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## Germany

### Trade Policy Monitoring

### Influence of the EU-Chile FTA on U.S. Exports of HTP Products to Germany

### 2003

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**Report Highlights:**

The report examines the likelihood of negative implications of the Free-Trade-Agreement between Chile and the EU on U.S. exports of fruits, vegetables and tree-nuts to Germany. Dried prunes is the only product that is likely to be affected.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
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## **1. Introduction**

On November 18, 2002, the EU and Chile signed an "Association Agreement" that among other things contains provisions to eliminate import tariffs for agricultural goods over a period of ten years.

While Parliaments in Member States still have to ratify the Agreement, the bulk of its provisions, including the trade part, have been applied since 1 February 2003.

The aim of this report is to assess possible implications of the FTA on German imports of horticultural imports from the United States. For this report "horticultural products" are defined as products falling under chapter 7 and 8 of the EU combined nomenclature (equivalent to the HS-code in the U.S.).

For the full text (1437 pages) of the agreement visit the following website:

[http://europa.eu.int/smartapi/cgi/sga\\_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=22002A1230\(01\)&model=guicheti](http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexapi!prod!CELEXnumdoc&lg=EN&numdoc=22002A1230(01)&model=guicheti)

EU import tariffs are fixed in annex I of regulation 2656/87 on the tariff and statistical nomenclature and on the Common Customs Tariff. The current version for 2003 of the annex is laid down in regulation 1832/2002, which can be found on the following website (932 pages):

[http://europa.eu.int/eur-lex/en/archive/2002/l\\_29020021028en.html](http://europa.eu.int/eur-lex/en/archive/2002/l_29020021028en.html)

Abbreviations:

CN = Combined Nomenclature  
CY = Calendar Year (January – December)  
FTA = Free Trade Agreement  
HTP = Horticultural and Tropical Products  
MT = metric ton(s)

## 2. Overview about German imports from the U.S. and Chile

In 2002, German imports of U.S.-origin horticultural products from chapter 7 and 8 of the combined nomenclature amounted to about U.S. \$ 237 million, of which U.S. \$ 226 million (or 95 percent) were generated by the top 11 products, which are summarized in table 1. Some of these products Germany also imported from Chile, notably fresh pears, dried prunes and some tree nuts (see table 2). German customs data does not show any imports from Chile for pistachios, in-shell almonds, grapefruits, and hazelnuts, thus Chile was not a competitor for the U.S. on the German market for these products.

**Table 1: German Imports of Horticultural Products from the United States exceeding 1000 MT or U.S. \$ 1 Million in 2002**

CN-Code	Product	2001		2002		Tariff Rate in %
		MT	\$1000	MT	\$1000	
0802 12 90	Shelled sweet almonds, fresh/dried	42,239	108,338	42,577	112,925	3.5
0802 50 00	Pistachios, fresh/dried	4,402	15,343	6,603	25,398	1.6
0813 20 00	Dried prunes	11,144	25,595	9,570	24,266	9.6
0802 31 00	Walnuts in shell, fresh/dried	6,843	12,856	8,392	15,976	4.0
0802 32 00	Shelled walnuts, fresh/dried	2,570	10,766	2,792	12,831	5.1
0805 40 00	Grapefruit, fresh/dried	20,592	12,298	19,303	12,100	1.5
0806 20 12 /18/92/98	Raisins excl. currants	7,426	8,063	7,490	7,770	2.4
0712 20 00	Dried onions	2,478	5,058	3,271	7,196	12.8
0808 20 50	Fresh table pears	2,117	1,813	4,146	3,926	0.0-10.4*
0802 21 00	Hazelnuts in shell, fresh/dried	1,731	2,866	1,314	2,357	3.2
0802 11 90	Sweet almonds in shell, fresh/dried	328	845	549	1,386	5.6
Total of above		101,870	203,841	106,007	226,131	

\* Tariff depends on time of year

**Table 2: Competing German Imports of Horticultural Products from Chile**

CN-Code	Product	2001		2002		Tariff Rate in %
		MT	\$1000	MT	\$1000	
0808 20 50	Fresh table pears	6,347	4,123	9,249	6,398	0.0-10.4*
0813 20 00	Dried prunes	1,517	2,514	3,082	5,121	9.6
0802 32 00	Shelled walnuts, fresh/dried	190	1,370	255	1,647	5.1
0802 31 00	Walnuts in shell, fresh/dried	326	832	180	360	4.0
0806 20 12 /18/92/98	Raisins excl. currants	345	417	290	328	2.4
0802 12 90	Shelled sweet almonds, fresh/dried	-	-	52	172	3.5
0712 20 00	Dried onions	-	-	12	7	12.8
Total of above		8,734	9,270	13,120	14,033	

