PolicyPaper

Beyond Barriers: Rethinking CAP to Enable Agricultural Export Diversity in the EU Neighbourhood

Countries in the European Union's neighbourhood have the potential to increase their exports of food and agricultural goods to the EU but face substantial barriers that inhibit trade and economic integration. The EU's agricultural policies — marked by complex tariffs, subsidies, and regulations — often relegate these countries to mere exporters of raw material. These limitations curtail their capacity to diversify and enhance their agricultural product offerings. In addition to hindering their economic development, this dynamic complicates the EU's efforts to strengthen ties within the region.

Striving to facilitate efforts aimed at the integration of agricultural products from neighbouring countries into the EU, this policy paper explores the EU's agricultural trade relations with its neighbours. It examines how these countries have adapted to existing trade barriers, focusing on tariff levels, quotas, and the significance of relevant standards and food regulation. Furthermore, the paper provides an overview of current trade agreements and other agreements pertaining to agricultural trade between the EU and its neighbouring countries. Finally, it offers recommendations on measures that the EU could pursue to alleviate the adverse effects of its Common Agricultural Policy (CAP) on neighbouring countries.

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1. How the CAP works

The EU's Common Agricultural Policy (CAP) acts as a comprehensive framework for regulating the agricultural production and trade of EU member states with external nations. This policy incorporates a proactive agricultural trade stance, marked by robust protection mechanisms such as tariffs and tariff rate quotas (TRQs) for particular agricultural commodities. In addition to bolstering domestic agri-food producers through subsidies, the EU mandates adherence to a broad spectrum of standards and regulations for products to be eligible for sale within the Single Market. These standards, which apply uniformly to both EU countries and non-EU countries, include Sanitary and Phytosanitary (SPS) standards that are pivotal in ensuring that imported agricultural products conform to established quality benchmarks. The EU also enforces environmental regulations related to pesticide use and the management of natural resources. By imposing these standards and regulations on imported food products, the EU aims to safeguard human, animal, and plant health through SPS requirements, thereby influencing its own agricultural output as well as international trade dynamics, especially with neighbouring regions.

There are specific funding and action areas of the CAP which are divided along Pillar I (direct payments and market measures) and Pillar II (rural development measures). Together, they represent a significant share of the EU budget, accounting for 33 percent in 2021 (€55.71 billion). Pillar I receives the lion's share, almost 77 percent, with the remainder allocated to Pillar II.[1] Direct payments under Pillar I serve to sustain farmers' incomes at a reasonable level, given the global competitiveness of agricultural production. Market measures within this pillar aim to intervene in agri-food sectors to shield farmers from excessively low prices or crises, including the provision of storage payments during periods of oversupply and the implementation of TRQs for sensitive products.[2] It is important to note that compliance with environmental standards is a prerequisite for farmers to receive direct payments under Pillar I.[3] Pillar II focuses on rural development, aiming to support farmers in adopting technological innovations to enhance productivity and promoting environmental and climate change-related practices. Additionally, the CAP is under scrutiny for its alignment with environmental policies outlined in the Green Deal initiative.

2. How the CAP impacts trade

In recent decades, the global agricultural sector has transitioned from localised production-consumption models to a more interconnected system embedded within global value chains (GVCs). The agri-food ecosystem covers all operators in the food supply chain and encompasses suppliers of inputs and services. This agri-food ecosystem encompasses all players in the food supply chain, including input suppliers and service providers. Activities within this system range from the production of food products and beverages to the cultivation of crops and feed for animals, as well as forestry, logging, fishing, and aquaculture for human consumption.[4]

EU neighbouring countries often rely on production of raw food products, with upstream production typically yielding lower added value compared to processing activities. The level of integration within GVCs significantly impacts a country's agricultural sector growth and overall economic development. Diversification across the entire agri-food value chain also stimulates non-agricultural economic activities, with distribution, financial, and business services becoming increasingly intertwined between food production and end consumers.[5,6] This integration facilitates rural poverty reduction and the creation of high-productivity jobs. Ultimately, although countries' agricultural sectors are invariably shaped by human and land capital endowments, there is a compelling argument for less-developed countries to increase their participation in agri-food GVCs across the supply chain.

More generally, diversifying export activities and destinations along the value chain helps mitigate the adverse effects of external shocks. Just as greater participation in downstream value chains enables gains from trade, protectionist trade policies exacerbate losses from export diversification for neighbouring countries. The EU's agricultural trade policy imposes market access barriers on neighbouring countries in the form of tariffs and quotas

1 European Parliament (2023). *Financing of the CAP*. European Parliament Fact Sheets on the European Union. www.europarl.europa.eu/factsheets/en/sheet/106/financing-of-the-cap
2 TRQs are two-tier tariffs where the import tariff is lower (or equal to zero) for a given quantity of the product (the in-quota duty), and becomes significantly higher for quantities imported outside the quota limit.
3 European Commission (2023). *Eco-schemes*. https://agriculture.ec.europa.eu/common-agricultural-policy/income-support/eco-schemes_en
4 European Commission (2023). *Co-Creation of a Transition Pathway for a More Resilient, Sustainable and Digital Agri-Food Ecosystem*. Commission Staff Working Document 263 final. https://ec.europa.eu/docsroom/documents/55334
5 OECD (2020). *Global Value Chains in Agriculture and Food: A Synthesis of OECD Analysis*. OECD Food, Agriculture and Fisheries Papers No. 139. https://doi.org/10.1787/6e3993fa-en
6 Inputs from the service sector make up 30 percent of the overall value of agro-food products in high-income countries and 23 percent in developing countries: OECD (2020) ibid.

but also non-tariff measures (NTMs), such as regulatory requirements (e.g. sanitary and phytosanitary standards).[7]

Although most of the CAP and EU agri-food related standards are driven by non-trade objectives (e.g. consumer preferences for quality and support to farmers) they still influence market access conditions to third countries seeking to sell in the EU. Income support to farmers under Pillar I has distortionary trade effects in two ways. First, EU subsidies to agricultural production can lead to higher output and lower prices within the EU, making it challenging for third-country farmers to compete and resulting in lost sales for them. Second, EU payments to domestic farmers can enable the production and export of subsidised agricultural goods below cost, constituting an anti-competitive practice (so-called price dumping) that is detrimental to third countries.[8]

In addition to the production-distorting effects of direct payments, the EU maintains high protection measures on many agricultural products.[9] Recent research indicates that the EU's tariff structure has led to a decrease of approximately 14 percent in imports from countries outside the EU (2019).[10]

Furthermore, SPS requirements are imposed on all agri-food products imported into the EU to uphold a high standard of quality and prevent the spread of diseases. The measures are based on scientific evidence and comply with international standards.[11] However, they serve as market access barriers that negatively impact agri-food exports from developing countries due to their costly implementation. Specific SPS measures, such as Maximum Residue Limits (MRL) for pesticide use, have significant trade implications: an increase in MRL by 0.1 unit leads to a reduction in trade of about 1.36 percent.[12] SPS measures and Technical Barriers to Trade (TBT) disproportionately burden countries heavily reliant on agriculture. The costly technical know-how required for compliance creates impediments to trade with the EU for third countries, including EU neighbouring nations.

3. How the CAP impacts trade with the EU's neighbouring countries

This section outlines the dynamics of agricultural trade between the EU and its neighbouring countries, examining the political and trade aspects of this relationship. It begins by offering a comprehensive overview of the agricultural trade dynamics between EU neighbouring countries and the EU. It then analyses the average tariff levels across various sub-sectors, highlighting sectors subject to the highest tariffs imposed by the EU. Specifically, it reveals that the EU imposes significantly higher tariffs, on average, on processed agricultural products compared to raw materials. The section then concludes with an examination of the agricultural trade interactions of EU neighbouring countries, both within the EU and with non-EU countries.

Overview of relevant agreements between the EU and its neighbourhood

Each relationship with the EU is influenced by unique features, such as the domestic political environment of the third country or the composition of trade flows. However, despite the economic complexity of each relationship, there are commonalities among certain neighbouring countries and their ties with the EU. For instance, the depth and strength of relationships with the EU tend to be greater for countries that have been offered the possibility of joining the Union. Regardless of their current position in the accession process, whether as candidates or potential candidates, these nations are required to comply with a range of legal frameworks. These frameworks are designed to gradually align their domestic laws with the acquis communautaire, the comprehensive body of EU laws and regulations, including those governing the Single Market, to which all EU member states must conform.

