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SYRIA

**Opportunities for Syrian fruit and vegetable
exports in the EU market**

Technical report

By

**José-María García-Alvarez-Coque¹,
Waficca Hosni²
Usaama Saadi³**

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¹ Professor of Agricultural Economics, University of Valencia-UPV

² Researcher at the National Agricultural Policy Centre, Damascus.

³ Researcher at the National Agricultural Policy Centre, Damascus.

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Abbreviations

AA	Association Agreement
ADS	Agricultural Development Strategy
AFTA	Arab Free Trade Area
CAP	Common Agricultural Policy
CEEC	Central and Eastern European Country
CN	Combined Nomenclature
CTA	Consultant Technical Advisor
EBA	Everything but Arms
EFSA	European Food Safety Authority
EUREPGAP	Euro-Retailer Produce Working Group for Good Agricultural Practice
EC	European Commission
EU	European Union
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FTA	Free Trade Area
GAP	Good Agricultural Practice
GCFV	General Company of Fruits & Vegetables
GIC	General Investment Council
HACCP	Hazard Analysis and Critical Control Point
NTB	Non-Tariff Barrier
RQ	Reference Quantity
MAAR	Ministry of Agriculture and Agrarian Reform
MC	Mediterranean Country
MFN	Most Favoured Nation
NAPC	National Agricultural Policy Center
PDO	Protected Designation of Origin
PGI	Protected Geographical Indication)
PO	Producer Organisations
TIR	Transport Internationaux Routiers
TRIPS	Trade Related Intellectual Property Rights
TRQ	Tariff Rate Quota
TSG	Traditional Speciality Guaranteed
VER	Voluntary Export Restrain
WTO	World Trade Organisation

Executive Summary

This report supplies the main results of a research study undertaken by the National Agricultural Policy Centre (NAPC). The study intends to supply detailed information on all the current and potential “windows” in the European Union that could help improving the penetration of Syrian exports of fruit and vegetables into the agricultural markets of the EU. The study develops a line of research initiated by a previous study carried out under the Project GCP/SYR/006/ITA – Phase I, which aimed at examining the impact of the Association Agreement (AA) currently under negotiation between Syria and the EU.

After the **Introduction chapter**, the study describes the main quantitative trends in world and EU trade in fruits and vegetables (**Chapter 2**). In spite of the protection policies and the support to the local production, the EU still is one of the main commercial targets for the countries with exporting capacity. The EU accounts for 10.4 per cent of the world consumption of these products, against the 9.4 per cent accounted for by North America. As a global trader, the EU imported in 1999-2000 for about 38 billion dollars of fruits and vegetables.

Syrian interests for improving its export performance of fruits and vegetables to the EU markets are based on: (i) the relative specialisation of Syrian exports on fresh vegetables (28% of total agricultural export value in 1999), and fresh fruits (15%); (ii) the expected signature of the AA, which will probably open new and more stable opportunities for Syrian exports; (iii) the dynamism of the EU fruit and vegetable market for some products of export interest for Syria (eg. cherries, table grapes, garlic, onions, tomatoes and potatoes); and (iv) the over-specialisation of Syrian exports on AFTA countries, which account for over 90 per cent of Syrian horticultural exports.

The specialisation of Syrian horticultural exports on Arab markets is understandable, given the geographical proximity and the cultural and economic links between Syria and its Arab neighbours. However, as a Mediterranean partner, the practical absence of Syrian products in the European destinations should not be taken as a normal fact. This must lead us to reflect about the possible constrains for Syrian horticultural export development. The study makes a reference to a number of forces, mainly related to (i) the lack of exporting incentives, caused by the protectionist EU commercial policies; and (ii) low degree of adaptation of the Syrian produce to the recent developments in the marketing of fruit and vegetables in industrial economies.

Chapter 3 considers the domestic conditions of Syrian production of fruit and vegetables. A first condition for exporting is believed to be the availability of supplies and price competitiveness at the farm level. Syria is characterized by a variety of producing regions, which would allow to keeping export activities during different seasons for several products. The present study has carried out a comparison between farm monthly prices in Syria and the corresponding prices in some EU Member States, for the period 1998-2000. In 45% of the sample’s observations, Syrian farm prices undercut EU farm prices, suggesting price

advantages at the farm level, at least for certain products and seasons. However, the study suggests that Syria is facing high logistic costs for undertaking foreign trade. These may be important for some perishable products, in particular for potatoes, tomatoes and table grapes. In addition, inefficiencies in the marketing chain push farm prices down, making exports profitable due to the erratic pattern of domestic overproduction rather than to a business oriented export activity.

A real challenge for Syria rests on the possibilities for breaking the vicious circle for which export performance is not enhanced due to the inefficiencies in the marketing chain, and at the same time, efficiency gains hardly appear because of the lack of export incentives related to the limited market access to the EU.

The AA will probably lead to enhanced market opportunities, which are reviewed in **Chapter 4**. EU concessions will tend to be limited as suggested by a close examination of the agricultural protocols corresponding to the AA already signed between the EU and several Mediterranean countries (Morocco, Tunisia, Jordan, Egypt and Lebanon). Tariff concessions are managed through the use of calendars, quantitative limits for tariff preferences. For some products, entry (minimum) prices are applied, although the EU has granted to some countries such as Morocco and Egypt, certain entry price reductions for given products and seasons. These remarks are not aiming at drawing a pessimistic view of the future. The Association framework will involve an important step in the right direction, which points to the progressive opening of the EU markets.

Provided that market access concessions are granted by the EU, Syria should aim at taking significant shares in the EU market, as other Mediterranean countries have already done. However, even with improved market access, competition is fierce. This is the case for some products and seasons, such as: tomatoes (spring and summer), potatoes (summer and autumn), clementines (autumn), table grapes (summer and autumn), apples (autumn), cherries (summer), onions (summer) and other vegetables (all the year round). It is unlikely that Syria will be able to export to the EU significant volumes in these seasons, when EU domestic production is large. Possibilities for Syria to enter the EU market are more likely if efforts are made to grow crops which can be harvested ahead or after the main producing seasons in the EU.

Market access is a necessary condition for export success, but this only may come upon an adequate understanding of the current trends in the modern distribution that prevail in most EU countries, which are considered in **Chapter 5**. One could argue that Syrian fruit and vegetables' exporting activities are not adapted to the EU market simply because this market has been materially closed until now. The current Syrian exporting activities can be seen as a simple extension of the domestic market, taking advantage of the market access to the Arab countries, under the AFTA framework. If Syrian horticultural trade relies on traditional marketing practices, this seems to be the outcome of the current market limitations and not necessarily an explanatory factor of the Syrian exporting success or failure. Whatever the Syrian strategy for internationalisation be (no matter whether it points to the regional integration with the Arab countries or with the EU), Syria has to be aware of the consumption and distribution trends in foreign markets. Market trends in the EU point to a number of qualitative changes

in the consumption of fruit and vegetables. Consumers in industrial economies tend to buy fruit and vegetables as “convenience” products (take-away, “meal solutions”), snacks (“eating on the move”) or products which guarantee good health and respect for the environment. Those products addressed to satisfy basic needs have seen their price reduced, while the prices of those products linked to emotion and convenience, are less price sensitive though, at the same time, have to comply with the specifications of modern distribution. Only companies with close monitoring of the market and wide control of the production process are able to quickly adapt to the frequently contradictory consumers’ behavior in industrial societies.

