

**The increased use of the inward processing relief
is depriving EU farmers of significant outlets**

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Eurostat takes into account the trade under the inward processing relief (IPR) whereas the UN Comtrade data base does not. The IPR allows the EU agri-food industries to import duty free agricultural products which are re-exported after processing but which would have been subject to tariffs if they were not reexported. Now, for all the EU agricultural products the average imports under the IPR from 2006 to 2009 have been of €2.540 billion or 3.3% of the €76.416 agricultural imports whereas the corresponding average exports under the IPR have been of €7.539 billion or 10.5% of the agricultural exports of €71.485 billion. Which means that there is a case to make that, if the EU formal EU total agri-food exports have been of €71.485 billion, the EU actual agricultural exports have been of only €63.946 billion since €7.539 billion were not processed from domestic products. Of course the EU agro-industries process many imported products but which are subject to tariffs, although many imported products, particularly tropical products, are imported duty free. But the IPR regime is different as it relates to products which are subject to tariffs if they are not reexported.

EU-27 agricultural trade with and without inward processing trade from 2000 to 2009

€billion	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Agricultural trade, including under inward processing, in €										
Exports	53974	55641	54486	54337	55477	60416	68430	69568	77141	70801
Imports	60747	64028	61925	60465	62157	64775	68396	76509	85671	75087
Balance	-6773	-8387	-7439	-6128	-6680	-4359	+34	-6941	-7853	-4286
Agricultural trade, including under inward processing, in \$										
\$ for €	0,9236	0,8956	0,9456	1,1312	1,2439	1,2441	1,2556	1,3705	1,4708	1,3948
Exports	49850	49832	51522	61466	69008	75164	85921	95343	113459	98753
Imports	56106	57343	58556	68398	77317	80587	85878	104856	126005	104731
Balance	-6256	-7511	-7034	-6932	-8309	-5423	43	-9513	-12546	-5978
Agricultural trade under inward processing, in €										
Exports	6488	6237	5857	5932	5948	6818	7920	8339	7085	6812
Imports	2476	2225	2087	2043	2066	1995	2326	2429	2979	2426
Balance	4012	4012	3770	3889	3882	4823	5594	5910	4106	4386
Agricultural trade under inward processing, in \$										
Exports	5992	5586	5538	6710	7399	8483	9945	11429	10421	9501
Imports	2287	1992	1973	2311	2570	2482	2921	3329	4382	3383
Balance	3705	3594	3565	4399	4829	6001	7024	8100	6039	6118
Agricultural trade, without under inward processing, in €										
Exports	47486	49404	48629	48405	49529	53598	60510	61229	70056	63989
Imports	58271	61803	59838	58422	60091	62780	66070	74080	82692	72661
Balance	-10785	-12399	-11433	-10017	-10562	-9182	-5560	-12851	-12636	-8672
Agricultural trade, without under inward processing, in \$										
Exports	43858	44246	45984	54756	61609	66681	75976	83914	103038	89252
Imports	53819	55351	56583	66087	74747	78105	82957	101527	121623	101348
Balance	-9961	-11105	-10599	-11331	-13138	-11424	-6981	-17613	-18585	-12096

Source: http://ec.europa.eu/agriculture/agrista/tradestats/2008/eur27ch/page_003.htm

Furthermore the IPR regime is normally allowed only when the EU agri-food industries cannot find the corresponding agricultural products in the EU. But, under the pressures of the CIAA (Confederation of the food and drink industries of the EU), the EU Commission has

extended much the possibility to use imported products even when domestic products are available: it suffices to find cheaper imported products.

Thus, for the EU Commission, *"Under Inward Processing (IP) non-Community sugar intended for re-export from the customs territory of the Community in the form of compensating products can be used in the EU in processing operations without such sugar being subject to import duties or commercial policy measures. The suspension of export refunds as from 26 September 2008 in the sugar sector¹ has the consequence that IP is the only remaining alternative for manufacturing products containing sugar destined for the world market at competitive prices. The use of IP could maintain the competitiveness of the sugar processing industry when no export refunds are available. It is likely that also in future there maybe a significant difference between world market price and EU market price of sugar. It is therefore desirable to provide some information about the customs rules and statistics on IP... The Member States are competent for granting authorisations for the use of IP. Authorisations may be granted only where the inward processing procedure can help create the most favourable conditions for the re-export of compensating products, provided that the essential interests of Community producers are not adversely affected (economic conditions). It is up to the Member States to analyse whether the economic conditions justifying the authorisation are fulfilled or not"*¹. Indeed, even when EU products are available, *"Although available, comparable goods cannot be used because their price would make the proposed commercial operation economically unviable. In deciding whether the price of comparable goods produced in the Community would make the proposed commercial operation economically unviable, it shall be necessary to take account, inter alia of the impact that the use of Community-produced goods would have on the cost price of the compensating product and hence on the disposal of the product on the third-country market"*.

Yet this extensive flexibility of the EU rules on the IPR are not enough for Coabisco, the EU federation of confectionery industries, for which: *"In light of the plans to phase out export refunds and the reform process in some agricultural sectors (e.g. dairy, sugar) we suggest that economic conditions be always deemed as fulfilled for products for which export refunds are set at zero at the time of an IPR application"*². It adds: *"The definition of "Community producers would not be adversely affected" (economic conditions) remains vague... CAOBISCO requests that the priority should be the interests of operators using inward processing and not Community producers, if by that definition producers of agricultural commodities are being targeted. The reason why CAOBISCO operators would use IPR is to remain competitive internationally and nothing else"*.

1

http://ec.europa.eu/taxation_customs/resources/documents/customs/procedural_aspects/imports/inward_processing/TAXUD%282009%292033_en.pdf

2

http://ec.europa.eu/enterprise/sectors/food/files/high_level_group_2008/documents_hlg/comments_inward_processing_arrangements_en.pdf