The EU manages agricultural trade relations with its neighbours through a variety of agreements. These include Stabilisation and Association Agreements (SAAs) with Western Balkan countries, encompassing Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. Notably, Türkiye, a candidate country for almost 25 years, conducts its trade relationship with the EU under a customs union. Additionally, the EU has established Deep and Comprehensive Free Trade Areas (DCFTAs) with

7 Sanitary and phytosanitary (SPS) measures deal with food safety as well as animal and plant health.
8 Matthews, Alan, and Rossella Soldi (2019). *Evaluation of the impact of the current CAP on the agriculture of developing countries.* European Committee of the Regions. https://cor.europa.eu/en/engage/studies/Documents/CAP-developing-countries.pdf
9 Agricultural and industrial tariffs are different because the former are about three times larger, they include more non-ad valorem rates, and they have a number of tariff lines for TRQs setting.
10 Cipollina, Maria, and Luca Salvatici (2019). On the effects of EU trade policy: agricultural tariffs still matter. *European Review of Agricultural Economics* (47) 4: 1367–1401.
11 The three most important international food standard-setting bodies recognised by the WTO (SPS Agreement) are the Codex Alimentarius Commission, the World Organization for Animal Health and the Secretariat of International Plant Protection Convention.
12 Fiankor, Dela-Dem D., Daniele Curzi, and Alessandro Olper (2021). Trade, price and quality upgrading effects of agri-food standards. *European Review of Agricultural Economics* (48) 4: 835–877.

three countries within the Eastern Partnership framework, namely Georgia, Moldova, and Ukraine.[13] Meanwhile, negotiations have begun on Euro-Mediterranean Association Agreements with southern European Neighbourhood countries, such as Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, and Tunisia.

Western Balkans and Mediterranean

Within the framework of SAAs, a dedicated protocol has been established, outlining arrangements specifically tailored for processed agricultural products. Through these agreements, the EU has sought a substantial level of liberalisation, eliminating quantitative restrictions and duties. This commitment to liberalisation grants preferential treatment to Western Balkan countries in their trade relations with the EU, a particularly beneficial arrangement given that most of these countries are on the path to future EU accession.

Türkiye, having signed an Association Agreement with the EU in 1963, is incorporated into a customs union that covers agricultural products. To specifically enhance agricultural trade, the parties have negotiated a distinct agreement targeting this sector. Likewise, the trade relations between Israel and the EU are underpinned by the Euro-Mediterranean Association Agreement, effective from 2000. To demonstrate their commitment to liberalisation, the EU and Israel have further cemented their partnership through a supplementary agreement, expressed as an exchange of letters, which outlines reciprocal liberalisation measures for agricultural products.

Eastern Partnership

DCFTAs with Eastern Partnership countries include a significant emphasis on agriculture and fisheries, although there is no distinct protocol exclusively addressing processed agricultural products. These agreements entail a mutual commitment to fostering a shared understanding of agricultural policies, particularly in protecting geographical indications. Furthermore, the parties actively engage in the elimination of duties and tariffs for a range of sensitive products, highlighting a collective dedication to trade liberalisation.

The contexts of Georgia and Ukraine necessitate separate analyses. The EU and Georgia have entered into a DCFTA that highlights significant liberalisation, albeit with certain exceptions for sensitive agricultural products subjected to TRQs or entry price systems. In the wake of Russia's full-scale war in Ukraine in 2022, Georgia, alongside Ukraine and Moldova, submitted its application for EU membership. Yet, in contrast to Ukraine and Moldova, Georgia did not achieve candidate status in June of that year.[14]

Bilateral trade in agricultural products between the EU and Ukraine is regulated by a DCFTA that took effect in 2017. This comprehensive agreement aims not only to open markets but also to address competitiveness issues related to agricultural policy and outlines the steps necessary to meet EU standards. Additionally, under the DCFTA, Ukraine commits to aligning with the EU acquis across all chapters, demonstrating clear evidence of its policy of rapprochement and progressive adherence to EU standards.

In a significant gesture underscoring the EU's solidarity in the face of geopolitical challenges sparked by Russia's invasion in 2022, Ukraine was recognized as a candidate for EU membership. To mitigate the economic fallout of the conflict and bolster Ukraine's position, the EU adopted a policy of full liberalisation for selected Ukrainian agricultural exports in 2023, via the Autonomous Trade Measures Regulation. This policy, extended for another year this March, ensures the unfettered movement of key commodities like wheat, maize, rapeseed, and sunflower seeds within the EU. However, the proclaimed unwavering support for Ukraine faced a reality check as growing protests by farmers in Poland, Slovakia and Hungary forced the EU to partially retract some of the trade liberalisations. By now, a new automatic safeguard mechanism obliges the Commission to reintroduce tariff-rate quotas if imports of poultry, eggs, sugar, oats, maize, groats and honey exceed the arithmetic mean of quantities imported in 2022 and 2023.

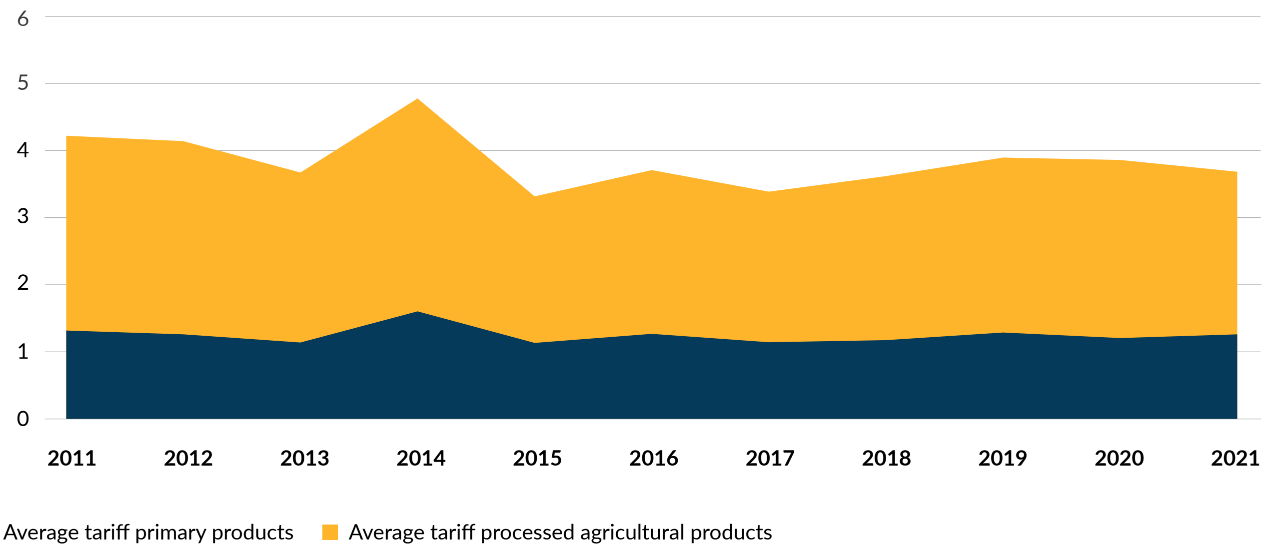
Euro-Mediterranean Association Agreements

The EU has concluded Euro-Mediterranean Association Agreements with Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, and Tunisia, with commitment levels varying across these states. Notably, Egypt, Israel, Morocco, and Palestine have signed additional agreements in the form of exchange letters. These parallel agreements serve as mechanisms for the parties to jointly commit to further liberalise agricultural products. While these parallel agreements place greater emphasis on the agricultural sector, the extent of liberalisation differs among the countries. Egypt stands out with notably high levels of liberalisation, while Israel, Morocco, and Palestine exhibit partial levels.

13 DCFTAs are the instrument of trade relations within broader Association Agreements (AA) which lay the foundation for the accession process.
14 Stone, Sasha et al. (2023). *Reform and Resistance: Georgia's Path to EU Candidacy.* CEPA Comprehensive Reports. https://cepa.org/comprehensive-reports/reform-and-resistance-georgias-path-to-eu-candidacy/

In the case of the remaining neighbouring countries, general agreements emphasise agricultural provisions and strive to foster cooperation and harmonisation in phytosanitary standards. Palestine, in a distinctive case, demonstrates a commitment to abolishing quantitative restrictions and eliminating customs duties for specific products, showcasing a high level of liberalisation. Conversely, Algeria, Egypt, Jordan, and Lebanon exhibit partial levels of liberalisation. Although Jordan tends towards high levels of liberalisation, certain products still fall outside the scope of full liberalisation. The case of Tunisia displays a more limited scope of liberalisation, where quotas for certain products may be increased, and corresponding duties are decided accordingly.