The process in most Western and Central European countries appears to be not only consumer driven, but also mastered by the large distribution firms. A major move in the commercialisation of fruit and vegetables has been the progressive disappearance of small retailers and the parallel consolidation of sales in big retailers. In 1999, 40 per cent of the food sales in Europe were carried out by the 10 top companies. In 2005 is projected that the same percentage will be accounted for by the 5 top companies. The first European food retailer (Carrefour) has a total turnover equivalent to fourth times the Syrian GDP. These changes are leading to a sharp reduction in the number of suppliers in the international market of fruits and vegetables. In the medium-term, the supply will be formed by a small number of fruit and vegetable companies, which will supply a larger volume of fruits and vegetables.

Syria can perfectly take part in the international market of fruit and vegetables. This can be achieved by a steady effort to introduce Syrian firms in the world marketing chains. Supply chains enforce internal mechanisms and develop chain wide incentives for assuring the timely performance of production and delivery commitments. They are based on shared information and reciprocal scheduling, product quality assurances and transaction volume commitments. These elements call for the search of long-term arrangements between Syrian companies and EU importers and distribution companies. Quality assurance, in these agreements, must not be seen as a factor of differentiation but as a precondition to have a presence in the market.

All these necessary changes must be carried out by the private sector. Nevertheless, **Chapter 6** refers to the role that the Government could play in facilitating needed adjustments. While the public sector cannot be a substitute for private traders in the dynamic market for fruit and vegetables, there remains a need for policies orientated to (i) support companies willing to undertake quality assurances (including organic production and other certification categories), (ii) facilitate large scale co-ordination between producers and traders; (iii) favor international co-operation leading to the adoption of the most modern marketing techniques; (iv) promote Syrian products in foreign markets, including the number (and quality) of contacts between Syrian and European companies; (v) encourage further steps for improving the business environment for foreign direct investment as a way of promoting international co-ordination and of transferring marketing know how. This study’s policy recommendations provide with some guidelines that might frame a strategy for exporting fruit and vegetables to the EU. These guidelines refer to:

1. Adopting a “learning-by-doing” approach. This means to avoid a short-term approach for the planning of export activities to the EU. This orientation would include an export strategy for fruit and vegetables. This picture is compatible with the idea that the AFTA markets become a preliminary step for Syrian exports to acquire experience that will be exploited when Syria gets higher access to the EU, within the AA framework.
2. Understanding the leading role of the private sector in the exporting activity. Accepting this, the Government may take part in the provision of certain public goods, such as (i) the improvement of the regulatory framework concerning product standards for both domestic and exporting market; and (ii) the supply of “support services” based on dissemination of information, training, research, promotion and quality policy. The Syrian fruit and vegetable market would probably improve its efficiency with a more open trade policy setting.
3. Building a quality policy, aimed at moving actors’ mentality towards quality. This could consider the creation of a Fruit and Vegetable Quality Body, with the participation of relevant actors of the fruit and vegetable sector. Areas to be covered would be the monitoring of quality at different points of the marketing chain as well as the analysis of actions to be taken to enforce the European standards, with an assessment of the implementation costs for the producers.
4. Favouring co-ordination in the fruit and vegetable sector. Syria needs associations of actors, aimed at sharing information and exchange of experiences and view-points on further steps to be taken in specialized areas. These co-ordinated efforts should not end up as public or parastatal activities but as adequate interfaces with the private actors.
5. Encouraging the concentration of supply. Small and medium companies that supply traditional commerce will tend to decrease and larger business oriented companies will be increasingly relevant for creating export value. Government’s action could point to (i) granting of specific lines of credit to companies that undertake high overheads and to (ii) setting up of promotion activities. Government’s assistance should be subjected to several conditions related to job creation (eg. as already established in Investment Law n° 10) and to the affiliation of a minimum number of growers to the companies’ exporting programs. The creation of public export agencies also appears to be crucial.
6. Promoting human resources. Government could support the development of tailor-made training and education modules at the different stages of the marketing chain. Training activities may well need international assistance and consider co-operation with foreign companies that would help to communicate product specifications directly to Syrian actors. The Syrian European Business Centre (SEBC) could take a significant part in the training activities directed to the marketing of fruit and vegetables, with support by EU funding. The Government role would focus more on the training activities addressed to farmers (good agricultural practices).
7. Strengthening international co-operation. Mechanisms for networking Syrian and foreign companies must be established to favor transfer of knowledge.

These include contacts with farming associations in the EU to share experiences on the adaptation to distribution and consumers' trends. International technical assistance would be helpful to prepare Syrian missions to the EU, with the goal of studying the implementation of quality systems and of forms of co-ordination between the agents of a particular export sector, with attention paid to the experience of the Producer Organisations (PO) and the inter-branch organisations in Europe.

8. Exploiting the AA's "windows". The AA becomes a framework for a dynamic process of negotiations and progressive opening of the EU trade barriers, which could be accelerated with an interim implementation of the AA's provisions related to agricultural trade. Taking full advantage of the EU concessions, including the filling of most of the tariff-quota offered by the EU, would be important for providing Syria with arguments for a further opening of the EU markets. This will require adequate training for the Syria trading actors to understand the administrative procedures for exporting to the EU. If concessions in the form of Exchange of Letter leading to tariff preferences are agreed, the Syrian government will have to implement an effective system of control for Syrian exports to comply with the limits agreed.
9. Improving market information and transparency. The creation of information systems about domestic and foreign markets becomes critical for improving the transparency of the fruit and vegetable transactions. These systems will be difficult to create without financial and technical assistance from international donors
10. Facilitating FDI. Foreign investment is a critical way of promoting international co-ordination and of transferring marketing know-how. There is a growing consensus about the need for simplify the procedures and rules governing investment in Syria. Government's efforts already point to easing investment and have to continue in the future. The fruit and vegetable markets should be included in the list of possible targets for foreign investors, considered by the General Investment Council (GIC).

All these guidelines, surely to be facilitated by the AA, suggest the need for a Syrian export strategy for fresh fruit and vegetables, whose characteristics are quite different from non-perishable products. An improved market access and a move to specialized export oriented business for fruit and vegetables are two essential conditions for the Syrian export success in the EU market for fruit and vegetables. It is difficult to state which of both conditions should come first. However, it is unlikely that successful export activities can be based on traditional trading practices and outlets that are becoming increasingly residual.

Chapter 1. Introduction

This technical report describes the main findings of a research study undertaken by the National Agricultural Policy Centre (NAPC). This study intends to improve the knowledge about the current and potential “windows” in the European Union (EU) that could help improving the penetration of Syrian exports of Mediterranean products to the agricultural markets at the EU. The study develops a line of research initiated by previous studies carried out under the Project GCP/SYR/006/ITA – Phase I, which aimed at examining the impact of the Association Agreement (AA) currently under negotiation between Syria and the EU (see study’s Terms of Reference in Annex 1). The interest of the study for the NAPC draws on several points. First, Syrian Government has shown its willingness to undertake clear steps to inserting Syrian economy (including agriculture) in the global markets. Secondly, the AA will open market opportunities which can only be fully exploited through a significant improvement of the performance of Syrian products in foreign markets. Thirdly, negotiations between Syria and the EU pointing to the AA were still underway at the time of drafting the report, so the study might supply information that could be of use in the last stages of the negotiation.

