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Impact of the Euro Med Free-Exchange Agreement on the Agro-Food Firms in Tunisia

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Title : IMPACT OF THE EURO MED FREE-EXCHANGE AGREEMENT ON THE AGRO-FOOD FIRMS IN TUNISIA

Abstract:

The Tunisian agro-food sector is characterized by the prevalence of small and middle-sized firms, which requires a restructuration to contribute to the development of the agriculture and deal with the processes of liberalisation of agro-food industry.

After studying the association agreement between Tunisia and the European Union, we must say that the process of exchanges liberalisation of the agro-food products is conveyed by the operational strategies of the firms to research competitiveness by the control of the costs or the differentiation of the product. This obliges to interest us in exports like a crenel of development of the tunisian agro-food sector.

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IMPACT OF THE EURO MED FREE-EXCHANGE AGREEMENT ON THE AGRO-FOOD FIRMS IN TUNISIA

INTRODUCTION

In Tunisia, the agro-food industries are the oldest. They take a very important place in the national economy, by covering the internal needs, increasing exports and contributing to the development of agriculture.

The agro-food sector is characterized by the prevalence of small and middle-sized firms and a rather complex diversity of its many under-sectors from which that of cereals and derived remains more dominating. On the other hand, on a worldwide scale, the agro-food sector is defined by two major tendencies: concentration of the actors and internationalisation of the activities.

The process of exchanges liberalisation of the agro-food products is conveyed by the operational strategies of the firms to research competitiveness by the control of the costs or the differentiation of the product. This obliges to interest us in exports like a crenel of development of the tunisian agro-food sector.

The growing interest with export is led by the changes in the world economy and the diffusion of new technologies throughout the world, while reducing the international trade

barriers: by formulating agreements of multilateral trade (GATT, OMC, Partnership...) and converging towards the tastes of the consumers.

It is generally agreed to say that a growth of exports of a country has a positive effect on the growth of its economy and the growth of these firms.

Therefore, the liberalisation of the exchanges or the development of exports can be a viable alternative of growth for various countries. But for Tunisia which counts only near 10 million consumers and with the agreement of partnership signed with the European Union, internationalization is rather imperative than alternate.

Moreover, it should be noted, that export, the preferred mode of growth for small and middle-sized firms, became very important but also increasingly difficult because of globalisation, competitiveness and the opening of the tunisian market to exports coming from the European Union and the measures to protect the local market from foreign competition.

All this makes important to:

- understand the position of the tunisian agro-food sector.
- analyse the association agreement between Tunisia and the European Union and release the assets and the risks from them.

It is in this context that we choose working on liberalisation of the trade of the agro-food products between Tunisia and the European Union.

PRESENTATION OF THE AGRO-FOOD SECTOR IN TUNISIA

According to the tunisian statistics, the agro-food sector counts currently about 4800 firms (36 % of the whole industry). Bakeries (2400 units) and oil mills (1440 units) constitute more than 75 % of the agro-industrial units. In fact, a few great modern and capital intensive units exist in industries of cereal transformation, refining of sugar and treatment of the dairy products. But the sector remains dominated by the small one-man business with limited

technical and financial resources. The firms of the sector are distributed on all the own territory and are characterized by a certain concentration on the littoral to be near the great centers of consumption.

The agro-food firms can be distinguished the ones from the others by their modes, they are completely exporting or other than completely exporting that's to say that their production is intended at the same time for the export and the provision of the local market.

This typology would make it possible to visualize the importance of the firms specialized in export and consequently their contribution to the economic growth compared to the total number of firms, in each die.

The agro-food sector counts 815 firms employing 10 people and more. Among them, 87 produce completely for export.

The promotion of the partnership in Tunisia is justified not only by the contribution in foreign capital, but especially by its impact in terms of technology transfer, change of modes of organization and process of management which tunisian economy has need to face the risks of its international opening.

Thereby, the association agreement with the European Union is not considered as a simple opportunity of trade liberalization, but forms a part of a total prospect for co-development.

It is important to say that cereals and derived, oils of seeds and sugars and derived represent about 75% of the imports of the country, the United States and France being the first two suppliers of Tunisia. The principal products exported by order of importance are the olive oil, the sea products and the cereals and derived forming about 70% of exports. Italy is the first customer of Tunisia followed by Spain and France.

