

In economic, social and environmental terms, Tunisia's rural areas play a key role. Around a third of the Tunisian population lives in rural areas and about 15 per cent of the people are employed in agriculture. Furthermore, the agricultural sector has a stabilising effect in times of economic crisis, not only because it ensures the supply of food, but also because it is less susceptible to economic downturns than other sectors.

Around 15 per cent of the Tunisian people are employed in agriculture.

Currently worth around 10 per cent of gross domestic product (GDP), the agricultural sector makes a very significant contribution to Tunisia's economic output – even more than the tourism sector. This output is achieved primarily through production rather than processing. One of the problems faced by agriculture is the ageing population, as more than 40 per cent of farmers are over the age of 60. At the same time, the agricultural sector is a particularly important segment of the labour market for adolescents and young adults. Almost 22 per cent of jobs in the countryside are in agriculture, though most of these are informal and without legal safeguards. More than half of young people in rural areas work as daily wage earners and therefore have no entitlement to social benefits.

Production structure

Tunisian agriculture is characterised by modern, large-scale production for export markets, on the one hand, and on the other by traditional family smallholdings. Indeed, the majority of farms are smaller than two hectares. In some regions, the infrastructure is still in need of further development. In particular, the comprehensive supply of electricity needed to improve production processes is often lacking. This makes it harder to use cold chains, which are especially important for Tunisia's relevant fruit and vegetable exports. In many regions, organic farming offers great potential to augment agricultural trade because, in 2016, Tunisia became the first African country to include rules on organic cultivation in its national legislation.

The consumer side

In Tunisia, changes to the agricultural sector are a matter of extreme political sensitivity. The number of malnourished and underweight people started increasing again since 2014. Yet, obesity and food waste are also on the rise. With an average share of domestic expenditure of almost 30 per cent, food is the largest expense for Tunisian households – even higher than the cost of accommodation, electricity or water. This means that food prices are a decisive factor in general living conditions, and increases often lead to protests, which explains the extreme political sensitivity. Tunisian politicians respond to this sensitivity in a traditional way by subsidising consumer prices for certain foodstuffs, thereby keeping prices low.

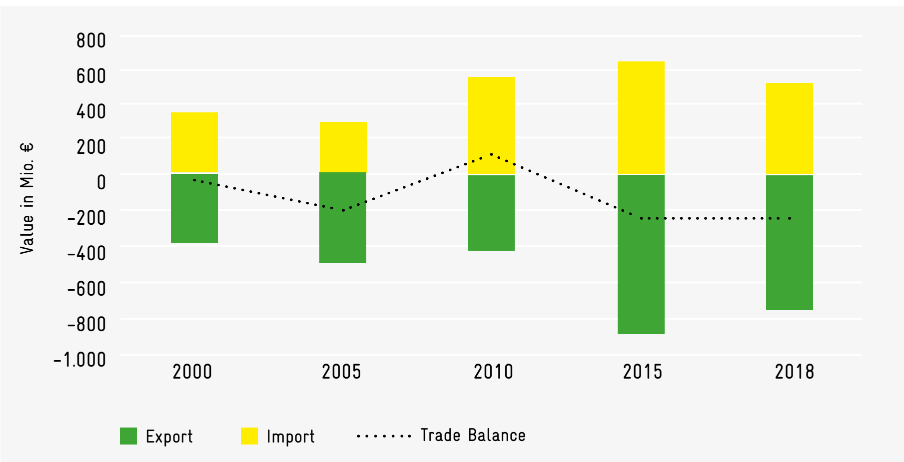
With an average share of domestic expenditure of almost 30 per cent, food is the largest expense for Tunisian households.

Tunisian agricultural trade

The EU is the most important of Tunisian trading partners for agricultural goods. However, the significance of the EU is declining in favour of African, Asian and even North American states. Whereas in 2000 some 60 per cent of all Tunisian agricultural exports still went to Europe, the figure was just 44 per cent in 2017. In the other direction, Tunisia is hardly relevant for the EU's global agricultural trade, as less than one per cent of all European agricultural exports and imports are sent to and from Tunisia.