The fruit and vegetable market is crucial for any Syrian export strategy. As an agricultural exporter, Syria has shown particularly active on products based on Mediterranean irrigated crops such as fresh vegetables (28% of total agricultural exports in 1998-99); fresh fruit (15%) and processed fruits (3.5%). Exports of some fruits and vegetables are among the fastest growing exporting activities. Thus, according to the Syrian Agricultural Trade Report 2002 (NAPC, 2003), between 1990 and 2000, average annual export growth rates in US\$ were higher than 5 per cent for apples (20.6 per cent), grapes (23.5), melons (6.5), oranges (19.7), pears (28.8), tomatoes (24.1) and tomato paste (29.5). A question that arises from these developments is whether or not Syria is basing its export growth on a sustained basis. One might ask about the problems to be faced by Syria, as a result of the possible lack of adaptation of its production to the new market trends.

A matter of fact, the international market for fresh fruits and vegetables is far from representing a *commodity* market. Its appealing stems from the fact that fruit and vegetable products can be considered as high-value products, which perfectly adapt to the most recent consumer trends of the modern industrial societies. Developing countries like Syria show a good natural resource base for producing these products. However, for the exporting of fresh products, natural comparative advantages and low labour costs cannot be considered as the only factors of success in the international marketing. A trivial picture of the fruit and vegetable markets would present them as segmented into high-quality and low-quality categories. According to a conceptual approach based on the life-cycle theory (Vernon, 1979), industrial economies are supposed to invest in product innovation and in technology intensive high-cost products; by contrast, developing countries would serve as source for “mature” products for mass consumption, for which labour costs are relevant and technology easily accessible. Even after accepting this general approach, applying it directly on the marketing of fruits and vegetables would be misleading, especially on exports addressing developed markets. As a matter of fact, the low-quality market for fresh fruits and vegetables in EU countries are losing importance and become residual. A thesis for this study is that even developing countries should aim

at mastering the “marketing technology” that will favour their penetration in the increasingly concentrated distribution channels in Europe. A task for the Syrian policy-making in the future will be how to achieve the full involvement of Syrian growers and traders in the international marketing chains.

In the next pages we first, in chapter 2, present a general overview of some general trends in the international trade of fruit and vegetables, with focus on the EU import markets and on the Syrian exporting position. Then, chapter 3 describes the organisation of the marketing of fresh fruits and vegetables in Syria. This represents a necessary step for assessing the degree of adaptation of Syrian fruits and vegetables to the marketing trends in industrial economies, which account for a significant share of world horticultural trade. Even with low costs and sound natural bases for fruit and vegetable production, Syria keeps facing two types of constrains, which will be studied in Chapters 4 and 5. Thus, Chapter 4 refers to the constraints related to the EU commercial policies that protect domestic production and are partially relaxed only by the preferential treatment that the EU grants to its associated partners. Then Chapter 5 extends the analysis of market constrains to be faced by Syrian exports to the EU by considering the consumption and distribution trends. This will lead us to reflect about the possibilities that Syrian traders can successfully face the European large distribution companies. Finally, Chapter 6 includes a set of policy recommendations for Syria brought about by the previous analysis.

One important implication of the present study is that in the future the exporting activity by Syrian actors will have to be based on strategies clearly oriented to exports and not on speculative and residual activities, eventually originated from occasional surpluses at the domestic market.

Before going ahead, the authors would like to underline, the enthusiasm and support of other NAPC and Project staff. This includes the supervision and facilitating work of the Project’s CTA (Mr. Ciro Fiorillo) as well as the willingness by the NAPC’s Director (Mr. Atieh El Hindi) to share with the research team his experience on Syrian agricultural issues. The authors also want to mention the professional work of Ms. Asma Matar (interpreter), and last, but not least, the help by other NAPC and project staff.

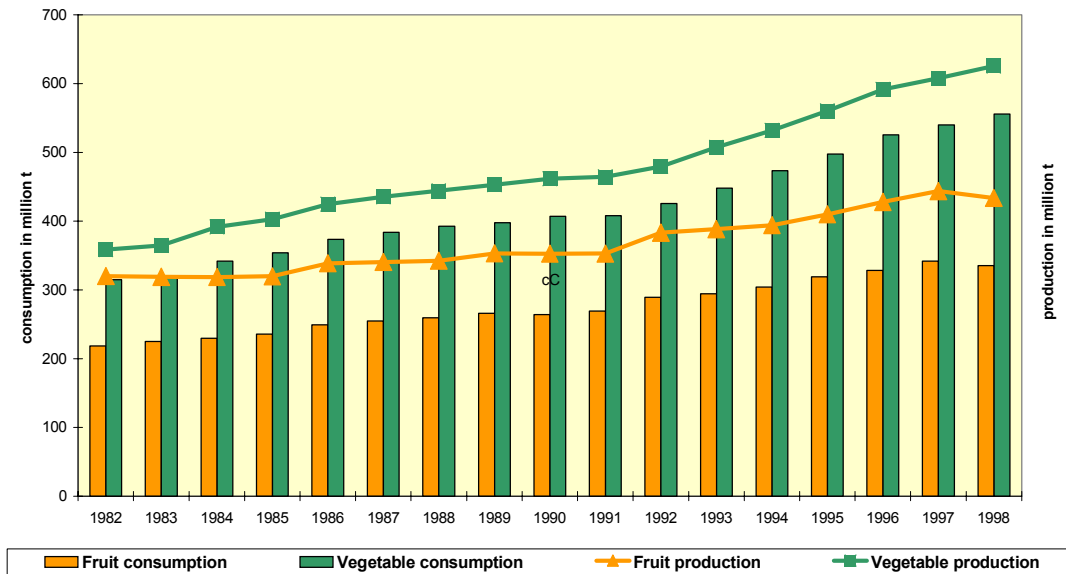
Chapter 2. General overview of the EU market for fruit and vegetables

2.1. General trends

Let us start the assessment of the EU horticultural markets by taking a look at the main quantitative trends of the world and EU markets. Later we will undertake a more detailed study of the factors explaining those trends.

The international market for fruit and vegetable market is seen as an appealing outlet for developing countries' exports, as shown by its growing world consumption and production along the last 20 years. It is also an increasingly competitive market, as reflected by the fact that the world production has shown faster dynamism than the world consumption (see Figure 2.1).

Figure 2.1. Fruit and vegetables - World consumption and production



Source: FAOSTAT data base. Authors' elaboration.

In spite of the protection policies and the support to the local production, the EU still is one of the commercial targets of all the countries with exporting capacity. The EU imported in 1999-2000 for about 180 billion dollars of agricultural commodities, being the first world agri-food importer. Fruit and vegetables represented a significant part of this trade, almost 38 billion dollars in the same period. In fact, the EU, as a country group, is the most important market for fruit and vegetables. The EU accounts for 10,4 per cent of the world consumption, against the 9,4 per cent accounted for by North America. In 2000, total EU consumption of fruit and vegetables was about 29 million tons and 41 million tons, respectively, corresponding to per capita figures of 92 and 132 kg.