\* Tariff depends on time of year

### **3. EU Import Tariffs for Horticultural Products where the U.S. and Chile compete**

Table 4 gives a summary of current EU import tariffs for those horticultural products, where the U.S. and Chile compete on the German market. Column 3 shows the base tariff, applicable to all countries outside an FTA. Column 4 states the date from when the tariffs for imports from Chile will be set to zero. It shows that for all critical products but pears and onions, tariffs are 0 for Chilean products, while U.S. imports are still subject to the relevant duty. The higher the tariff, the bigger the disadvantage for U.S. products compared to product of Chilean origin. This is especially true for a market as price sensitive as the German food market.

**Table 3: EU Import Tariffs for Certain Horticultural Products**

CN-Code	Product	Tariff Rate in %	Date of Tariff Liberalization for imports from Chile
0712 20 00	Dried onions	12.8	Year 7 (Jan 1, 2010)
0813 20 00	Dried prunes	9.6	Year 0 (Feb 1, 2003)
0802 32 00	Shelled walnuts, fresh/dried	5.1	Year 0 (Feb 1, 2003)
0802 31 00	Walnuts in shell, fresh/dried	4.0	Year 0 (Feb 1, 2003)
0808 20 50	Fresh table pears	0.0-10.4*	Year 0, 4, or 7*
0802 12 90	Shelled sweet almonds, fresh/dried	3.5	Year 0 (Feb 1, 2003)
0806 20 12,18,92,98	Raisins excl. currants	2.4	Year 0 (Feb 1, 2003)

\* = Tariff depends on time of year

### **4. Assessment per product**

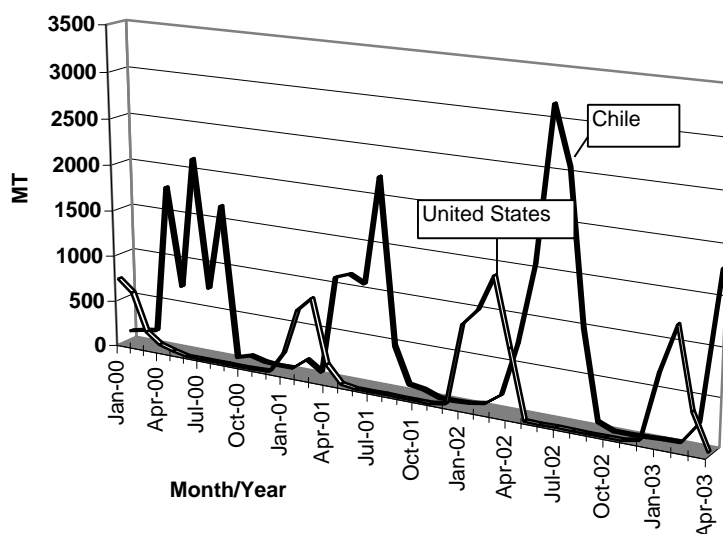
#### 4.1 Table Pears

When comparing German import volumes from the U.S. and Chile, at first glance it might appear that out of the U.S. products mentioned above, fresh pears face the strongest competition from Chile. However, due to the different production cycle the majority of U.S. and Chilean pears are imported at different times of the year. While the peak for imports from the U.S. is from January through April, the peak for Chile occurs from March/April through August. March and April thus being the only months, where there really is competition between U.S. and Chilean pears. The impact of the EU-Chile FTA on U.S. exports of table pears to Germany therefore can be expected to be marginal.

Table 4: German Imports of Pears from the U.S. and Chile by Month (in MT)

	2000		2001		2002		2003	
	U.S.	CHILE	U.S.	CHILE	U.S.	CHILE	U.S.	CHILE
JANUARY	736	99	240	26	883	9	742	17
FEBRUARY	603	132	732	146	1,059	38	1,244	21
MARCH	193	157	885	40	1,433	155	415	244
APRIL	78	1,772	204	1,087	722	721	44	1,791
MAY	35	705	24	1,146	4	1,549	n/a	n/a
JUNE	-	2,121	-	1,072	1	3,154	n/a	n/a
JULY	-	738	-	2,209	6	2,556	n/a	n/a
AUGUST	2	1,657	4	468	1	993	n/a	n/a
SEPTEMBER	-	25	-	86	-	68	n/a	n/a
OCTOBER	-	71	-	62	1	-	n/a	n/a
NOVEMBER	2	34	-	4	1	-	n/a	n/a
DECEMBER	13	22	28	-	36	6	n/a	n/a