FIGURE 1: **Average EU tariff rates of agricultural and processed agricultural products for neighbouring countries**



Note: The average tariff is a simple average of applied tariff rates from 2011 to 2021 (latest year available). Data covers HS01-24, distinguishing between primary products (HS01-14) and processed products (HS15-24).

Source: Authors' calculations and UNCTAD–Trade Analysis Information System (TRAINS). | BertelsmannStiftung

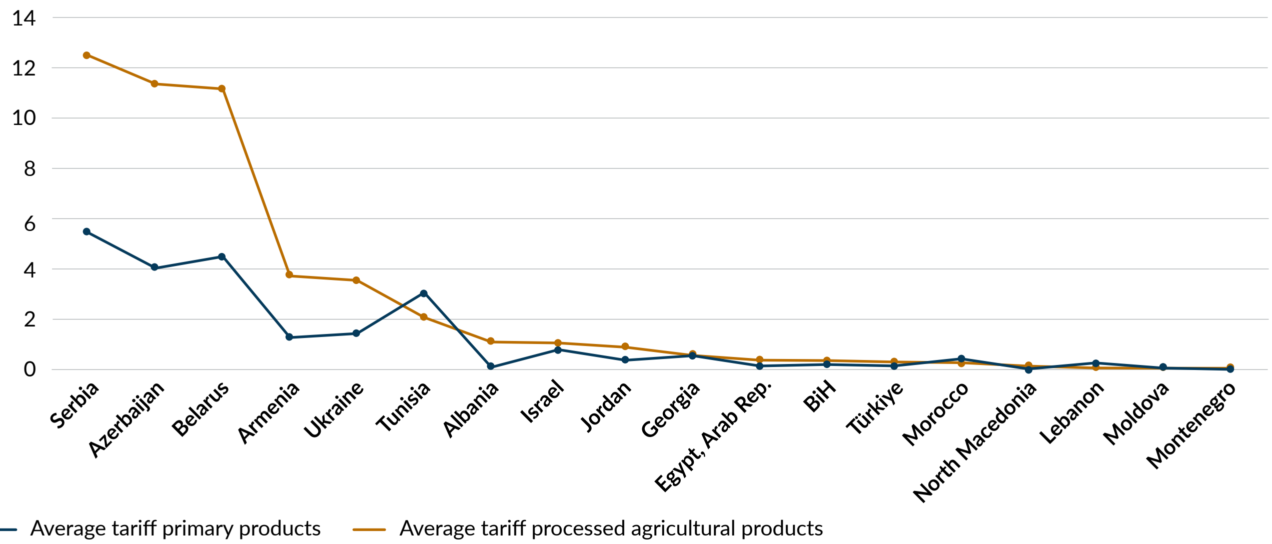
EU neighbours face higher tariff rates for processed agricultural products than for primary agricultural products

FIGURE 1 depicts the trade dynamics within the agri-food sector of countries neighbouring the EU throughout the decade spanning from 2011 to 2021. This figure makes an important point for our analysis, showing that the EU imposed on average about four times higher tariffs on processed agricultural products compared to primary products for its neighbouring countries.

But which EU neighbours are most affected? FIGURE 2 reveals significant differences in the tariffs applied by each country. For the majority of neighbouring countries, the average applied tariff is less than 1 percent, reflecting the extent of liberalisation achieved through their trade agreements with the EU.

A notable finding of the analysis is that Serbia, Azerbaijan, and Belarus have the highest average applied tariff rates for both primary and processed agricultural goods, as well as the greatest disparity between them. Following closely are Armenia and Ukraine. Additionally, Tunisia, Albania, Israel, and Jordan face higher tariffs on processed products compared to primary ones, albeit at a relatively lower level than the aforementioned EU neighbours.

FIGURE 2: **Applied average EU tariff rates in primary products and processed agricultural products per neighbouring country (average of 2011 – 2021)**

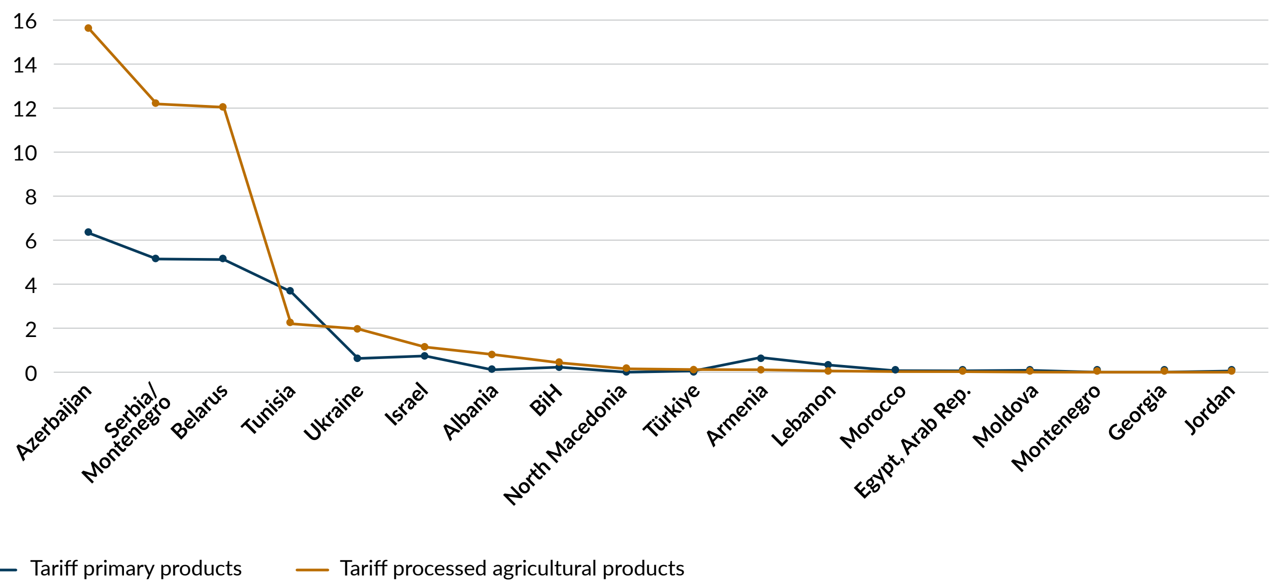


Note: The average tariff is a simple average of applied tariff rates from 2011 to 2021 (latest year available). Data covers HS01-24, distinguishing between primary products (HS01-14) and processed products (HS15-24).

Source: Authors' calculations and UNCTAD-TRAINS. | BertelsmannStiftung

FIGURE 3 presents the same analysis for the year 2021, the most recent year available, confirming that several neighbouring countries still encounter significant tariffs imposed by the EU, particularly on processed agricultural products compared to primary ones. Azerbaijan registered the highest level of applied tariffs on both product categories, followed by Serbia, Belarus, Tunisia, and Ukraine. The remaining neighbouring countries generally exhibit tariff rates ranging between 0 percent and 1 percent.

FIGURE 3: **Applied average EU tariff rates in primary products and processed agricultural products per neighbouring country (2021)**



Note: Applied tariff rates for 2021 (the latest year available). Data covers HS01-24, distinguishing between primary products (HS01-14) and processed products (HS15-24).

Source: Authors' calculations and UNCTAD-TRAINS. | BertelsmannStiftung

In addition to these tariffs, a substantial portion of the EU's agricultural trade is governed by specified TRQs, where import quantities within a set limit incur lower tariffs, while quantities exceeding that limit face higher tariffs. More than 20 percent of the EU's agricultural imports fall under a tariff rate quota regime.[15] For example, most dairy products and processed fruit and vegetables are subject to TRQs. Consequently, EU neighbouring countries encounter predetermined limits on the quantities of imports allowed in these specific agricultural sectors within the EU.

Specific product categories do not account for all high average tariff rates

Some countries experiencing the highest average rates are affected by the absence of preferential trade agreements with the EU, including Azerbaijan, Belarus, and Serbia. These countries share a common trait: certain sectors contribute to elevating average tariffs. In processed products, these sectors include tobacco, meat and fish preparations, and vegetable and fruit preparations, while dairy produce and honey are significant in primary agri-food products.

However, when looking at the other four countries with relatively high average tariff rates, it becomes evident that individual products do not drive all average tariffs. Notably Armenia, Ukraine, and Tunisia demonstrate varied tariff profiles at the disaggregated level with lower magnitudes than the first tier of countries. While individual product groups indeed play a crucial role in explaining high average tariff rates for certain countries like Azerbaijan, Belarus, and Serbia, they do not singularly explain the situation for all countries concerned.