Furthermore, it is still a growing import market. According to FAOSTAT data, the average growth rate of horticultural imports products by the EU between 1994 and 2000

was around 1.5 per cent per year. Prospects are even more promising for Eastern Europe, whose corresponding import growth rate reached 4,1 per cent during the quoted period.

EU imports from extra-EU sources show a more moderate growth and even stagnation for some products, which can be partly due to import substitution by intra-EU imports. However, as reflected in Table 2.1, extra-EU volumes are still significant and Syrian position might improve with enhanced market access to EU markets.

Table 2.1 Extra-EU imports (Metric Tons)

Product	1995	1999
Potatoes	700317	682905
Tomato (*)	414743	145363
Oranges	631515	467239
Mandarins	219994	331501
Grapes	664242	723821
Apples	426856	386873

(*) the 1995 figure includes trade from the Canary Islands.

Source: Comext data base

Consumption trends vary among products. For example, juice consumption is growing, with spectacular growth of pasteurized and fresh juices. Orange juice represent a typical case of convenience product (see Chapter 5), which can be easily consumed. By contrast, pears would be the opposite case: a fruit which is picked up and sold green, which matures quickly, and is not the easiest to eat. Both products illustrate the significant qualitative demand changes, which we will refer in Chapter 5.

2.2. Syrian interests in accessing the EU market

There are several reasons why Syria should be more involved in the EU market for fruit and vegetables:

- i. Syrian has been performing relatively well in exporting some fresh products, compared to other countries in the Mediterranean region with apparently similar resource endowments. This has been shown by the significantly high indexes of revealed comparative advantages against other Mediterranean countries for fresh products such as apricot, green beans, melons, cherries, garlic, grapes, peaches, pears, plums and tomatoes (Garcia-Alvarez-Coque, 2001).
- ii. The Euro-Mediterranean Association Agreement, currently under the final stages of the negotiation between Syria and the EU, will open some new, and probably more stable, market opportunities for Syrian exports.
- iii. The EU market for some products of export interest for Syria is still growing. This is shown by the significant average growth rates of EU imports, between 1993-95 and 1998-2000, for specific products, such as apricots (3.7 per cent), cherries (7.1), table grapes (2.6), lemons (3.6), garlic (4.1), onions (4.8) and

tomatoes (2.2), with lower rates for apples (1.2), potatoes (0.8) and oranges (0.3).

- iv. Although Syria is already a horticultural exporter, the EU has yet to be exploited as a market. This is shown in Table 2.2, which describes the regional structure of Syrian exports for selected fresh fruits and vegetables. AFTA countries, in particular the Gulf countries, account for over 90 per cent of Syrian horticultural exports. While Syrian horticultural exports heavily depend on AFTA countries, their presence in EU markets (and even in Central and Eastern Europe) is almost insignificant, with the exception of potatoes. Since 1993-95 to 1999-2000 (see Annex 2) specialization of Syrian horticultural exports on AFTA countries has only shifted in favour of the EU market in some vegetables, such as tomatoes, potatoes, cabbages, garlic, artichokes and green haricots. However, for these products, except for potatoes, Syrian export flows to the EU are fairly small (below 100 tons per year).

Table 2.2 Structure of Syrian exports of selected horticultural products by region of destination (Average 1998 – 2000)

Product	Distribution by region of destination (percentage of total exports)				Total Syrian exports (MT)
	AFTA	EU	Eastern Europe	Rest of world	
Tomatoes	84.72	0.06	0.04	15.17	155428
Potatoes	36.25	61.99	0.03	1.73	31415
Cabbage	99.62	0.07	0.00	0.31	4464
Cucumber	98.73	0.04	0.12	1.11	4499
Garlic	87.63	1.36	0.70	10.31	1399
Green peas	99.95	0.03	0.00	0.03	1682
Okra	99.82	0.15	0.00	0.04	276
Onion	95.08	0.01	0.00	4.92	3875
Eggplant	96.78	0.04	0.00	3.18	1682
Olive oil	82.93	9.91	0.00	7.16	430
Artichokes	99.93	0.07	0.00	0.00	72
Haricot	97.80	0.08	0.00	2.13	2490
Green Beans	99.79	0.01	0.00	0.20	1243
Apples	99.59	0.01	0.00	0.40	19125
Apricot	99.00	0.03	0.00	0.97	8296
Pears	99.94	0.01	0.00	0.05	10165
Peaches	99.47	0.04	0.00	0.50	3471
Cherries	63.95	0.04	0.00	36.01	10392
Prunes	99.44	0.10	0.00	0.46	6326
Oranges	97.33	0.01	0.05	2.61	16093
Lemons	82.44	0.77	0.00	16.79	572
Mandarins	97.57	0.03	0.16	2.25	13088
Grapes	99.44	0.04	0.00	0.51	26585
Quince	100.00	0.00	0.00	0.00	145
Pomegranate	99.33	0.00	0.03	0.64	1281
Liquate	100.00	0.00	0.00	0.00	24
Water melon	98.61	0.16	0.00	1.23	8422
Musk melon	99.66	0.02	0.00	0.32	15489

Source : Customs Department, NAPC and authors' calculations

The specialisation of Syrian horticultural exports on the Arab markets is understandable, given the geographical proximity and the cultural and economic links

between Syria and other countries in the Arab region. Complementary, the lack of Syrian presence in the European markets can be understood by the severe competition between suppliers from all parts of the world on one hand and subsidies offered by EU producing countries and the strict specifications applied on imports on the other. However, as a Mediterranean partner, the practical absence of Syrian products in the European destinations should not be taken as a normal fact. Syria should reach a better competitive position in the most solvent EU markets, by moving towards a more diversified export structure, including the Central and Eastern European countries, which will shortly become EU Member States.

The fact that Syrian products do not account for a significant share of the EU markets must lead us to reflect about the possible constrains for Syrian horticultural export development. This document will make a reference to a number of forces, mainly related to (i) the weak expectations linked to protectionist EU commercial policies (see Chapter 4); and (ii) the lack of adaptation of the Syrian produce to the recent developments in the marketing of fruit and vegetables in industrial economies (see Chapters 3 and 5).

2.3 Seasonal import behaviour

In order to complete the quantitative characterization of the EU market for fruit and vegetables, let us consider the seasonal behaviour of EU imports. Table 2.3 shows the quarterly distribution of EU imports of specific horticultural products between intra-EU and extra-EU sources. The EU trade role as a major actor in world horticultural trade has to be qualified by the fact that in some periods of the year the EU market seems to be more open to foreign trade than in other periods. Several comments emerge from the observation of this seasonal pattern:

- i. For most products, the EU imports show a marked intra-trade nature, being the EU Member States the main suppliers of fruit and vegetables to the own EU market.
- ii. Total EU imports show a seasonal pattern that is frequently (but not always) associated with higher availability of product from intra-EU suppliers (in turn related to the producing seasons).
- iii. For most products, supplies from extra-EU sources significantly reduce in some quarters of the year, being imports substituted by intra-EU sources. This seasonal pattern of import substitution is particularly clear for some products, such as: tomatoes (spring-summer), potatoes (summer), lemon (winter), table grapes (summer-autumn), apples (autumn), apricots (spring), cherries (summer), pears (summer-autumn), plums (autumn), peaches (summer) and onions (summer).