The imports of the agro-food sector add up to 772 million dinars in 2003 against 350 million dinars in 1992. The cereals and derived, oils of seeds and sugars and derived represent 74 % of the imports of the country in 2003. The United States and France are the first two

suppliers of Tunisia in agro-food products (38 % of the imports) followed by the United Kingdom and Spain.

The exports of the agro-food sector passed from 224 million dinars in 1992 to 628 million dinars in 2003. The olive oil branch constitutes 42 %, the sea products 19 % and the cereals and derived 12 % : that is to say 73 % of exports come from these three branches.

Italy is the first customer of Tunisia in agro-food products (42 % of exports) followed by Spain (14 %) and France (13 %). Exports of the agricultural and agro-food sector mark an increase of 2,6 % (2002 /2003) against 7,5 % for (2001/2002). This reduction in the growth rate is due primarily to the regression of the sales of olive oil in comparison with 2002, because of the dryness that our country lived during these two last years.

IMPACT OF THE LIBERALISATION ON THE AGRO-FOOD SECTOR

- **The association agreement between Tunisia and the European Union**

The association agreement between Tunisia and the European Union, signed in 1995 and put into force since the one of Mars 1998 replaces the agreement of 1976 and the successive protocols of adaptation. It gradually founds the free exchange of goods, services and capital with the European Union. Moreover, it falls under a global and coherent vision which supports a balanced and durable development and strengthens the co-operation in all the fields, in particular of industry, agriculture, services, technology...

Indeed, it constitutes the outline of a new series of agreements between the European Union and southern mediterranean countries, on the one hand, and between Tunisia and its close countries on the other hand, in order to set up in 2010 a vast free trade Euro-

mediterranean area representing more than 30% of the world GDP and more than 45% of the international exchanges.

The association agreement of 1995 establishes the conditions of installation of a free trade area between Tunisia and the EU, but this one remains limited to the industrial products. The exchanges of the agricultural, fishing and agro-food products remain subjected to protectionist measurements on both sides. As regards the access to the European Union market, the association agreement is not generating new opportunities. The concessions granted by the European Union remain limited not only to the number and the choice of the products profiting from a reduction or a cancellation of the customs duties but also to fixing the quotas, the safeguard measures and the possibilities to fix new quotas.

It is important to analyse on this level the contribution of the negotiations engaged in 2000 compared to the former regulations in terms of opening of the European market to the tunisian exports of agricultural, fishing and agro-food products.

The comparison of the two situations (before and after the entry into force of the agreement) emphasised the limits of the contribution of the new agreement, which renews the former concessions, that for certain products an improvement of the level in fixing the quotas.

The following table presents, for the principal agricultural, fishing and agro-food products, a comparison between the provisions of the association agreement of 1995 negotiated in 2000 and the regulations former to the agreement contained in the cooperation agreement of 1976 and the additional protocol of 1987:

Table N°1: Comparison between the provisions of the association agreement of 1995 negotiated in 2000 and the regulations former to the agreement

Product	Regulations former to the agreement		Provisions of the agreement		Contribution of the agreement
	Quota	Right and deduction	Quota	Right and deduction	
Olive oil	46.000 T	Preferential deduction	50.000 T	No	Improvement of the quota of 4000T and abolition of the rights
Loose wine	160.000 HL	Total exemption	179.200 HL	Total exemption	Improvement of the quota of 19.200 HL (+12 %)
Bottled wine	50.000 HL	Total exemption	56.000 HL	Total exemption	Improvement of the quota of 6.000 HL (+12 %)
Tomato puree	1.800 T	Reduced customs duty of 30 %	2.000 T	Total exemption	Improvement of the quota of 200 T (+11 %) and abolition of the rights
Sardines	100 T	Total exemption	100 T	Total exemption	None
Other fishery products	Without limits	Total exemption	Without limits	Total exemption	Maintenance
Dates	Without limits	Total exemption	Without limits	Total exemption	Maintenance
Apricot pulpes	4.300 T	Reduced customs duty of 30 %	5.160 T	Reduced customs duty of 30 %	Improvement of the quota of 860 T (+20 %)
Potatoes (early products)	2.600 T	Total exemption	16.800 T	Total exemption	Improvement of the quota of 14.200 T

Source : API, L'investisseur agricole, 2001

According to this table, one notes that the provisions of the new mode did not make significant modifications as regards new export opportunities of the agricultural and agro-food products because of the policies and the protectionist strategies adopted by the two members of the association agreement.