From the EU, Tunisia mainly imports cereals, above all wheat, animal feed and vegetable oils. Tunisia exports primarily olive oil to the EU (approximately 60 per cent of all European olive oil imports come from Tunisia), citrus fruits and dates.

Tunisian agricultural trade with the EU



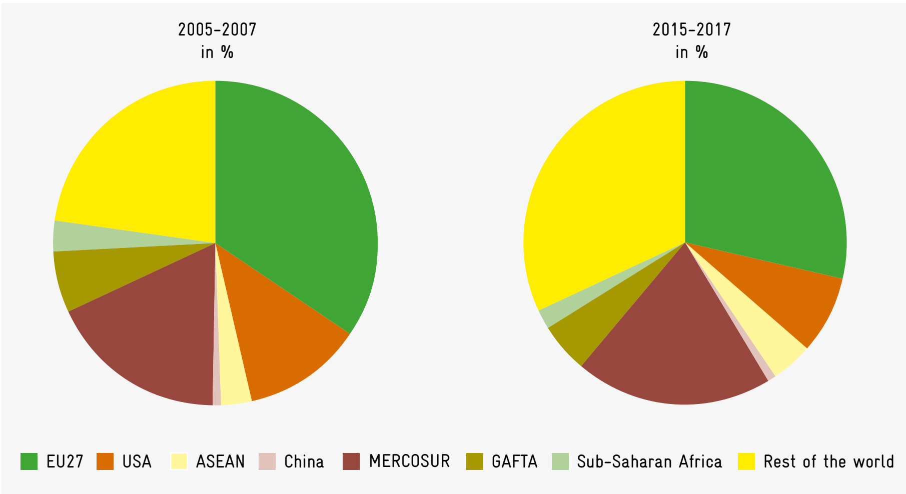
Note: the figures include fishery products as well as agricultural goods. Source: EUROSTAT

The export of organic food is also becoming increasingly important for Tunisia. It is the second largest African exporter of organic agricultural produce after Tanzania and ranks 24th globally. Tunisia's nearly 3,000 organic farms primarily operate for the export market. Their main products are olive oil, dates, almonds, oranges, dried fruits, spices and honey. In terms of the country's exports to the EU, the proportion of certified organic produce was a respectable 13 % of the total agricultural export in 2016.

In a comparison of different regions, the share of trade within North Africa is at the lowest rate globally, at just two per cent. Intraregional trade in food products is particularly low in this context. Despite this, informal trade – especially across the Libyan border – is very significant according to the International Monetary Fund.

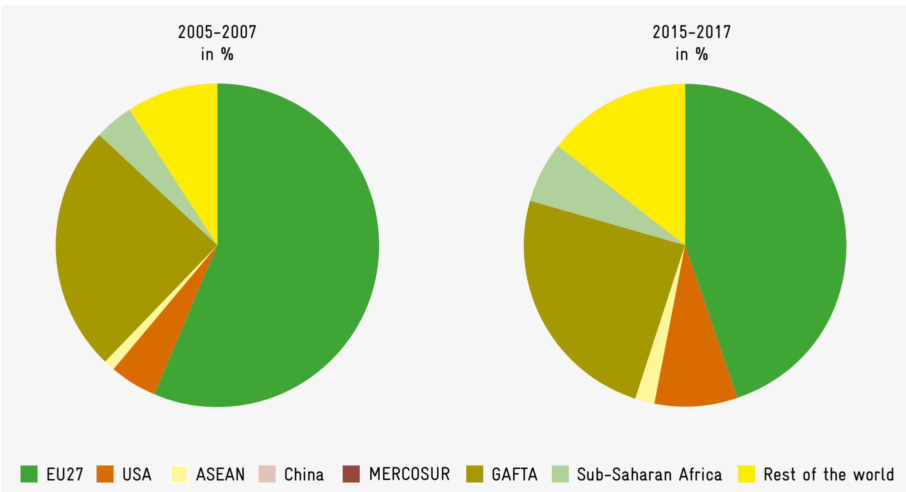
In terms of the country's exports to the EU, the proportion of certified organic produce was a respectable 13 per cent in 2016.