Table 2.3 Structure of EU imports by quarter (1998-99 average)

Products and quarters	Quantities 000 Mt			Percentages of total		
	Extra EU	Intra EU	Total	Extra EU	Intra EU	Total
Tomatoes						
1	109,0	434,6	543,6	20,0	80,0	100
2	9,1	453,1	462,3	2,0	98,0	100
3	0,9	349,7	350,6	0,3	99,7	100
4	84,5	360,6	445,2	19,0	81,0	100
Potatoes (excl.. seed)						
1	225,5	1098,6	1324,1	17,0	83,0	100
2	204,1	1094,7	1298,8	15,7	84,3	100
3	1,6	949,8	951,4	0,2	99,8	100
4	10,4	1208,3	1218,6	0,8	99,2	100
Oranges						
1	438,0	1274,2	1712,1	25,6	74,4	100
2	376,1	573,7	949,8	39,6	60,4	100
3	566,1	342,9	909,0	62,3	37,7	100
4	363,9	1006,7	1370,6	26,6	73,4	100
Clementines						
1	109,1	474,3	583,4	18,7	81,3	100
2	53,3	62,8	116,0	45,9	54,1	100
3	42,6	25,4	68,0	62,7	37,3	100
4	76,6	495,5	572,1	13,4	86,6	100
Lemon						
1	9,3	111,8	121,1	7,6	92,4	100
2	23,1	127,0	150,1	15,4	84,6	100
3	95,6	102,7	198,3	48,2	51,8	100
4	47,5	105,7	153,2	31,0	69,0	100
Grapefruit						
1	128,2	46,0	174,2	73,6	26,4	100
2	107,1	50,6	157,7	67,9	32,1	100
3	80,5	45,4	126,0	63,9	36,1	100
4	105,4	42,8	148,2	71,1	28,9	100
Table grapes (Fresh)						
1	116,4	61,8	178,2	65,3	34,7	100
2	93,1	54,1	147,2	63,2	36,8	100
3	33,7	231,5	265,2	12,7	87,3	100
4	42,2	277,9	320,0	13,2	86,8	100
Apple						
1	79,6	421,0	500,6	15,9	84,1	100
2	422,5	418,2	840,7	50,3	49,7	100
3	169,7	383,7	553,4	30,7	69,3	100
4	59,5	540,5	600,0	9,9	90,1	100
Olive oil						
1	28,1	152,4	180,4	15,5	84,5	100
2	46,4	69,2	115,6	40,1	59,9	100
3	54,4	119,8	174,2	31,2	68,8	100
4	38,4	109,8	148,3	25,9	74,1	100
Apricots						
1	1,1	2,2	3,4	33,6	66,4	100
2	0,5	47,2	47,7	1,1	98,9	100
3	4,2	59,1	63,2	6,6	93,4	100
4	2,5	4,4	6,9	36,8	63,2	100

Products and quarters	Quantities 000 Mt			Percentages of total		
	Extra EU	Intra EU	Total	Extra EU	Intra EU	Total
Cherries						
1	0,2	1,1	1,3	15,0	85,0	100
2	12,8	24,0	36,8	34,8	65,2	100
3	53,7	30,6	84,3	63,7	36,3	100
4	1,6	2,6	4,2	37,7	62,3	100
Pears&quinces						
1	106,1	136,7	242,8	43,7	56,3	100
2	159,1	130,9	290,0	54,9	45,1	100
3	14,4	139,0	153,4	9,4	90,6	100
4	12,8	159,6	172,4	7,4	92,6	100
Plums						
1	40,1	10,1	50,2	79,9	20,1	100
2	9,0	25,2	34,2	26,4	73,6	100
3	18,5	73,4	91,9	20,1	79,9	100
4	5,1	21,8	26,8	18,9	81,1	100
Peaches						
1	7,6	11,5	19,0	39,8	60,2	100
2	2,6	140,7	143,3	1,8	98,2	100
3	2,0	411,3	413,3	0,5	99,5	100
4	3,3	90,4	93,6	3,5	96,5	100
Onions & Shallots						
1	63,8	174,2	238,0	26,8	73,2	100
2	182,7	204,0	386,6	47,2	52,8	100
3	17,7	198,9	216,6	8,2	91,8	100
4	26,8	149,9	176,7	15,2	84,8	100
Garlic						
1	19,6	16,4	35,9	54,4	45,6	100
2	8,3	16,0	24,3	34,1	65,9	100
3	11,7	20,5	32,2	36,3	63,7	100
4	8,3	17,2	25,5	32,4	67,6	100
Other vegetables						
1	75,4	1181,0	1256,4	6,0	94,0	100
2	78,6	1111,0	1189,5	6,6	93,4	100
3	49,0	763,6	812,7	6,0	94,0	100
4	73,7	957,5	1031,2	7,1	92,9	100

Source: COMEXT data base and authors' calculations.

- iv. For some products (eg. tomatoes, potatoes, clementines, lemons, grapefruits, apples, apricots, cherries, pears and onions) total imports show a seasonal behaviour. Thus, the fact that intra-EU products take a larger share of the EU market is not incompatible with the increase of extra-EU imports in the peak seasons, that is to say, higher imports from intra-EU sources can also be accompanied to higher imports from extra-EU suppliers.
- v. The share of intra-EU sources in total EU imports is always significant along the year, and not below the 20 per cent for products considered in Table 2.3.

Summarising, import substitution mainly contributes to explain the relative drop of extra-EU imports in some quarters of the year. Availability of intra-EU product remains significant along the whole year. This could be partly explained by the border protection applied by EU commercial policies, although as we will see later, the distribution firms

in the EU might tend to privilege certain domestic sources due to their better involvement in the modern marketing chains. However, in spite of the identified import substitution pattern, the EU market is not completely closed to the foreign competition. This is not only true for the periods of the year where there is a relative lack of EU domestic production but also for some products and periods when higher domestic production overlaps with significant extra-EU imports.

Annex 3 contains a more detailed table with the exported volumes by selected EU and Mediterranean partners for specific periods. The tables in the quoted Annex allow for a more detailed identification of the “windows” open by the EU market in specific periods of the year. For instance, 98% of potatoes originated in extra-EU countries are imported between 1 January and 15 May. In addition, Annex 3 tables, based on the COMEXT database, indicate the peak seasons for exports originated in EU Member States. For example, 42 per cent of the Dutch exports of tomato are between 1 June and 30 September, though Netherlands also registers exports between January and March (18%) and between November and December (13%).

“Competition” might be then the word that better reflects the EU market for fruit and vegetables. It can be a limited competition, which excludes a part of the extra-EU supplies in some periods of the year. Or it is a more open competition in those periods of the year when foreign products coexist in the EU market with domestic supplies. In both cases, EU horticultural markets are fully supplied, all the year round, with foreign and with domestic products. Modern marketing organisation, logistics, transport and post-harvest technologies are contributing factors to this increased competition.