TABLE 1: **Top sectors with highest tariffs in 2021 among EU neighbouring countries**

Country	Top 1 Sector	Top 2 Sector	Top 3 Sector	Top 4 Sector	Top 5 Sector
Serbia	Tobacco (37.2 %)	Veg., Fruit Prep (17.5 %)	Meat, Fish, Crust. Prep (15.6 %)	Sugars confectionnary (12.9 %)	Dairy (11.9 %)
Azerbaijan	Tobacco (45.8 %)	Veg., Fruit Prep (17.8 %)	Dairy (17.3 %)	Cereals Prep (12.8 %)	Fish, Crust and Mollusc (12.6 %)
Belarus	Tobacco (33.8 %)	Meat, Fish, Crust. Prep (19.7 %)	Dairy (17.3 %)	Veg., Fruit Prep (16.8 %)	Sugars confectionnary (13 %)
Armenia	Cereals (3.2 %)	Vegetables (2.3 %)	Fish, Crust and Mollusc (1.8 %)	Sugars confectionnary (1 %)	Fruits and Nuts (0.1 %)
Ukraine	Tobacco (13.5 %)	Dairy (8 %)	Sugars confectionnary (3 %)	Veg., Fruit Prep (2.8 %)	Fruits and Nuts (0.3 %)
Tunisia	Dairy (17.3 %)	Veg., Fruit Prep (10 %)	Milling, Malt & Starches (9.4 %)	Animal or Veg. Fats and Oils (6.2 %)	Live Trees and Bulbs (5.7 %)
Albania	Meat, Fish, Crust. Prep (8.1 %)	Fish, Crust and Mollusc (1.3 %)			

Note: Processed food sectors are highlighted in blue. An empty cell indicates a null tariff.

Source: Authors' calculations and UNCTAD-TRAINS. | BertelsmannStiftung

EU neighbours also face an expanding use of tariff rate quotas by the EU

In addition to the aforementioned tariffs, significant TRQs remain in place for key agricultural products where EU neighbouring countries possess export capacity. The EU increasingly relies on TRQs in its agreements with its neighbours, as exemplified by the inclusion of 27 TRQs in the Deep and Comprehensive Free Trade Area signed with Ukraine since 2016.[16] In-quota tariffs generally stand significantly lower than out-of-quota tariffs.[17]

The EU employs two types of TRQs. The first type applies to all countries, with the EU declaring 123 TRQs on agri-food products to the WTO in 2022.[18] Meat, fruits, and vegetables account for about half of these EU TRQs, while the dairy sector features a relatively low number of such TRQs.

15 Matthews, Alan, Luca Salvatici, and Margherita Scoppola (2017). *Trade Impacts of Agricultural Support in the EU.* IATRC Commissioned Paper No. 19. http://purl.umn.edu/252767
16 CIRCABC. Report on Tariff Quota Imports 2022 (Version 20220105) [dataset]. Retrieved 14 February 2024: https://circabc.europa.eu/ui/group/0e5f18c2-4b2f-42e9-aed4-dfe50ae1263b/library/f4766464-1ba2-44fd-98df-d4f6a0113115/details
17 Matthews, Alan, Luca Salvatici, and Margherita Scoppola (2017). *Trade Impacts of Agricultural Support in the EU.* IATRC Commissioned Paper No. 19. http://purl.umn.edu/252767
18 WTO (2022). Committee on Agriculture. Notification. G/AG/N/EU/72 (Notification of Administration of Tariff Quotas). https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/G/AG/NEU72.pdf&Open=True

The second type consists of bilateral TRQs specifically tailored for individual countries. Over half of EU bilateral TRQs are designated for imports of fresh or processed vegetables and fruits, primarily found in agreements with Mediterranean countries. These quotas are often filled and thus binding.[19] Türkiye, for instance, had an average fill rate of 74 percent in 2023, with 22 out of 29 quotas reaching full capacity. Ukraine also faces binding quotas, particularly in cereals and honey (7 binding quotas), along with 11 quotas exceeding an 80 percent fill rate.

TABLE 2: **Tariff rate quotas in EU trade agreements with its neighbours**

Regional Trade Agreements (RTAs)	Entry into force	Agricultural TRQs
Albania	2009	9
Bosnia and Herzegovina	2008	8
Egypt	2010	21
Georgia	2014	1
Israel	2000	33
Jordan	2002	12
Lebanon	2003	13
Marocco	2012	7
Moldova	2014	6
Montenegro	2010	8
Serbia	2010	6
Tunisia	1998	9
Türkiye	1998	29
Ukraine	2016	27

Source: Authors' calculations based on Official Journal of the European Union. In cases where the agreement has been updated or modernised, the TRQs reflect the latest state of play.

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While TRQs cover small shares of EU imports, permanent TRQs mentioned in EU agreements within the Free Trade Agreement (FTA) context represent a limitation to free trade. For instance, approximately 50 percent of the EU's bilateral TRQs are allocated to imports of both fresh and processed vegetables and fruits,[20] while about 10 percent concern fish products. In contrast, TRQs for meat and dairy products are significantly fewer compared to their prominent role among the tariff rate quotas applicable to all countries.

Countries that have ratified a Stabilisation and Association Agreement (SAA) are eligible for a reduced Most Favored Nation (MFN) duty on certain fish species, as well as a special TRQ on baby beef, which reduces the duty within the quota.[21] Duty-free rates within quotas are also available for wine from fresh grapes and quality sparkling wine.[22] Although quotas for wine are not fully utilised, quotas for processed fish provided within bilateral FTAs to the Balkans are exploited by some countries, including Albania.

EU barriers hinder the neighbourhood from diversifying their agricultural exports to the EU

The trade dynamics within the overall agri-food sector of neighbouring countries to the EU throughout the last decade are portrayed in TABLE 3 and FIGURE 4. One notable takeaway from the data is a consistent growth pattern in exports targeting both EU and non-EU regions. Another observation is the increasing proportion of exports to the EU, rising from 29 percent in 2013 to 36 percent in 2022, indicating a growing reliance of EU neighbouring countries on the EU market in overall agricultural trade.

19 In 2023, Türkiye's and Israel's quotas for fresh vegetables such as eggplant or processed fruits and nuts were mosty filled. Egypt also had two binding quotas in fresh vegetables.
20 Matthews, Alan, Luca Salvatici, and Margherita Scoppola (2017). *Trade Impacts of Agricultural Support in the EU.* IATRC Commissioned Paper No. 19. http://purl.umn.edu/252767
21 Subheadings 0102, 0201, 0202, 1701, 1702 and 2204 are exempted from the abolition of duties.
22 For example, Serbia benefits from a duty-free rate within a quota of 53000 hl. This is more generous than the erga omnes quota which provides a fee of €10/hl. However, from 2019 to 2023 the fill ratio of the quota is 1 percent.

TABLE 3: **Agri-food exports growth rates to EU and non-EU states (2013–2022)**

	EXPORTS (billion UDS)					
Year	**Non-EU**	**EU27**	**Total**	**EU Share**	**EU Growth Rate**	**Extra EU Growth**
2013	45	19	63	29 %	4 %	11 %
2014	45	20	65	30 %	5 %	1 %
2015	41	19	60	32 %	-3 %	-10 %
2016	41	19	60	31 %	-1 %	1 %
2017	48	21	69	30 %	11 %	17 %
2018	46	22	68	33 %	8 %	-5 %
2019	49	24	73	33 %	8 %	7 %
2020	51	25	75	33 %	2 %	3 %
2021	60	29	89	33 %	19 %	19 %
2022	74	42	116	36 %	43 %	23 %

Source: The countries analysed include Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Egypt, Georgia, Israel, Jordan, Lebanon, Moldova, Montenegro, Morocco, North Macedonia, Serbia, Tunisia, Türkiye, and Ukraine. Based on authors' calculations and UN Comtrade.