Chart 1: German Imports of Pears from the U.S. and Chile by Month (in MT)



## 4.2 Dried Prunes

### 4.2.1 Chilean export potential

The Chilean annual dried prune production is roughly 30,000 MT. More than 90 percent of this is being exported. The most recent available U.N. trade statistics for Chile (2001) show a total export of dried prunes of 28,462 MT. Most of which are destined to other Latin American countries (Mexico, Brazil). According to this statistics, Germany ranks number three in terms of destination, receiving 2,668 MT (9 percent) of exported Chilean dried

prunes. Official German import figures however only show an import of 1,517 MT for the same period.

The FAS office in Santiago, Chile reports that Chilean industry sources do not expect an increase in exports to the EU following the FTA (GAIN report CI2016). However, the same report also mentions a significant increase in planted area during the past 5 years, which will lead to an increase in production to 34 – 35 thousand MT over the coming 3 to 4 years, when the newly planted tree will have reached their full bearing capacity.

German industry contacts noted that not only has Chile made great progress in the quality of their prunes in the past years, but they also offer more stoned fruits than they used to previously.

#### 4.2.2 Development of U.S. and Chilean shipments to Germany

As indicated above, export and import data vary substantially depending on the source (see table below), which poses difficulties in making an objective assessment of the trade developments.

**Table 5: Volume and Value of Shipments of Dried Prunes from the U.S. to Germany according to various sources**

Volume in MT		1998 Jan-Dec	1999 Jan-Dec	2000 Jan-Dec	2001 Jan-Dec	2002 Jan-Dec	2002 Feb-Apr*	2003 Feb-Apr*	Percent Change
U.S. Exports to Germany	U.S. Export Statistics	10,605	8,965	12,917	19,716	8,105	2,901	1,872	-35
	U.N. Trade Statistics	10,605	8,811	12,917	19,055	8,105	n/a	n/a	
German Imports from U.S. German Office of Statistics		13,230	10,070	11,053	11,144	9,570	2,917	2,723	-7
<b>Value in U.S. \$ 1000</b>									
U.S. Exports to Germany	U.S. Export Statistics	19,531	18,419	23,344	33,776	17,827	7,277	5,087	-30
	U.N. Trade Statistics	19,531	18,127	23,344	33,796	17,827	n/a	n/a	
German Imports from U.S. German Office of Statistics		28,192	22,428	23,352	25,595	24,266	7,327	7,316	0

\* The months of February through April were chosen because the tariff provisions went into effect February 1, 2003. April was the most current month for which trade data was available.

N/a = data not yet available

**Table 6: Volume and Value of Shipments of Dried Prunes from Chile to Germany according to various Sources**

Volume in MT		1998 Jan-Dec	1999 Jan-Dec	2000 Jan-Dec	2001 Jan-Dec	2002 Jan-Dec	2002 Feb-Apr*	2003 Feb-Apr*	Percent Change
Chilean Exports to Germany, U.N. Trade statistics		1,091	2,073	1,640	2,668	n/a	n/a	n/a	
German Imports from Chile German Office of Statistics		724	1,171	1,325	1,517	3,082	783	1,203	54
<b>Value in U.S. \$ 1000</b>									
Chilean Exports to Germany, U.N. Trade statistics		1,267	3,014	2,565	3,882	n/a	n/a	n/a	
German Imports from Chile German Office of Statistics		996	1,720	2,032	2,514	5,121	1,277	2,093	64

\* The months of February through April were chosen because the tariff provisions went into effect February 1, 2003. April was the most current month for which trade data was available.

N/a = data not yet available

Germany records imports according to country of production, as opposed to the country of shipping. This means that if the German import figure is higher than the U.S./U.N. export figure, the difference is most likely a result of the product being shipped through another country, such as the Netherlands. U.S./U.N. statistics would then state the products as having been shipped to the Netherlands, when in fact it is consumed in Germany.

Finding a reasonable explanation for the difference if the German import figure is lower than the U.S./U.N. export figure is more difficult. Small difference can be explained through the fact that intra-EU imports only have to be recorded if the annual value of all imports of that

company exceeds Euro 200,000, while all imports from outside the EU are recorded by customs, irrespective of volume or value.

Also, sometimes exports that are destined for a specific country are re-directed to a different country while being on the ocean, without the original export documents and statistics being up-dated.