This situation raises the question on the market opportunities that Syria could exploit in the future. Perhaps one way of looking at this question is considering the position of other Mediterranean countries at the EU Market (Table 2.4). Mediterranean countries have reached significant market shares of the extra-EU import market, for specific seasons. That is the case of Egyptian potatoes (8,3 per cent of the EU imports on the first quarter); of Moroccan tomatoes (18,6 per cent and 17,7 per cent on the first and fourth quarters); of Moroccan clementines (9,1 per cent and 8,5 per cent on the first and fourth quarters); of Moroccan oranges (8,2 per cent and 11,6 per cent on the first and the second quarters); of Turkish grapes (7,3 per cent and 5,5 per cent on the third and fourth quarters); of Turkish cherries (16,6 per cent and 12,9 per cent on the second and the third quarters); and of Egyptian garlic (5,1 per cent on the second quarter)⁴.

Two comments emerge from these examples.

- (i) Provided that market access concessions are granted by the EU, Syria should aim at improving its market share, as other Mediterranean countries have done, taking advantage of certain periods which do not correspond with the main harvesting seasons in Europe. Trade barriers applied by the EU on fruits and vegetables (see Chapter 4) do not appear to be major or prohibitive constraints on the aforementioned countries’ exports to the EU. And,

⁴ Similar identification of EU import flows from Mediterranean partners can be made by looking at Annex 3, where trade data are displayed for more specific periods (normally corresponding to the chapters of the complex EU tariff schedule).

- (ii) Even with improved market access for Syrian exports, competition will be fierce. This is illustrated by the significant share of the market accounted for by other intra-EU and extra-EU countries (which are not necessarily preferential countries). For some products and seasons, the possibilities for Syria to improve its market share in the EU total imports are limited by the significant import substitution by intra-EU sources (intra-EU share over 85 per cent). This is the case for tomato (second and third quarters), potatoes (third and fourth quarters), clementines (fourth quarter), table grapes (third and fourth quarters), apples (fourth quarter), cherries (second and third quarters), onions (third quarter) and other vegetables (all the year round). It is unlikely that Syria will be able to export to the EU significant volumes in these seasons. Possibilities for Syria to enter the EU market are more likely during the same periods of the year when other Mediterranean countries have also a presence in the EU market.

Of course, one might wonder about the main determinants of the EU seasonal import pattern. Broadly speaking, climatology matters, but we cannot consider it as the only factor creating seasonal windows in the EU market. It is worth mentioning here the seasonal behaviour of the EU trade policies on fruits and vegetables, which will be the main focus of the next chapter.

2.4 Chapter summary and conclusion

The present chapter has described the main quantitative trends in world and EU fruit and vegetable trade. Moreover, has considered the competitive position of Syrian exports. Trade data reveal the fact that the considerable good export performance of Syrian fruit and vegetables has not been achieved by taking advantage of one of the most important markets in the world: the EU. By contrast, Syria remains overspecialised in non-EU destinations, which is partly due to the logical commercial, geographical and cultural links with countries in the Arab region. However, Syrian export strategy must point to an export diversification to the EU, which also allows for an upgrading of the value added generated by the fruit and vegetable production and marketing. In spite of EU protection policies, the EU import market is already opening interesting opportunities for extra-EU suppliers. Most of these opportunities rest on a seasonal behaviour. Syria might take advantage of such seasonality, as other MCs have been able to do. Therefore, this general overview reveals the existence of windows on the EU, which should become targets for Syrian fruit and vegetable exports. The analysis in this chapter can provide some hints, extracted from trade data. However, market analysis must become a priority of Syrian export promotion bodies. Moreover, market analysis has also to consider the particularities of each EU Member State, which have not been studied in detail in the present study⁵.

⁵ For the preparation of the present report, Excel tables were elaborated with import data for specific product and major EU Member States (France, Germany, UK and Italy). These data are available upon request to the authors.

Table 2.4 Share of specific countries in total EU imports for selected fruits and vegetables

Products	Syria	Morocco	Egypt	Turkey	Other non EU	Intra EU	Total EU Imports
Tomatoes							
1	0,0	18,6	0,0	0,1	1,3	80,0	100
2	0,0	1,4	0,0	0,1	0,6	98,0	100
3	0,0	0,0	0,0	0,0	0,2	99,7	100
4	0,0	17,7	0,0	0,3	1,0	81,0	100
Potatoes Exl seed							
1	1,0	2,6	8,5	0,1	4,8	83,0	100
2	0,4	1,8	3,9	0,0	9,6	84,3	100
3	0,1	0,0	0,0	0,0	0,1	99,8	100
4	0,1	0,0	0,0	0,1	0,7	99,2	100
Oranges							
1	0,0	8,2	0,3	2,4	14,7	74,4	100
2	0,0	11,6	0,4	0,5	27,0	60,4	100
3	0,0	0,2	0,0	0,3	61,8	37,7	100
4	0,0	4,0	0,0	5,4	17,1	73,4	100
Clementines							
1	0,0	9,1	0,1	3,1	6,4	81,3	100
2	0,0	3,7	0,0	0,1	42,1	54,1	100
3	0,0	0,0	0,0	0,1	62,6	37,3	100
4	0,0	8,5	0,0	4,3	0,6	86,6	100
Products	Syria	Morocco	Egypt	Turkey	Other non EU	Intra EU	Total EU Imports
Table grapes (Fresh)							
1	0,0	0,0	0,0	0,0	65,3	34,7	100
2	0,0	0,2	1,1	0,0	62,0	36,8	100
3	0,0	0,2	0,2	7,3	5,0	87,3	100
4	0,0	0,0	0,0	5,5	7,7	86,8	100
Apple							
1	0,0	0,0	0,0	0,0	15,9	84,1	100
2	0,0	0,0	0,0	0,0	50,2	49,7	100
3	0,0	0,0	0,0	0,0	30,7	69,3	100
4	0,0	0,0	0,0	0,0	9,9	90,1	100
Cherries							
1	0,0	0,0	0,0	0,3	14,7	85,0	100
2	0,0	0,0	0,0	16,6	18,2	65,2	100
3	0,0	0,0	0,0	12,9	50,8	36,3	100
4	0,0	0,0	0,0	0,2	37,5	62,3	100
Onions & Shallots							
1	0,0	0,1	0,7	0,3	25,8	73,2	100

	2	0,0	0,5	2,1	0,1	44,5	52,8	100
	3	0,0	0,1	0,3	0,1	7,8	91,8	100
	4	0,0	0,0	0,4	0,3	14,5	84,8	100
	Garlic							0
	1	0,0	0,0	1,7	0,1	52,6	45,6	100
	2	0,0	0,0	5,1	0,3	28,7	65,9	100
	3	0,0	0,7	0,2	0,2	35,2	63,7	100
	4	0,0	0,2	0,0	0,0	32,2	67,6	100
	Vegetables							
	1	0,0	0,5	0,4	0,4	4,7	94,0	100
	2	0,0	1,2	1,0	0,4	4,0	93,4	100
	3	0,0	0,0	0,0	0,4	5,6	94,0	100
	4	0,0	0,4	1,3	0,3	5,1	92,9	100

Source: COMEXT database and authors' calculations.