Importance of the EU as a trading partner for agricultural imports to Tunisia (in value)



Source: COMTRADE

Importance of the EU as a trading partner for agricultural exports from Tunisia (in value)



Source: COMTRADE

2. Analysis: Current high levels of protection for agriculture on both sides

With a per capita income of USD 3,500, Tunisia is a low middle income country according to the World Bank's definition. Unlike other developing countries, therefore, Tunisia does not have general duty-free access to the EU market as part of the Everything But Arms (EBA) initiative. Nor does it benefit from any extensive EU tariff reductions, such as those afforded by the Generalised System of Preferences (GSP).

Under the Association Agreement of 1998, duties on agricultural goods entering the EU from Tunisia still amount to 12 per cent on average, compared to the completely duty-free status of goods from other African states that have negotiated economic partnership agreements (EPAs) with the EU. In the other direction, Tunisia subjects agricultural produce to average duties of 32 per cent. Thus, while it is subject to the general most-favoured nation (MFN) tariffs that the EU applies to all its trading partners, Tunisia does not reciprocate with preferential access for the EU.

Country	Partner	Average duty rate (%)	
		Agricultural	Non-Agricultural
European Union (2017)	average general applied duty	14,1	4,3
	Tunisia	11,8	0
Tunisia (2016)	average general applied duty	32,1	9,6
	EU	32,1	2,1

Source: WTO

The main trade barriers used by both sides are tariff quotas – that is to say, only specified quantities of goods can be imported duty free. However, numerous non-tariff measures (NTMs) also exist, such as the application of standards. Meeting standards enables market access and may also raise welfare levels if, for instance, environmental or health burdens are reduced. The main instruments used in this context are licensing requirements, labelling provisions and import controls. Unlike the EU, Tunisia also applies regulations to exports, including the authorisation of companies to export olive oil.

In the organic segment, an equivalency agreement has been in place with the EU since 2009, the only African country that could achieve this so far. Under the terms of this agreement, the EU accepts Tunisia's rules, institutions and control procedures in the field of organic farming as equal to its own. This results in greater market access, as there is no need for extensive individual product controls for organic goods.

In line with the trade policy, Tunisian agriculture policy also promotes exports, especially of olive oil. At the same time, it protects the domestic market by subsidising consumer prices, for example for bread, cereals and vegetable oil (excluding olive oil). This means that less of the comparatively expensive olive oil is consumed in Tunisia, leaving more of it available for export. Throughout North Africa, this is a policy traditionally used to ensure food security from domestic production rather than food imports, and it explains the sceptical attitude towards lowering customs duties.

A TRADE REGIME FOR EXPORTING OLIVE OIL TO THE EU

Olive oil can reach the EU by one of three export channels: Within a tariff quota, outside the tariff quota as part of inward processing, and under third-country regulations. There are no separate customs regulations for organic olive oil or for bottled oil, both of which are subject to the same export channels:

1) TARIFF QUOTA The EU offers a tariff quota for the duty-free import of 56,700 tonnes of untreated olive oil per year. Following the terror attacks in Sousse in 2015, this quota was increased by 32,000 tonnes each year for 2016 and 2017 in order to alleviate the losses caused by the collapse in tourism revenues. The oil imported within the tariff quota may be filled into saleable bottles or it can be delivered in bulk containers. The latter accounts for the majority of all Tunisian exports to the EU. Due to strongly fluctuating harvests, the quota is not fulfilled every year. The average amount to have been achieved over the last five years is just 30 per cent.

2) INWARD PROCESSING This denotes a duty-free status for exports that will be used as raw materials by European companies. The rule is intended to support European companies by making their initial outlay cheaper. To prevent this from causing price pressure on the EU market, the same quantity of the processed end product must then be exported to a third market. In inward processing, Tunisian olive oil is added to European oil as an inexpensive component to add volume to bulk goods. While stating the admixture of Tunisian oil on the label, the final product – in this example – is nevertheless marketed as Italian olive oil. On average, around 30 per cent of all Tunisian olive oil exports enter the EU in this way, but they are not recognisable as Tunisian olive oil. The total, usually constant, quantity of Tunisia's annual exports is divided between these two channels (tariff quota and inward processing), such that during periods when the tariff quota is exceeded, more inward processing takes place, and vice versa.