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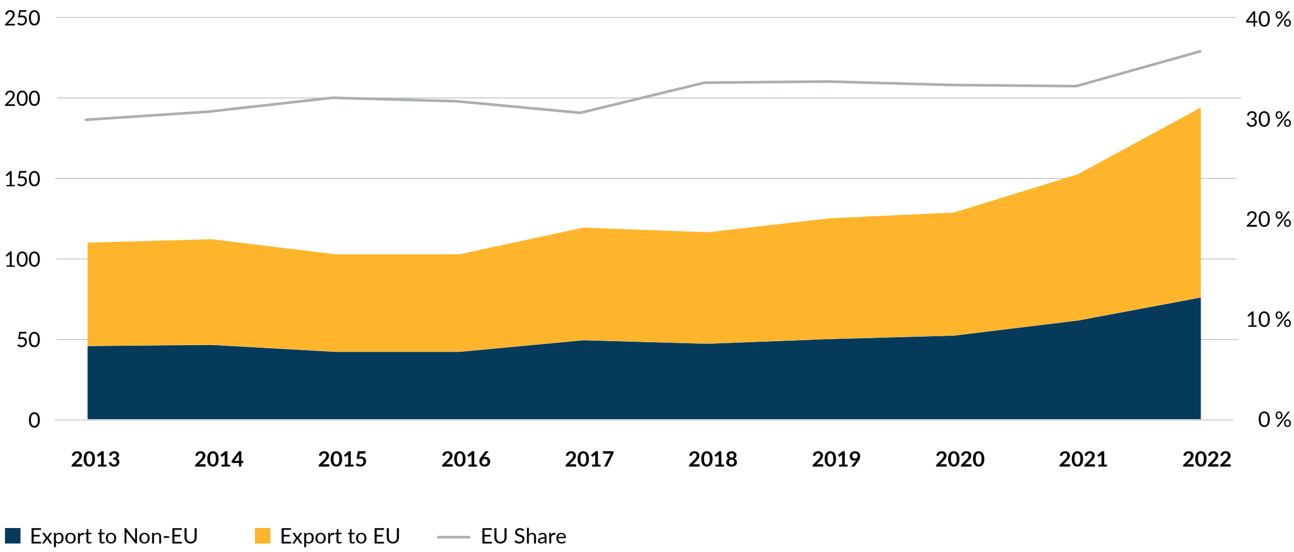
FIGURE 4: **Agri-food exports to EU and non-EU states from neighbouring countries in billion USD**



Source: Data covers HS01-24. Authors' calculations and UN Comtrade.

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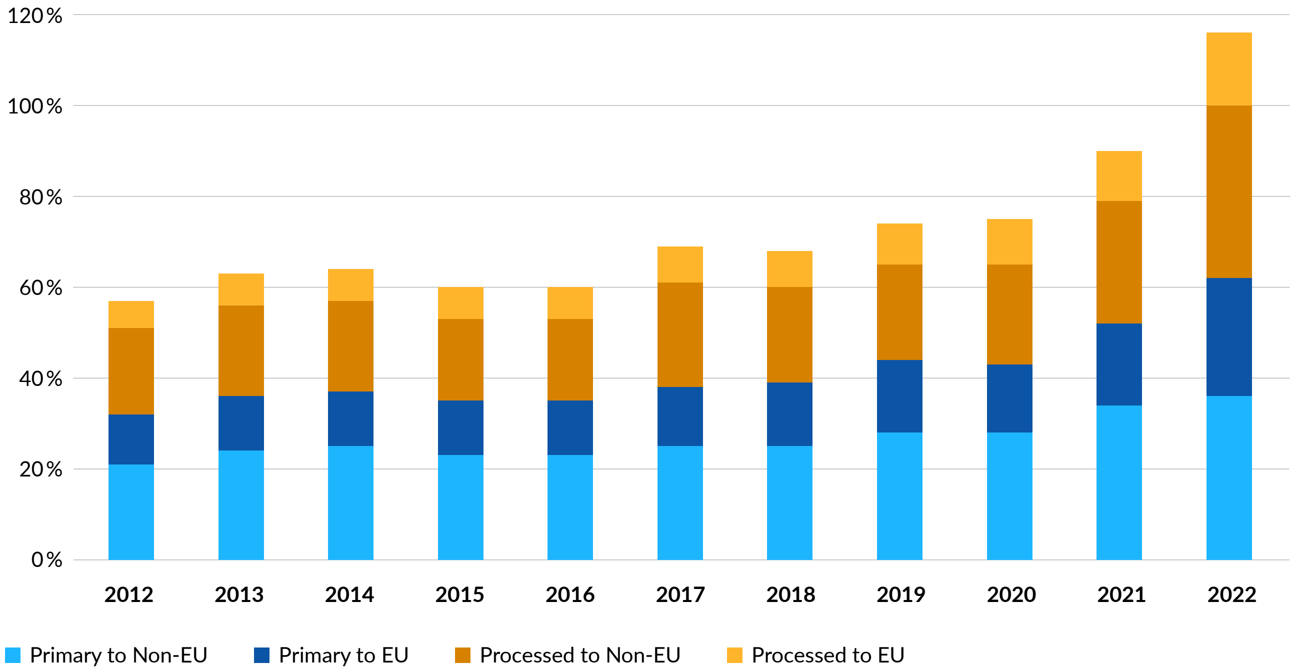
When examining the proportion of processed food exports to non-EU countries versus the EU, the data reveal a consistent and significant disparity. For instance, in 2012, the export of processed foods to non-EU countries constituted approximately 76 percent ($19 billion out of $25 billion) of the total processed food exports, significantly exceeding the EU share of around 24 percent ($6 billion out of $25 billion). This trend persisted in subsequent years, with the proportion of processed food exports consistently higher for non-EU countries compared to the EU (see FIGURE 5). This gap between processed food exports to non-EU countries and the EU has remained prominent since 2012. The data indicates a consistent preference by the EU's neighbouring countries for exporting processed foods to non-EU countries. FIGURE 6 provides a more detailed overview per processing stage, further illustrating this trend.

FIGURE 5: **Export trends – primary and processed foods to EU and global markets**



Note: Data covers HS01-24, distinguishing between primary goods (HS01-14) and processed goods (HS15-24). Belarus data for 2022 is not available within the current dataset, which extends only up to 2021.

Source: Authors' calculations based on UN Comtrade.

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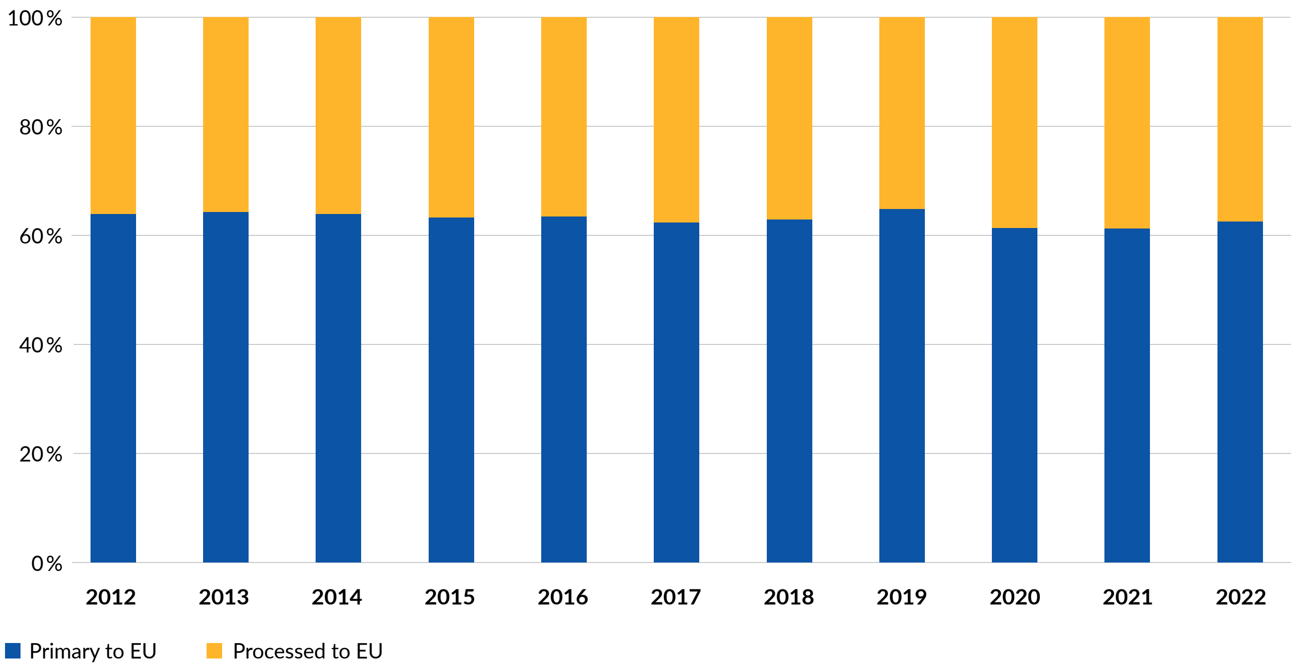
FIGURE 6: **Composition of neighbouring countries' agri-food exports to the EU by processing stage**



Source: Authors' calculations based on UN Comtrade.