The possible risks for the agricultural and agro-food sector inherent to the euro-mediterranean association agreement between Tunisia and the European Union are analysed on two levels:

- Opening of the tunisian market to the imports coming from the European Union,
- Less protected access to tunisian exports on the European Union market of the due to the concessions granted to the countries within the framework of the similar association agreements.

The inherent risks to the impact of the association agreement on tunisian agro-food industries are often analysed in term of dismantling of the safety device of the local market to foreign competition. If this step is justified by socio-economic dimension, that agriculture and agro-food industry occupy, it becomes inappropriate in an analysis of research of efficiency and economic effectiveness.

Indeed, competition constitutes the best stimulating to the improvement of the productivity, quality and competitiveness. Layers of productivity are still badly exploited in the agro-food sector and of the failures of standardization and quality are raised on several levels of the cycle of production and distribution.

In the absence of competition, this situation is likely to last, therefore the progressive opening of the local market constitutes from this point of view a true opportunity for the agro-food sector in condition that measurements of accompaniment are established during the transitional and adaptation period and institutional and economic reforms are engaged at the appropriate time.

- **The development strategies of the agro-food industry**

The development strategies of agro-food industries, in the medium term, is centred on promotion and realization of activities able to accelerate the growth of the sector, and this by accelerating the firms competitiveness on the local and international market and elaborating specific products even in restricted quantity.

Indeed, this strategy based primarily on the economic liberalisation of the inputs and the finished products aims the increase as well as the diversification of the agro-food production in order to increase the use of the industrial capacity installed, to grow the added value of the sector and to satisfy the needs of the consumer on the local and international market .

So, in order to ensure the durability of the tunisian agro-food industry development, it is important to think above all of a preliminary study of the market in order to evaluate the performances of the firms and to know the principal customers of the tunisian market.

In the same way, the valorisation of local competences, the search for innovating crenels as well as the adaptation of the supply to the demand would make it possible to improve the management of the tunisian agro-food products trade in the long run in order to maintain the flow of a durable production and quality.

In conclusion, we must say that the development strategies of the agro-food industry is based on five points :

- a preliminary study of the market
- a valorisation of local competences
- a search for innovating crenels
- an adaptation of the supply to the demand
- a maintenance of a durable production and quality

- **Trade liberalisation and the tunisian economy**

The orientations followed as regards foreign trade to Tunisia go in the direction of a progressive liberalisation. Thus, the efforts made in this direction aim at being integrated gradually in the world and regional economy enabling him to better think its marketing policy while managing to import less expensive instead of producing high-cost, to have preferences on the markets of the partners countries such as that of the European Union, to attract the foreign investments and to promote exports (Boudhiaf, 2001).

Since 1986, many measures were taken in order to liberalise the foreign trade. We first started by applying a plan of structural adjustment and working out a new code of the investments which promotes exports since 1993. Besides, Tunisia adhered to the GATT in 1989, OMC in 1994 and committed itself applying the decisions of Uruguay Round of 1993. It adopted the current convertibility of the dinar in 1992 and created an exchange market in 1994.

In 1995, Tunisia signed an association agreement with the European Union in order to gradually establish a free trade area for the industrial products during the period 1996-2007. It also signed in 1997 an agreement of introduction of an arab free trade area between 1998 and 2007 (Boudhiaf, 2001). Lastly, after negotiations, it managed in 2001 to make corrections concerning the trade liberalisation of the agricultural and agro-food products with the European Union.

The liberalisation of the agro-food products trade was accompanied by a modernization of the firms, the infrastructures and the tunisian administration. It also concerned the improvement of the training of the labour, technicians and executives.

In the same way, a plan of levelling of the firms was elaborated after the application of the association agreement with the European Union in 1996 aiming at improving their

competitiveness especially towards foreign competition. This led to increase the exchange with outside and made it possible to Tunisia to export more manufactured goods resulting from the transformation of the raw materials and less primary products. Thus, one attends to the transformation of the structure of exports by the reduction and stagnation of the primary products and the increase of the manufactured goods (in particular increase in exports of the agro-food products to the profit of the agricultural products).

So, one notices the improvement of the productivity of the tunisian agro-food sector grafted with a considerable rise of the level of the investment in particular in the dies of milk and derived, oils and greasy substances and cereals and derived (Boudhiaf, 2001).