Chapter 3. Fruit and vegetable marketing in Syria

The previous chapter described the Syrian exporting position as an exporter of fruits and vegetables, with a severe specialization on AFTA markets, in particular on Saudi Arabia and the Gulf markets. These facts would not be perturbing if they were the outcome of a planned export strategy addressed to high-quality markets. However, our hypothesis is that typical target markets for Syrian exports of fruits and vegetables are usually acting as plain destinations of the domestic surplus. We could say that foreign markets may be considered as an extension of Syrian domestic markets.

3.1. Availability of supplies and price competitiveness

It is believed that a country willing must have availability of supplies as well as price competitiveness. As for availability of production, Syria is characterised by a variety of producing regions, which would allow to keeping export activities during different seasons.

An advantage for Syrian horticultural exports stems on the variety of the producing regions, which favours the assortment of products during different seasons. The apple production provides a good example of such variety. Thus, apples are harvested in three main producing areas: the Southern regions, particularly Sweida and Damascus, where about half of the Syrian production is located, with favourable conditions due to the high altitude; the Homs province, in particular the area around Kafarram, although with lower altitude; and the Coastal region, around Tartous. Potatoes represent another example of geographical complementarity. The Centre-North region (Aleppo, Idleb, Hama and Al Ghab) accounts for 70 per cent of early season potatoes and 85 per cent of the fall season potatoes, while 75 per cent of the summer potatoes are produced in the Damascus area. Production of other fruit and vegetables present a more marked regional specialisation. For example, most of the production of greenhouse tomatoes and citrus fruit concentrate on the Coastal region. As for citrus, production relies on oranges and mandarins (satsumas and clementines) rather than on lemon and grapefruit, which present limited production.

The expansion of specific crops depends on their relative profitability as well as on the specificity of the investments. Thus, fruit planted area is relatively stable, responding to long-term investment decisions. Greenhouse tomato is also based on relatively heavy investments. Open air vegetable area is more variable and would make it difficult to adapt to long-term planning. However, the annual character of this crop makes it easy for the cultivated area to respond with flexibility to market signals.

One important aspect to assess the potential profitability of fruit and vegetables in Syria is the one related to their relative price advantages. To assess the natural price advantages of the Syrian at the farm level, it is useful to compare Syrian prices with farm prices of specific EU countries. Annex 4 shows the results of such exercise, which carries out farm price comparisons between Syrian and selected EU member countries for 17 products. Comparisons were based on the average monthly prices for the 1998-2000 period. Annex 5 indicates the specific months of the year when Syrian farm prices were below farm prices in some EU Member States for the studied products (taking the

1998-2000 averages). Price comparisons are carried out on a monthly basis because Syrian advantage or disadvantage may exist only for given months. It is worth noting that the exercise only supplies a partial picture of the price competitiveness of the Syrian production because the real comparison should be at the same marketing level (target markets), taking into account all the costs of transport, packaging, duties and commissions. However, it would be expected that Syrian products should be cheaper than prices in EU countries, at least at the farm level.

Table 3.1 Months when average Syrian farm prices have undercut farm prices in selected EU countries (1998-2000)

Product	Germany	Spain	France	Italy	Netherlands	Frequency (*)
Apples			1-4, 8, 11, 12			0.13
Pears			9, 10		6	0.06
Oranges	n.d.		n.d.	1, 2, 11, 12	n.d.	0.22
Mandarins	n.d.		n.d.	1, 2, 12	n.d.	0.42
Lemons	n.d.		n.d.	2, 9-12	n.d.	0.21
Grapes	n.d.	7-11	7-11	8-10	n.d.	0.87
Apricots	n.d.	6,7	5-7	6, 7	n.d.	0.88
Cherries	6, 7	5-8	5-7	6	n.d.	0.91
Cauliflower	5-10, 12	1-12	n.d.	1-3, 10-12	1 - 12	0.82
Cucumber	6-9	2-12	n.d.	6-9	n.d.	0.90
Potatoes		2-5		5-6	5	0.37
Onions	6-9	1-3, 7, 12	1-12	1-4, 7-12	n.d.	0.67
Cabbages		1-12	n.d.	n.d.		0.33
Peaches	n.d.	6	6-9	6	n.d.	0.40
W. Melons	n.d.	5-10	n.d.	7, 8	n.d.	1.00

Sources: CBS, NewCronos and authors' elaboration

(*) Out the total of prices recorded, it is the frequency of times when Syrian prices undercut prices in the EU countries considered. Months are referred to by numbers, eg. January = 1,.....December = 12.

Table 3.1 summarises the main results of the comparison, including the months of the year when recorded Syrian prices undercut recorded prices in EU countries. Last column of the table refers to the frequency of months when Syrian prices have undercut prices in the EU countries and products considered. Thus, Syrian farm-price competitiveness appears to be apparent for some products such as grapes, apricots, cherries, cauliflowers, cucumbers and onions, products for which Syrian prices were below the registered EU prices in more than 60 per cent of the studied periods. For potatoes, peaches and mandarins, Syrian prices are competitive on over 1/3 of the observations. Note that this could be interpreted as a possibility for Syrian products to take advantage of relative low prices during certain seasons. For potatoes, for example, Syrian farm-prices appear to be lower than Spanish prices between February and May and than Italian prices for May and June. In fact, export opportunities to arise in the EU will likely be the result of Syrian exporters exploiting market opportunities that arise as a result of product availability and price competitiveness during certain seasons or period of the year. This may mean that Syrian harvest could fill market windows, slightly ahead or after the main harvest seasons for the EU producers.

Price comparisons carried out at the farm level have to be qualified by the following considerations:

1. Comparisons are useful to identify products and seasons for which Syrian prices are below producer prices in some EU Member States. Thus, for example, we can see that Syrian oranges might show price advantage against Italian oranges in some months, but not against Spanish oranges. Therefore, the information identifies which EU Member States could be the most problematic competitors. However, we have been more careful in making statements about “for how much” there appears to be a relative Syrian price advantage or disadvantage. This is due to the fact that competition is mainly carried out at the market of destination, which means that apparent price advantages at the farm level can easily be neutralised by marketing and logistic costs from the production locations to the target markets. Such costs may account for around 2/3 of total value of fruit and vegetables at the markets of destination.
2. Some prices are calculated as averages, which include products of different qualities. Moreover, while Syria can show price competitiveness in some products, there is still a long way to go for the improvement of their quality in order to meet the standards demanded by the European distribution (see Chapter 5). Producer prices do not make any difference where quality becomes the real constraint on foreign marketing. In addition, some of the main important Syrian fruit and vegetables are highly perishable products. Thus, for instance, tomato is a delicate and a very perishable good, and must be handled with care, with packing in the same producing region. Similar comments apply for other products. Potato is also a delicate product which cannot be stored for long, although Syria has exporting tradition to the EU for some varieties Nicola, Diamond and Spunta. As for grapes, while production costs are relatively low, compared to those in Europe, they present the problem of handling to avoid damages to quality. Complementary, it is not clear that the colour and sweetness of red grape varieties is intense enough to suit the European tastes.
3. Table 3.1 indicates that if price advantage may appear for some periods, these might be short. The fact that the commercial season may be short in the EU for some products (eg. mandarins) plays against partners with marketing and logistical problems. For some products, competition is fierce in the European countries in some periods.
4. Competition exists from other MCs. As for oranges, for instance, Syria would have to compete with Turkish orange production that might be enhanced by the GAP irrigation project. Possibilities for off-season production could mainly be covered by Valencia varieties, but the production is still limited.