All of this is unlikely to explain the huge difference of about 8,000 MT for U.S. shipments to Germany, in 2001. U.S. export figures for that year are exceptionally high compared to 1998 through 2000 and 2002. We therefore suspect that other factors not known to us must be involved.

Based on the assumption that all the imports that Germany recorded really occurred and that all exports to Germany really ended up there, in case of diverging data we decided to use the higher of the two figures. In our opinion this method results in a more realistic set of data than either of the above quoted sources alone.

**Table 7: Adjusted Volume and Value of Shipments of Dried Prunes from the U.S. and Chile to Germany**

	CY 1998	CY 1999	CY 2000	CY 2001	CY 2002	2002 Feb-Apr*	2003 Feb-Apr*	Percent Change
Volume in MT								
US	13,230	10,070	12,917	19,716	9,570	2,917	2,723	-7
Chile	1,091	2,073	1,640	2,668	3,082	783	1,203	54
Value in U.S. \$ 1000								
US	28,192	22,428	23,352	33,796	24,266	7,327	7,316	0
Chile	1,267	3,014	2,565	3,882	5,121	1,277	2,093	64

\* The months of February through April were chosen because the tariff provisions went into effect February 1, 2003. April was the most current month for which trade data was available.

The table shows exceptionally high U.S. exports to Germany in 2001 followed by a steep decline in 2002. For February through April 2003, which is the first quarter after the FTA went into effect, U.S. exports show a decline in volume by 7 percent while the export value remained stable.

By excluding the year 1999, Chilean shipments to Germany show an upward trend for the past years, which continues in the first quarter after the FTA went into effect. Chilean shipments increased by 54 percent, while their value increase by 64 percent compared to the same period of the previous year.

#### 4.2.3. German Prune market

The German prune market basically consists of 3 segments:

- products that are imported pre-packed and branded
- products that are imported in bulk and packed in Germany under a brand name
- products that are imported in bulk and packed in Germany under a retail brand

It can be assumed that competition for the U.S. from Chilean prunes will be strongest in category b) and c), while branded products are not so easily exchanged. Unfortunately neither the California Prune Board nor the *Waren-Verein der Hamburger Börse* (Association



of trade in dried fruits, nuts, processed fruits, and similar commodities) have figures about the percentages of the three categories.

For some uses, some German importers prefer smaller sized prunes for two reasons. The smaller prunes look better than the large prunes, especially in mixtures. Smaller prunes are also cheaper. According to German industry sources, the U.S. only provides limited amounts of small size prunes, which puts them at a disadvantage compared to Chile and explains some of the shift in shipments in 2002, before the FTA went into effect.

Chile is not yet able to supply prunes in cans. In this market segment the U.S. has an advantage. However, German industry sources suspect that it is only a matter of time until Chile will acquire the necessary know-how and machinery and also supply prunes in this type of packaging.

#### 4.2.4 Conclusion for Dried Prunes

Chile has gained market share for dried prunes in Germany in recent years, due to the fact that they offer cheaper small sized prunes. The EU-Chile FTA grants shipments from Chile an additional 9.6 percent advantage on prices compared to shipments from the U.S. Germany is a very price sensitive market. It can therefore be concluded that the EU-FTA will enhance the trend of increasing shipments of Chilean dried prunes to Germany, and consequently aggravate competition for U.S. exports on this market.

### 4.3. Tree nuts

#### 4.3.1. Chilean export potential

According to U.N. trade data Chile exported the following tree-nuts: walnuts, almonds, chestnuts and hazelnuts in quantities of 7,358 MT, 2,869 MT, 90 MT, and 17 MT, respectively, in 2001. Out of these exports, 561 MT of walnuts and 6 MT of hazelnuts were destined for Germany. According to German import data, imports of almonds from Chile in the years 1997 through 2002 amounted to 2, 0, 28, 0, and 52 MT respectively. Thus, all German import volumes of tree-nuts from Chile except for walnuts are too small to represent significant competition for U.S. produce in Germany.

#### 4.3.2. Walnuts

As with prunes, the Chilean industry does expect a significant increase in walnut exports to Europe following the FTA. In their view the size of the U.S. walnut crop and resulting exports plays a much bigger role than a reduction in EU import tariffs (see GAIN report CI 3003).

However, Chilean production of walnuts is expected to increase from 11,900 MT in 2001/02 to 16,000 MT by 2007/08. It can be expected that much of this growth is destined for export, as Chilean domestic demand does not drive consumption.