Thus, according to Regnault (2004), the deepening of the mechanisms of market and the acceleration of the operations of privatisation from 1995 made it possible to Tunisia to be classified better among the other mediterranean countries in terms of exchange with the European Union since the latter privileges the fall of the tariffs on the imported inputs, that the tariffs are differentiated not only by products but also by country and that it profits from trade preferences which push to the concentration of the exchanges to the detriment, sometimes, of better sources of provisioning.

Moreover, the Tunisian economy knew a continuous growth, accompanied by a diversification of the national production. The average rate of growth was about of 5% per year during the 30 last years, allowing an annual increase about of 3% of the income per capita during the same period.

Concerning the movement of the foreign direct investment, it was relatively marginal in the Sixties. But, as from the Seventies, a deep reorientation of the choices as regards development was carried out aiming at an increased integration to the international division of the work which was concretised by the definition of a new legal and institutional framework

more favourable to the establishment of the multinational firms and international subcontracting (Regnault, 2004).

Besides, one distinguishes, according to the mode of establishment of the foreign companies in Tunisia, between the exporting firms very little diversified according to the branches of activity and the countries of origin (predominance of French and German firms) in the form of delocalised workshops of production and with little qualified labour and those which are directed towards the local market on the basis of partnership giving birth to small and middle-sized firms with share of relatively weak foreign investment.

However, according to Michalet (in Regnault, 2004), this strategy of establishment led to a dualism: on one hand, operations of partnership between small and middle-sized European and Tunisian firms rounds towards the domestic market and, on the other hand, offshore establishments completely turned towards export and without bond with the local industry sector.

- **Trade exchange between Tunisia and the European Union**

In order to analyse the trade of the agro-food sector between Tunisia and the European Union and according to the data available during the period 1990-2004, we will be brought to identify three phases:

- the first phase going from 1990 to 1995: constitute the regulations former to the association agreement of between Tunisia and the European Union.

- the second phase going from 1996 to 2000: constitute the period of the beginning of the bringing into force of the association agreement between Tunisia and the European Union in 1995. It acts of the first time of liberalisation of the exchanges during which the agricultural and agro-food products remain still strongly protected by the two partners.

- the third phase begins as from January 2001: period of application of new measurements of liberalisation after the revision of the protocols relating to the trading system of the agricultural and the agro-food products.

According to the Tunisian statistics relating to the imports coming from Europe, one notes that:

- the principal products imported during the period before the association agreement are essentially products such as milk and the dairy products, greases and vegetable and animal oils as well as the preparations of meats and fish and those containing cereals, starches, or milk and pastry makings.

- the products imported during the second phase correspond to the meats and edible meat offals, vegetables and food plants, various food preparations and those containing cereals, starches, or milk and pastry makings as well as drinks, liquid foods and vinegars, tea, coffee and spices.

- the products imported during the third phase are mainly the meats and edible meat offals, vegetables and food plants, edible fruits, alcoholic beverages, liquids and vinegars, preparations of vegetables and fruits and those of the meats and fish as well as coffee, tea and spices.

Thus, one notes that since the entry into force of the association agreement between Tunisia and the European Union, we have considerable increase in the value of the imports of certain products. Indeed, during the period 1996-2004:

- the value of the imports of the various food preparations increased of almost 77,5% to reach a value of 3.310.000 ECU in 2004 whereas a rise of about 60% was perceived for the imports of drinks, alcoholic liquids and vinegars arriving at a value of 9.672.000 ECU in 2004.

- the value of the imports of vegetables and food plants recorded a rise of about 70% reaching in 2004 the value of 8.905.000 ECU whereas that of the edible meats and meat offals is about 400.000 ECU (increase of about 94%).

- one sees an unstable evolution relating to the imports of the dairy products; eggs; honey and other edible products of animal origin like as well as on the level of cereals and flour and other milled products appearing sometimes by remarkable rises or falls.

According to the tunisian statistics relating to the exports to Europe, one notes that:

- the principal products exported during the period before the association agreement are essentially products such as the preparations of vegetables and fruits, milk and dairy products, edible fruits, oleaginous seeds and fruits as well as the preparations of meats and fish and those containing cereals, flours, starches, or milk and pastry makings, sugars and its derives, cocoa and its preparations.

- the products exported during the second phase correspond to the fish, shellfish and molluscs, vegetables and food plants, preparations containing cereals, starches, or milk and pastry makings as well as drinks, liquid foods and vinegars.