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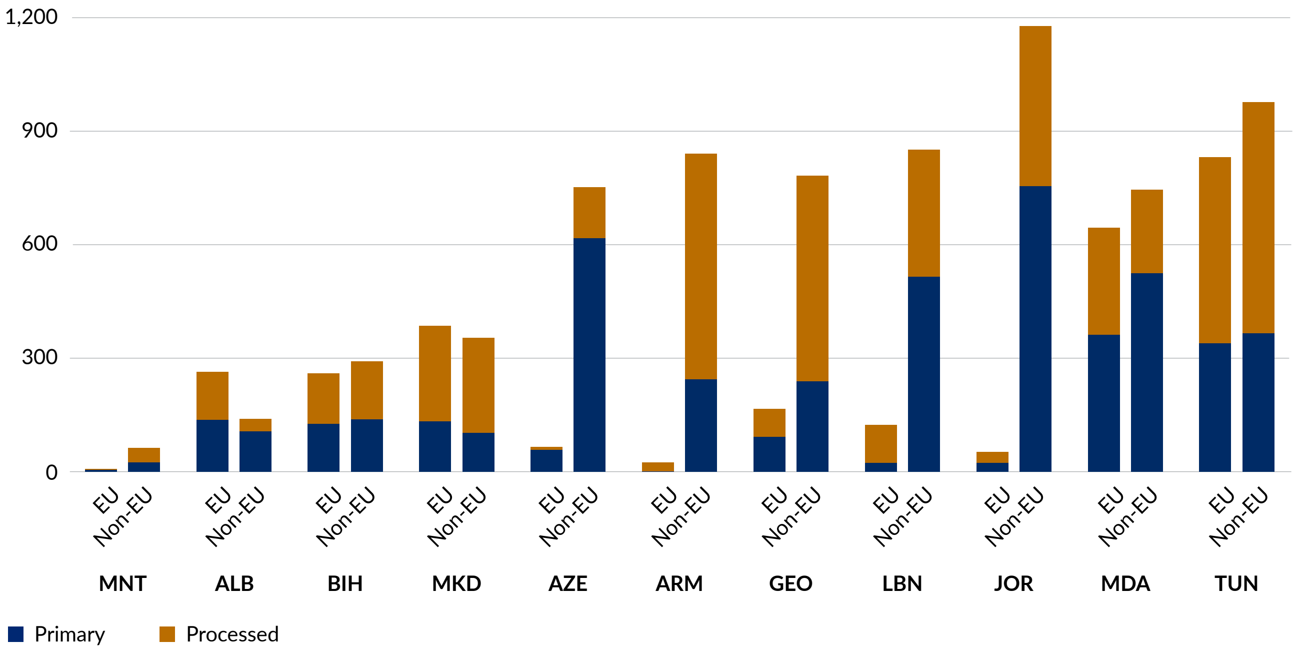
FIGURES 7 and 8 offer a closer analysis by country, revealing that the majority of EU neighbouring countries export significantly more processed products to non-EU countries than to the EU itself. This underscores a notable trend: while the EU remains a crucial destination for overall agricultural trade from neighbouring countries, existing barriers hinder these nations' efforts to broaden their agricultural exports within the EU market.

FIGURE 7: **Agri-food exports by processing stage to EU and non-EU countries (2021) in million USD**



Source: Authors' calculations based on UN Comtrade.

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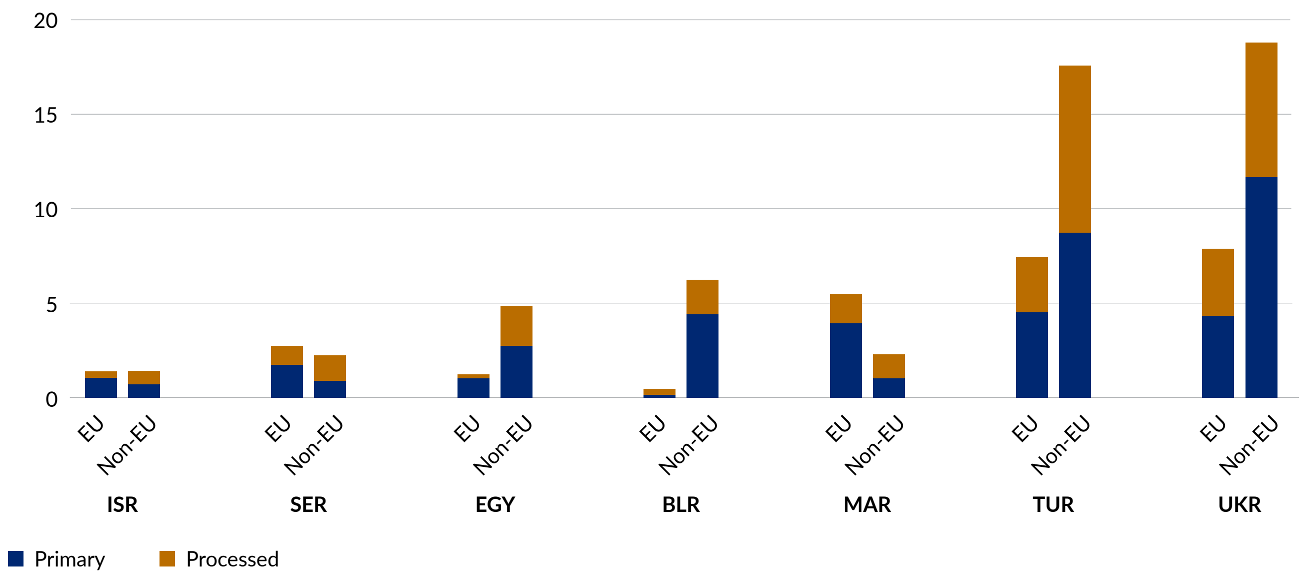
FIGURE 8: **Agri-food exports by processing stage (2021) in billion USD**



Source: Authors' calculations based on UN Comtrade.

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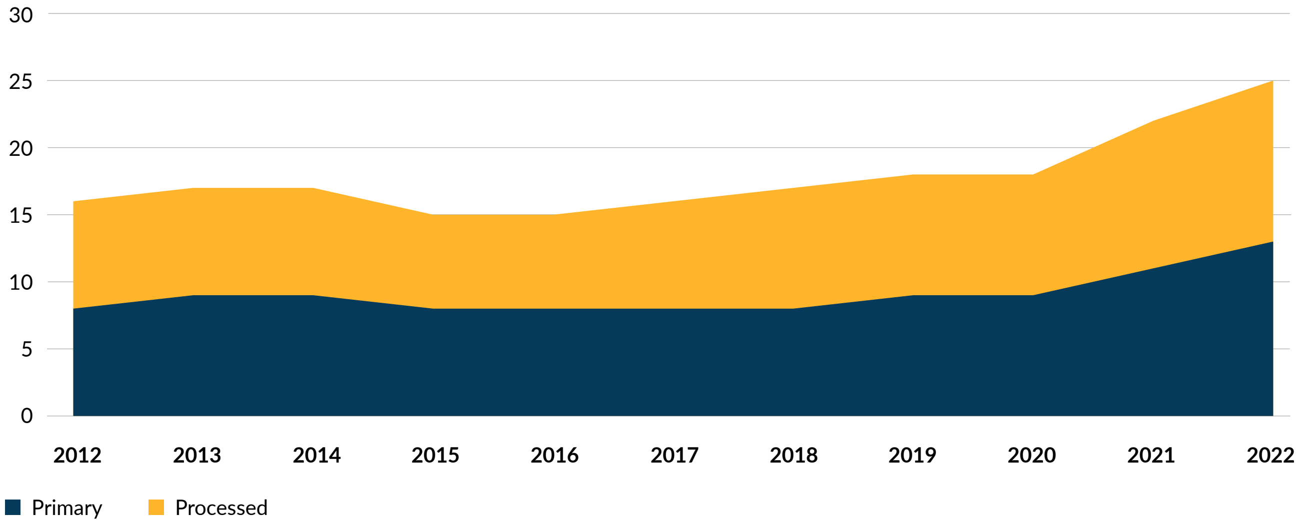
Comparing the trade profiles of the EU with that of the EU neighbourhood reveals a significant discrepancy in export compositions, particularly concerning primary agri-food products versus processed foods. FIGURE 9 underscores this contrast, showing that the EU's exports of processed foods to neighbouring countries have consistently hovered around 50 percent since 2012, a notably higher proportion compared to processed food exports from neighbouring countries to the EU (see FIGURE 5). This discrepancy underscores a disparity in export diversification between the EU and its neighbours. While the EU showcases a higher degree of diversification in its exports, particularly in processed foods, neighbouring countries exhibit a more limited range of agricultural exports, which are predominantly focused on primary agri-food products.