Making the same assumptions as in chapter 3.2.2 the shipments of walnuts from the U.S. and Chile to Germany are summarized in table 8. Annual shipments of the U.S. are about 11-12,000 MT, while Chilean shipments add to 300 –600 MT. Generally the variation is larger in value than in volume for the U.S. while it is larger in volume than in value for Chile. In the three month of February through April 2003, both, the U.S. as well as Chile were able to increase their shipments in volume and value.

**Table 8: Adjusted Volume and Value of Shipments of Walnuts (in-shell and shelled) from the U.S. and Chile to Germany**

	CY 1998	CY 1999	CY 2000	CY 2001	CY 2002	2002 Feb-Apr	2003 Feb-Apr	Percent Change
Volume in MT								
US	12,005	11,431	12,309	10,870	11,183	889	1,454	64
Chile	274	612	407	561	435	3	22	633
Value in U.S. \$ 1000								
US	29,558	24,874	28,669	26,491	28,808	3,440	5,489	60
Chile	2,133	2,383	2,319	2,202	2,008	23	40	74

\* The months of February through April were chosen because the tariff provisions went into effect February 1, 2003. April was the most current month for which trade data was available.

Concerning quality, FAS/Santiago reports: "... only a small proportion of the [Chilean] walnut crop is considered to be of high quality by international standards." However, the walnuts that are imported from Chile to Germany have a very good reputation for their quality and are sold at a premium. Chile currently does have a competitive advantage for shelled walnuts, as cheap labor enables producers to hand crack almost all walnuts. However, labor costs are increasing, which will result in more and more mechanization and will abolish this advantage in the long run.

**Table 9: Average Import Prices for Walnuts of Various Origins in Germany**

	2000		2001		2002	
	In-shell (U.S. \$/kg)	shelled (U.S. \$/kg)	In-shell (U.S. \$/kg)	shelled (U.S. \$/kg)	In-shell (U.S. \$/kg)	shelled (U.S. \$/kg)
U.S.	1.96	3.58	1.88	4.19	1.90	4.60
Chile	2.15	7.80	2.56	7.20	2.00	6.45
World (All Imports)	2.00	3.79	1.95	3.96	1.91	4.25

#### 4.3.3 Conclusions for walnuts

The EU-Chile FTA is not expected to have a significant influence on the competition between U.S. and Chilean walnuts on the German market. The premium for Chilean walnuts compared to U.S. produce is much higher than the tariff reduction of 4 percent.

#### 4.4. Raisins

Turkey is the main supplier of raisins to the German market with 65 percents of the shipments. 11 percent of the imports are sourced from the U.S., amounting to 7,490 MT in 2002. Chilean shipments of raisins to Germany are very volatile, ranging from 290 MT in 2002 to 1,349 MT in 1999. Chile's market share of the German market for raisins varied between 0.4 and 2 percent in that period.

**Table 10: Average Import Prices for Raisins of Various Origins in Germany**

	1999 (U.S. \$/kg)	2000 (U.S. \$/kg)	2001 (U.S. \$/kg)	2002 (U.S. \$/kg)
U.S.	1.76	1.32	1.09	1.04
Chile	1.44	1.42	1.21	1.13
World (All Imports)	1.18	1.06	0.86	0.83

Since 2000, average import prices for Chilean raisins have been higher than for raisins from the U.S. The premium for Chilean raisins was much higher than the tariff of 2.4 percent. Therefore even after the elimination of the tariff through the EU-Chile FTA, on average Chilean raisins will be more expensive than raisins from the U.S.

## **5. Overall Conclusion:**

The evidence examined in this report suggests that out of the examined products, U.S. exports of dried prunes will face the most negative impact from the EU-Chile FTA. For all other products factors outside the agreement play a much bigger role than the FTA itself.

For dried prunes, the EU-Chile FTA grants Chilean prune shipments an additional 9.6 percent price advantage. This is expected to aggravate the current competitive disadvantage for the U.S. for bulk shipments, resulting from production in Chile, and a preference by German importers for the smaller-sized and less expensive Chilean product.

For pre-packed branded products the U.S. currently has an advantage for the fact that Chile does not supply this kind of product. However, it is expected that it is only a matter of time until this changes.

With only three month of trade data available since the FTA went into effect, it is still too early to assess the impact of the FTA based on statistics. Significant shifts in shipments will only show at a later stage.

Related reports:

CI2016	Dried Fruit Annual Report
CI3003	Tree Nuts Annual Report <a href="http://intranetapps/GainFiles/200301/145785206.pdf">http://intranetapps/GainFiles/200301/145785206.pdf</a> .