- the products exported during the third phase are mainly the alive animals, meats and edible meat offals, fish, shellfish and molluscs, milk and dairy products as well as the, tea and spices, fats and vegetable and animal oils, various food preparations.

Thus, one notes that since the entry into force of the association agreement between Tunisia and the European Union, we have a considerable increase in the value of exports of certain products. Indeed, during the period 1996-2004:

- the value of exports of the various food preparations increased of more than 54% to reach a value of 6.874.000 ECU in 2004 whereas a rise of about 88,5% was perceived for the imports of fish, shellfish and molluscs arriving at a value of 12.343.000 ECU in 2004.

- the value of exports of vegetables and food plants recorded a rise of about 70% reaching in 2004 the value of 8.905.000 ECU whereas that of the edible meats and meat offals is about 400.000 ECU (increase of about 94%).
- the exports of certain products such as sugars and derived, preparations of meats and fish respectively recorded a fall of more than 70% and 62%.
- one sees an unstable evolution relating exports of cereals, coffee, tea and spices as well as preparations of fruits and vegetables appearing sometimes by remarkable rises or falls.

According to the trade balance pay of the tunisian agro-food sector, during the period 1990-2004, one notes that the tunisian agro-food sector is based essentially on the imports coming from the European Union which, in general, largely exceed the value of exports of the sector with more or less important peaks according to periods.

Whereas the trade balance pay of the agro-food sector reached a deficit of about 324,9 million ecus in 2004 compared with only 35,8 million ecus in 1990, one recorded a positive balance respectively reaching 45,9 and 49,9 million ecus in 2002 and 2003 coinciding with the beginning of application of the new provisions of the agreement of 1995 as for the liberalisation of the agricultural and agro-food products to the increase point of view of in the quotas, reduction tariff and developments of calendars relating to exports of certain tunisian products towards the European Union.

Thus, with a generally trade balance in deficit, we can say, on one hand, we can say that the productive apparatus of the tunisian agro-food sector is not enough competitive on the european market in terms of price as well as quality and a net shift is perceived between the development of technologies of the european and the tunisian agro-food industry still tributary of the activities of first transformation within small manufacturing units and little qualified labour.

In the other hand, that is also explained by :

- the difficulty of the tunisian firms to produce enough in terms of quantity and quality to reach the quotas suggested on the level of the association agreement with the European Union.
- the fact that for certain products (grapes of table, plums, aubergines, water melon...), the periods of export with total exemption imposed by the European Union do not coincide with the period of productions thus giving an advantage to the imports coming from the close countries.
- the problem of conditioning, transport and the variable prices granted to the commission agents who benefit largely from the situation.

To conclude, it is important to say that Tunisia must face all its constraints by trying to adapt to the requirements of the European market, starting by modernizing and restructuring the agro-food sector and profiting from the advantages relating to the revision of the association agreement with the European Union.

CONCLUSION

As a conclusion, one can say that the tunisian agro-food sector although defined by the diversity of its dies, has a major importance within the national economy by its contribution to the creation of employment on the one hand and its participation in the formation of the gross domestic product and the contribution of currencies by exports on the other hand.

In spite of its economic importance, it presents many difficulties having two types of origins: structural and environmental.

Indeed, the study of the association agreement between Tunisia and the European Union, the analysis of the trade balance of the agro-food sector and the examination of the performances of export and the strategies of internationalisation within the framework of the

partnership between Tunisia and the European Union made it possible to draw the following conclusions:

- the sector is prevailed by small and middle-sized firms.
- the firms present:
 - * a weak degree of experiment and qualification of the labour
 - * a weak degree of technical and administrative framing
 - * a weak degree of financing
- the majority of the firms are not prepared to the new economic context.

So, in order to promote the sector of tunisian agro-food industries, to help them to face the challenges of liberalisation like developing flows of exports, it is important to announce the following recommendations as concerns :

- to found a compliance certificate to the international standards of quality by the establishment of HACCP system or ISO 9000 certification or other types of controls because quality becomes from now a necessary condition to any attempt at durable positioning on the market.
- to adopt marketing strategies which make it possible to the firms to ensure a durable competitive advantage according to their sphere of activity and compared to the whole of their competitors.
- to think of another mode of liberalisation in the form of an agreement between firms to develop their technologies and better their labour.
- to exploit existing technologies such as the electronic trade through Internet.

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