3) THIRD-COUNTRY MFN TARIFF Beyond these two processes, a third-country tariff of 31 or 32 per cent applies, depending on quality. This option is hardly ever used due to inward processing, which is not subject to any limits.

3. Opposition to the DCFTA

In the public debate, the DCFTA is sometimes discussed in very emotional terms. Tunisia is critical of the lack of impact analyses, without which the effects of liberalisation cannot be identified, and negotiations remain meaningless. Existing studies, such as the obligatory sustainable impact assessments (SIAs) commissioned by the EU for every trade agreement, are criticised in Tunisia for a lack of objectivity.

Based on comprehensive literature research, 43 completed studies have been identified that address the topics of the DCFTA.

Based on comprehensive literature research, 43 completed studies have been identified that address the topics of trade liberalisation or the DCFTA. Three more studies are as yet incomplete or on hold. Tunisian academics have been involved in approximately half of the studies.

Ten of the studies specifically analyse the DCFTA, while the others examine the effects of liberalising the agricultural sector in a broader sense. It is evident, however, that the focus is on economic impacts,

while little is done to assess the ecological and social impacts of an agreement, which would be important to Tunisia. Security of supply and youth employment are not considered at all. Apart from anything else, this is due to the methodological limitations of typical quantitative impact analyses for trade agreements.

Policy options and recommendations

Policy options and recommendations can directly affect the European level, or may include support for Tunisian policies. In addition, direct trade-related approaches or development approaches are possible.

(A) Options within the scope of the DCFTA

Options can make a contribution to negotiations, such as the specific trade-related expansion of quotas, or the strengthening of public debate by providing relevant information.

(a) EU access for Tunisian olive oil and a joint pilot project on quota administration

Level: EU trade policy

Tunisia has repeatedly called for an increase in its quota for olive oil, even though alternative duty-free access to the EU market is possible through inward processing (see box). In light of its symbolic character, it might be possible to offer an additional individual quota for conventional olive oil in bottles, and/or for organically produced olive oil. This would strengthen an economic sector that not only has a high symbolic value, but also promises great employment potential and considerable value creation. This makes it particularly attractive to Tunisian policy makers.

Level: Tunisian agricultural and trade policies

The handling of quotas could also be made easier in general. This would necessitate an analysis of impacts on the respective stakeholders. The national olive oil authority, the Office Nationale d'Huile (ONH), holds the export monopoly for conventional olive oil. Organically produced olive oil, on the other hand, can be exported by private sector companies.

A joint project to be designed with Tunisia by the EU and/or Germany could record who profits from the restrictive quota (economic rent) and at what stage of the value chain, how free access to the organic segment outside the monopoly is, and how high the handling costs are. A joint pilot project of this kind could also feed in to the WTO decision on the easing of quotas, passed in Bali in 2013: This aimed to develop a monitoring system that records the extent of fulfilment of quotas, while also registering the actors involved and any hurdles that exist.

(b) Academic contributions to the public debate
A foundation based on facts is essential for a transparent public debate. The studies completed to date already provide a good basis for this, although there is clearly room for improvement in some areas.

It is important to note that any study is only able to highlight few impacts with clarity. As such, impact analyses should never form the sole basis for decision-making when negotiating an agreement.

Level: EU trade policy
There is a need to address the social and ecological dimensions that have so far been neglected or only covered to a limited extent. Tunisian actors have been involved in many of the studies, but their greater involvement and participation would be desirable. Above all, they should play a more active role in assessing the content that would actually be relevant for the negotiations, for instance for the specific extension of individual quotas.

Furthermore, a continuous process of public discourse should accompany negotiations. An impact analysis should be undertaken after the negotiations are completed, as only then any negative impacts that arise can be understood in detail and dealt with appropriately.

Level: Tunisian trade policy
It is important to facilitate a public discussion with the participation of Tunisian academics to assess the possible impacts of the DCFTA.