FIGURE 9: **EU Agri-food exports to neighbouring and non-neighbouring countries in billion USD**



Source: Authors' calculations based on UN Comtrade.

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4. Which mitigation measures could the EU pursue to alleviate the negative effects of the CAP on its neighbours?

The EU's neighbourhood presents a diverse landscape in terms of export product mixes, trade relationships with the EU, and engagement in agri-food global value chains (GVCs). Despite this diversity, these neighbouring countries face a common challenge: the underutilisation of opportunities to produce and export higher value-added agri-food products. A key factor contributing to this challenge is the EU's tariff structure, which imposes relatively high tariffs on processed food products imported into the EU. Additionally, trade deals concluded by the EU maintain protection through import quotas that constrain the preferences negotiated bilaterally, which affects sugar, cereals, dairy products, and meat products in particular. Such barriers inherently disadvantage processed foods compared to raw agricultural commodities, making it more difficult for firms in EU neighbouring countries to compete in the EU market with higher value-added products.

The distortionary effects of EU tariffs are particularly problematic for countries in the Mediterranean region, which have a comparative advantage in both raw and processed agricultural goods. Despite efficiency in processed food production, regional exports remain undiversified, as illustrated by Tunisia. Tunisian agricultural and agri-food exports to the EU face average duties of around 12 percent, with specific restrictions on high-value products like bottled olive oil under the EU-Tunisia quota system.[23, 24] These barriers hinder the expansion of value-added exports and limit the potential for economic growth in the region.

POLICY OPTION 1

Modernise bilateral agreements with a focus on reducing tariffs in processed agricultural products and alignment of standards

The EU should pursue a modernisation and deepening of bilateral agreements, prioritising the reduction of existing tariffs, TRQs, and non-tariff barriers currently impeding agricultural exports from neighbouring countries. Bilateral trade negotiations must give heightened attention to present trade barriers, particularly non-tariff barriers in agriculture.[25] Efforts should concentrate on significantly lowering EU tariffs on processed agricultural products for exports from neighbouring countries. These agreements could prove vital in bridging the gap in sustainable agricultural know-how between the EU and third countries, as knowledge transfer could be invaluable for many neigh-

23 FAO (2015). *Egypt, Jordan, Morocco and Tunisia. Key Trends in the Agrifood Sector.* FAO Investment Centre Country Highlights. https://openknowledge.fao.org/server/api/core/bitstreams/332b7c8c-ff53-4a7a-8b9e-12ec7f484592/content
24 Rudloff, Bettina (2020). *A Stable Countryside for a Stable Country? The Effects of a DCFTA with the EU on Tunisian Agriculture.* SWP Research Paper No. 2/2020. www.swp-berlin.org/publications/products/research_papers/2020RP02_rff.pdf
25 European Commission (2021). *Ex-post evaluation of the impact of trade chapters of the Euro-Mediterranean Association Agreements with six partners. Algeria, Egypt, Jordan, Lebanon, Morocco and Tunisia: Executive Summary.* https://data.europa.eu/doi/10.2781/49561

bouring countries. Even in the EU's most comprehensive DCFTAs with Georgia, Moldova, and Ukraine, specific trade constraints persist, including import quotas and restrictions on certain product categories.[26]

Furthermore, bilateral trade negotiations should place greater emphasis on aligning divergent standards, which currently impose disproportionately higher burdens on low-income countries. For instance, complying with non-tariff requirements such as food safety standards and sanitary and phytosanitary measures poses a significant challenge for Georgia on its path to European integration.[27] Many lower-income countries lack the capacity to comply with SPS measures.[28] Despite efforts to implement SPS measures, trade in agricultural products between the EU and Georgia remains limited.

In addition to specific product standards, comprehensive agreements within the neighbourhood framework mandate partners to embrace the EU's acquis communautaire. This involves adopting not only all EU regulations but also replicating administrative structures and legal precedents. For instance, neighbouring countries would be required to automatically incorporate future modifications in EU food safety standards without reopening negotiations within the DCFTA. This requirement is exacerbated by the complexity of the EU food standards and control systems, with each member state having extremely intricate administrative import procedures. Tunisia, echoing concerns raised by Ukraine during its earlier DCFTA talks, criticises this requirement as unacceptable without any prospect of EU accession.[29]

The resulting competitive disadvantage could deter investments and hinder the growth of domestic food processing sectors, further restricting their export potential. Neighbouring countries continue to grapple with numerous challenges in aligning with EU food standards. These obstacles, which primarily involve high regulatory expenses and complex administrative procedures, hinder their ability to make further investments in food processing industries.

POLICY OPTION 2

Technical assistance to neighbouring countries

In addition to tariff barriers, it has been noted that agri-food producers in neighbouring countries, particularly those operating on a small scale, encounter various non-tariff barriers. To address these challenges, the EU should amplify its support through customised programmes designed for countries most affected by technical barriers, aiming at innovation in food processing, sustainability, and production efficiency. Providing technical assistance should adopt a holistic approach to rural development, encompassing initiatives that transcend the agricultural sector to achieve swift compliance with sanitary and phytosanitary (SPS) measures. Such comprehensive measures are essential not just for enhancing societal well-being in these nations but also for expanding the access of local producers to the EU market.

Moreover, programmes like EU pre-accession assistance for rural development IPARD III,[30] which assist in the gradual alignment of the local agri-food sectors with CAP regulations in countries like Albania, Montenegro, North Macedonia, Serbia, and Türkiye, exemplify this support. With the new CAP (2023-2027) focusing on greater sustainability in EU agricultural policy, exemplified by the Farm to Fork strategy, it is crucial that trade and development policies reflect this goal. Thus, support for third countries should also encourage the adoption of sustainable agricultural practices aligned with the UN Sustainable Development Goals (SDGs), ensuring a cohesive approach that benefits both local economies and the broader objective of sustainability.[31]

Potential adverse effects for EU neighbouring countries are also associated with the substantial financial burden of complying with standards for suppliers. Suppliers may encounter heightened difficulties in meeting these standards, leading to additional obstacles in accessing markets and impeding economic development. Furthermore, the multitude of private standards necessitates exporters to gather information on all pertinent criteria and ensure adherence to them. For example, although Egypt's agricultural sector holds the potential to export and tap into large markets like the EU, it often grapples with various challenges.

26 Lovec, Marko (2023). An Elephant in the Room: The EU's Common Agricultural Policy and Food Security in the Euro-Mediterranean Region. In *Towards a Renewed Euro-Medterranean Cooperation on Sustainable Agri-food Systems for Food Security in the Region*, edited by IEMed. Euromesco Policy Study No. 30. https://south.euneighbours.eu/wp-content/uploads/2023/05/Policy-Study30.pdf

27 European Commission (2020). *Twinning Fiche: Ensuring further progress of SPS and food safety system in Georgia.* https://um.fi/documents/385176/0/Ensuring+further+progress+of+SPS+and+food+safety+system+in+Georgia.pdf/8ca9813c-ed91-f467-6fdf-a1c3f37af3de?t=1579593450589

28 Murina, Marina, and Alessandro Nicita (2017). Trading with conditions: The effect of sanitary and phytosanitary measures on the agricultural exports from low-income countries. *The World Economy* (40) 1: 168–181.

29 Rudloff, Bettina, and Isabelle Werenfels (2018). *EU-Tunisia DCFTA: Good Intentions Not Enough. Shift Needed from Deep to Deliberate, Comprehensive to Coherent and from Free to Fair Trade.* SWP Comment 2018/C 49. www.swp-berlin.org/en/publication/eu-tunisia-dcfta-good-intentions-not-enough

30 European Commission (2024). *Apply for IPARD III funding.* https://agriculture.ec.europa.eu/international/international-cooperation/enlargement/pre-accession-assistance/apply-funding_en

31 European Commission (2022). *Report from the Commission to the European Parliament and the Council: Application of EU health and environmental standards to imported agricultural and agri-food products.* COM/2022/226 final. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52022DC0226

These include a limited understanding and capacity to conform to Good Agricultural Practices (GAP), which is a voluntary certification system for agriculture verifying procedures and practices that must be implemented to create food for consumers or further processing in a safe and sustainable manner. As such, GAP thus impacts Egypt's ability to expand and thrive through international trade. This is further exacerbated by the lack of well-functioning and accessible infrastructure, especially for testing, inspection, certification, and accreditation services.[32]

SPS standards already constitute a heavy burden on third-country farmers. While the EU provides increasing incentives to its domestic farmers to use sustainable practices and leads the way in global sustainable farming, these policies should not become exclusionary at the expense of neighbouring countries. In other words, the gap in green farming practices between neighbouring countries and the EU may widen as the Farm to Fork strategy is implemented. However, this should not result in additional import restrictions on neighbouring countries, which already face challenges in complying with EU agri-food standards.

POLICY OPTION 3

Strengthening investment in capacity-building in neighbouring countries

Current initiatives in capacity-building in the EU's neighbourhood are insufficient. The EU should increase funding, particularly to neighbouring countries, to facilitate domestic investments supporting their food processing sectors. Domestic policies could target reskilling part of the agricultural workforce toward higher value-added activities such as services in agronomy or logistics.

While trends suggest a degree of convergence between the EU and Southern Mediterranean countries, addressing challenges related to small farms and inefficiencies may be facilitated through financial mechanisms under the CAP. This involves providing targeted financial services to rural areas and fostering the development of agro-industrial and research clusters.[33]

This investment is crucial due to EU standards and food regulations. Moving up the agri-food value chain, standards and regulations imposed on exporters have been major sources of trade costs.[34] The complexity of EU food standards and control systems implemented by each member state, particularly the stringency of regulatory standards, is costly for EU neighbouring countries. The regulatory imposition deters supply chain efficiency. For instance, EU food safety regulations govern outcomes, such as setting maximum permissible levels of contaminants, but they do not explicitly outline the methods or factors required to attain these outcomes. Such standards hinder imports from EU neighbouring countries for agri-food products, as seen with imports from Tunisia.[35] Increasing attention has been drawn to the impact of EU food safety standards on agri-food trade, particularly on exporting developing countries. A major concern is that EU food safety standards exclude farmers who lack the technical and financial capacity to comply.[36]

Food regulation in the EU involves a complex interplay between public laws and private food standards. Stringent and complicated standards may pose compliance difficulties for producers, particularly small businesses in developing countries with limited resources.[37] Resource limitations in many EU neighbouring countries can make it challenging for financially constrained farmers to comply with high legislative stringency and strict regulations.While not legally binding,[38] these standards are contractual obligations, disincentivising businesses from entering the EU market. Private standards, often more demanding than government legislation, act as preconditions for allowing exporters from other countries to operate in markets.[39] Governments may promote the dissemination of these private standards when government legislation is impractical. Adhering to these standards typically requires significant investments in technology, equipment, and administrative procedures.

32 Elseify, Elhussien, and Mai Mustafa (2020). *Understanding SPS Requirements for Egypt's Exports on the EU Market: The case of Oranges, Potatoes, Grapes, Strawberries and Artichokes.* CUTS International. https://www.allianceforproductquality.de/wp-content/uploads/SPS-Study-EGYen.pdf.

33 Ibid.

34 Beghin, John C., and Heidi Schweizer (2021). Agricultural trade costs. *Applied Economic Perspectives and Policy* (43) 2: 500–530.

35 Standards on bacteriological thresholds: Rudloff, Bettina, and Isabelle Werenfels (2018). *EU-Tunisia DCFTA: Good Intentions Not Enough. Shift Needed from Deep to Deliberate, Comprehensive to Coherent and from Free to Fair Trade.* SWP Comment 2018/C 49. www.swp-berlin.org/en/publication/eu-tunisia-dcfta-good-intentions-not-enough

36 Hou, Mohamed Ait, Cristina Grazia, and Giulio Malorgio (2015). Food safety standards and international supply chain organization: A case study of the Moroccan fruit and vegetable exports. *Food Control* (55): 190–199.

37 Havinga, Tetty (2018). Private Food Safety Standards in the EU. In *Regulating and Managing Food Safety in the EU. A Legal Economic Perspective*, edited by Harry Bremmers and Kai Purnhagen. Economic Analysis of Law in European Legal Scholarship 6. Cham: Springer. 11–37.

38 However, Henson and Humphrey have pointed out to legally mandated private standards that have been developed by private organisations and made mandatory by public bodies: Henson, Spencer, and John Humphrey (2010). Understanding the complexities of private standards in global agrifood chains as they impact developing countries. *The Journal of Development Studies* (46) 9: 1628–1646.

39 Rudloff, Bettina, and Isabelle Werenfels (2018). *EU-Tunisia DCFTA: Good Intentions Not Enough. Shift Needed from Deep to Deliberate, Comprehensive to Coherent and from Free to Fair Trade.* SWP Comment 2018/C 49. www.swp-berlin.org/en/publication/eu-tunisia-dcfta-good-intentions-not-enough.

For instance, Moldovan companies' integration into GVCs is hindered by various barriers, including limited investment and innovation activities, poor compliance with internationally recognised food safety standards, lack of support from export promotion agencies, and struggles by small producers to meet retailer requirements. The compliance of suppliers to food safety and quality standards remains a major obstacle preventing Moldovan producers from integrating into GVCs.[40]

5. Concluding remarks

The analysis reveals that agricultural export growth from EU neighbouring countries to the EU falls short of their potential capacities. Many of these neighbouring countries find themselves constrained by a reliance on raw materials and are failing to diversify their agricultural exports to the EU market. One of the contributing factors to this phenomenon is the persistent discrepancy in EU tariffs, which maintain higher rates for processed foods compared to raw agricultural products. The CAP has hindered the advancement of competitive agricultural production in these neighbouring countries. The EU's tariff structure acts as a barrier to export diversification for these countries, which represents a significant cost for EU neighbouring countries.

Clear restrictions exist that impede these countries' ability to export to the EU. Our analysis highlights tariffs and quotas as key factors contributing to negative outcomes for EU neighbouring countries, while also underscoring the importance of standards and food regulations.

In light of these findings, it is recommended that the EU enhances trade liberalisation across all types of agri-food products by expanding, modernising, and deepening bilateral agreements, with a heightened focus on standards. Prioritising widespread market access liberalisation to the EU for agricultural products, including processed foods, without encountering tariff escalation, is essential.[41] Additionally, the EU should prioritise providing technical assistance and funding for capacity-building in its neighbourhood.

40 Kareem, Fatima Olanike, Inmaculada Martínez-Zarzoso, and Bernhard Brümmer (2023). What drives Africa's inability to comply with EU standards? Insights from Africa's institution and trade facilitation measures. *The European Journal of Development Research* (35) 4: 938–973. See also: OECD (2020). *Promoting Exports and Supply-Chain Linkages in the Food Industry in the Republic of Moldova.* OECD Policy Insights. www.oecd.org/eurasia/competitiveness-programme/eastern-partners/Promoting-Exports-and-Supply-Chain-Linkages-in-the-Food-Industry-in-the-Republic-of-Moldova-ENG.pdf.

41 Kornher, Lukas, and Joachim von Braun (2020). *EU Common Agricultural Policy – Impacts on Trade with Africa and African Agricultural Development.*. ZEF-Discussion Papers on Development Policy No. 294. http://dx.doi.org/10.2139/ssrn.3613628.

Epilogue

This paper is the third in a series, following the papers The Carbon Border Adjustment Mechanism (CBAM) and Its Border Effects: How Can Europe Become a Better Neighbour? and The Extraterritorial Impact of EU Digital Regulations: How Can the EU Minimise Adverse Effects for the Neighbourhood?. It is part of the Bertelsmann Stiftung's project "Sovereign Europe: Strategic Management of Global Interdependence," under the Europe Programme. The series aims to offer a detailed perspective on the impact of the "Brussels Effect" on the European Union's neighbouring regions during a period marked by escalating geopolitical tensions.

The focus of the paper series is on assessing the costs associated with the extraterritorial influence of EU internal market regulations on neighbouring areas engaged in trade with the EU. The regions analysed include the Western Balkans (Albania, Bosnia and Herzegovina, Montenegro, North Macedonia, Serbia, Kosovo), Türkiye, the Eastern Partnership countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine), and the Southern Neighbourhood (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia).

A central aspect of this research is proposing methods to mitigate the regulatory burden on these neighbouring regions. This enquiry is crucial as the EU seeks to maintain its regional influence amidst growing competition, notably from China. This work extends the study Keeping friends closer: Why the EU should address new geoeconomic realities and get its neighbours back in the fold concerning the EU's economic relationships with its neighbours, covering various domains like trade in goods and services, finance, technology, knowledge exchange, infrastructure, and labour mobility. Notably, the foundational study on interconnectivity was recognised by Foreign Affairs as one of the top ten books of 2023.

This analytical venture is conducted in partnership with the European Centre for International Political Economy (ECIPE), highlighting our commitment to providing insightful and actionable policy recommendations.

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