(B) Options besides the trade agreement
Tunisia's presidential and parliamentary elections in 2019 have caused negotiations with the EU to stall. Their further postponement or suspension is a real option in response to the sustained opposition or uncertainty about the exact positioning of the new actors after the elections. This possibility needs to be discussed openly. Another possibility would be to focus on private sector cooperation arrangements or technical agreements, for which a policy framework is already in place:

Tunisia's presidential and parliamentary elections in 2019 have caused negotiations with the EU to stall.

(a) The organic sector
The attractive and growing organic market inside the EU, but also in other states such as China and the USA, offers potential for Tunisia's agriculture, which is rather extensive in nature.

Level: Tunisian agricultural and trade policies
Better use needs to be made of the equivalency agreement that already exists with the EU. To achieve this, it is necessary to work with Tunisia to identify existing barriers.

Level: EU trade policy
Support is needed for improvements that encourage greater value creation, including the processing of organic products. In this respect, flexible rules of origin might be considered to enable the use of tariff preferences. The private sector should be involved in order to identify specific qualitative requirements.

(b) Comprehensive strategies for rural areas

Level: EU development policy
The EU should consider the use of development measures that could contribute to improving infrastructure in rural areas. From the European perspective, this would have the advantage of causing less internal EU conflict due to competition with southern European producers – unlike the opening of the market for olive oil, for example. In this respect, it would be possible to support Tunisian agricultural reforms. It would also be a good idea to pursue knowledge transfer regarding the impact of subsidies and European experiences of comprehensive approaches in rural areas, with the inclusion of local stakeholders. The correspondingly designed LEADER approach in rural areas of the EU has already been raised as a recommendation in the EU's Task Force Rural Africa.

(C) Thinking ahead: Support for the future of Africa's continental free-trade area

As a bridge to Africa, Tunisia can also serve as a hub in trade policy terms, supporting the long-term vision of an EU-African Continental Free Trade Area. President of the European Commission Jean-Claude Juncker proposed this, at least in general terms, in his State of the Union speech in 2018, although this idea was expressed rather as a long-term vision that still needs to be followed by concrete actions. It is important to maintain support for regional integration, precisely because North African trade has the lowest level of regionalisation within Africa and globally. This is also significant due to the fact that – unlike with other African states – the EU has only bilateral rather than regional agreements with Northern African states including Tunisia and is currently negotiating the DCFTA bilateral as well.

Level: Coordinated EU and Tunisian trade policy
In order to reinforce regional approaches across North Africa, support could be given to Tunisia's existing cooperation arrangements with other African states. The pilot programme 'Taste Tunisia', which is co-financed by the Tunisian Government, could be an option. This programme supports selected private-sector food companies in trading with the African partner countries of Cameroon, Côte d'Ivoire, the Democratic Republic of the Congo, Kenya and Nigeria. To support regionalisation, it would also be possible to strengthen the sluggish implementation of regional treaties, such as the Agadir Agreement, by organising dialogue events for the states involved. Use should be made of joint platforms and committees, similar to those that the European Commission's Task Force Rural Africa offers but so far focusses more on Sub-Saharan Africa. In targeted sectors, this process could be reinforced by partnerships between Tunisian and EU authorities (twinning approaches). A prerequisite for this would be that Tunisia must actively seek such partnerships itself, and that it also defines the priority areas of any such exchanges.

IN SUMMARY, THE FOLLOWING POLICY RECOMMENDATIONS CAN BE MADE:

- Carry out impact analyses with Tunisian participation and public discussions.
- Negotiate additional olive oil quotas for organic and bottled olive oil, and launch a joint pilot project as a contribution to WTO monitoring.
- Strengthen the organic sector and advise the private sector.
- Support comprehensive strategies for rural areas and share EU experiences.
- Support the vision of a future African continental free-trade area.

On behalf of

Federal Ministry
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Registered offices
Bonn and Eschborn, Germany

Friedrich-Ebert-Allee 36 + 40
D-53113 Bonn, Germany
T +49 228 44 60-0
F +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1 - 5
D-65760 Eschborn, Germany
T +49 61 96 79-0
F +49 61 96 79-11 15

E info@giz.de
I www.giz.de