Note that extended harvesting seasons, ability to get product from different regions and price competitiveness do not guarantee by themselves export success. First of all, market access in the EU has to be guaranteed for the seasons when Syria is able to offer product.

Secondly, the Syrian marketing organisation has to be efficient enough to meet the market specifications by the consumers and modern distribution in the EU. As will be argued in the next pages, the present situation does not assure both conditions.

Future prospects for available exportable surpluses will depend on the domestic consumption and population growth⁶. However, the question is not whether or not there are exportable surpluses in Syria. Low consumption or inefficient domestic marketing may push prices down, making profitable exports rather due to domestic overproduction (and low prices) than to a specialised business oriented export activity. Therefore, the real matter refers to the possibilities for developing such kind of activities in Syria, independently of short-term fluctuations of the domestic supply balance sheet. The fact that Syria enjoys export capacity is evident. That this is compatible with an export oriented business environment remains the matter of discussion. These considerations are relevant for the present study. Even with favourable EU trade policy terms as the result of the Association Agreement and with availability of domestic production for exports, the possibilities for export success will be unlikely if Syria is not able to develop an export oriented sector. This is needed to meet the strict requirements for high, uniform quality fruits demanded by the agents of the large supermarket chains, on a regular basis. But does export marketing responds to a planned business strategy in Syria?

3.2 Marketing organisation

Several studies have undertaken the analysis of the marketing organisation of fruit and vegetables in Syria (Westlake, 2000, Rama, 2000, SEBC, 2000). All of them agree on the idea that the horticultural exporting activity in Syria rarely respond to long-term strategies. Moreover, the exporting activities seem to be characterised by fragmented marketing channels, where operators tend to act in an individualistic way and market information is a valuable, but not a shared asset by the different chain actors. The result is a huge distance between the producer and the consumer, with little feed back on quality, which is a serious problem for marketing in Western and Central Europe.

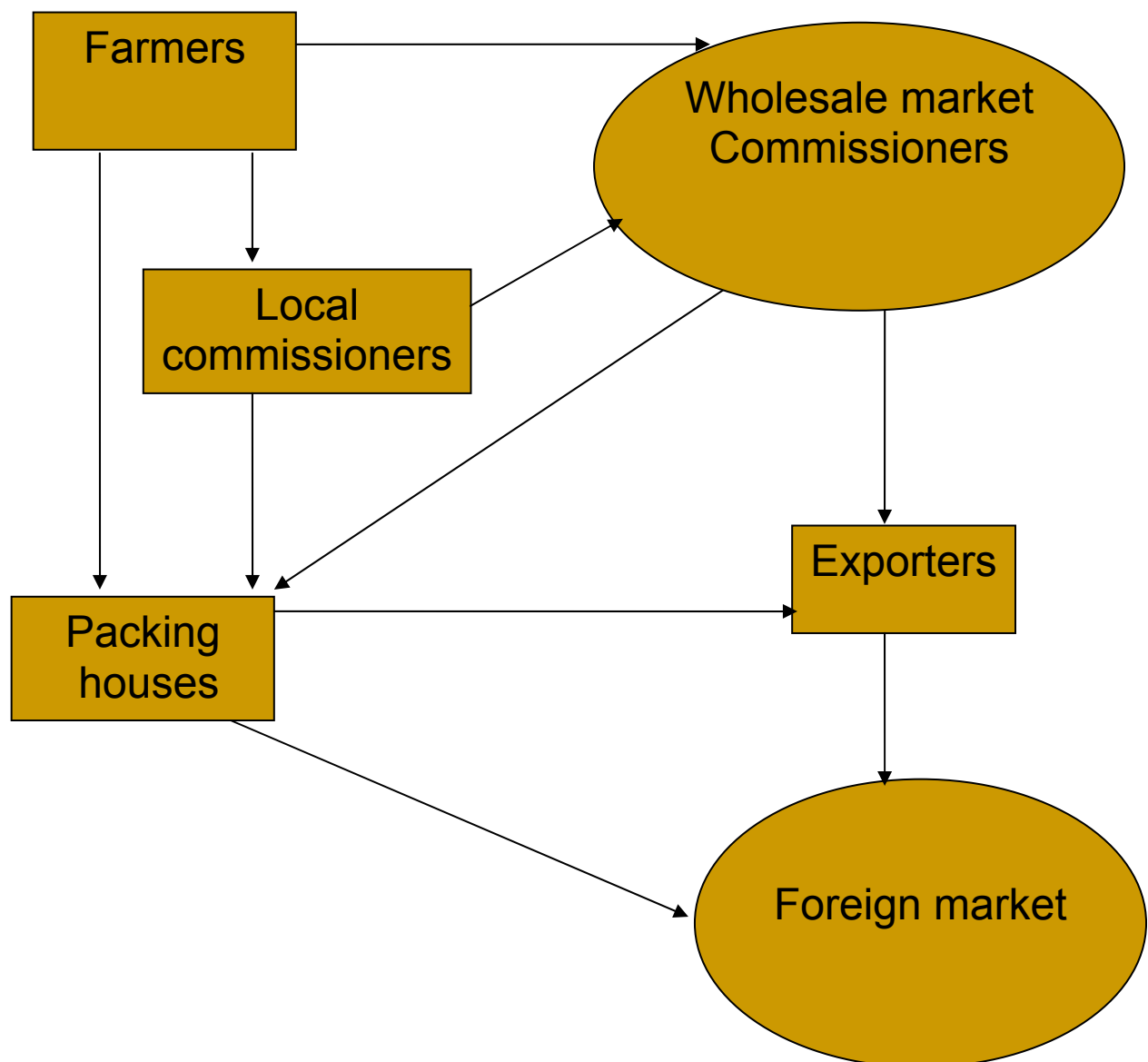
The exporting activities are usually encouraged by the existence of family relations between Syrian exporters and operators in the countries of destination, which partly explains the relative specialisation on Saudi Arabia and Gulf markets. Exports aim at traditional outlets through the wholesale markets. In a sense, foreign markets become an extension of the domestic market, with the use of commission agents for these markets in a similar way they are used in the domestic market. Exports frequently respond to prices fluctuations in targeted markets and to the expectations about future price developments. This does not mean that the high-quality market is absent in Saudi Arabia and the Gulf States. However, markets in these countries are segmented and provide a channel for lower qualities for sale mainly through traditional retailers. Syrian exports directly point to this channel, which is heavily characterised by price instability (sometimes due to price increases followed by large export volumes pushing prices down some days later). High temperatures and lack of access to cold storage at the Gulf

⁶ The development of consumption of fruit and vegetables in Syria is directly related to demography.

markets contribute to increase the pressure on the selling prices. This may partly explain why typical horticultural exporters to the Gulf tend to ship mixed 17-18 ton truck loads of fruits and vegetables, which allows to spreading price risks as well as reducing excess of capacity in the packing houses. The unit size of lots is often small and consignees may be many. This makes the supplies less interesting for importers. Export marketing has also become a speculative activity, partly related to the returns of the foreign exchange conversion privileges, in the framework of the system of import-export trade currency balance. Little steps have been taken for long term strategies to stabilise sales based on long-term programs.

The procurement of fruit and vegetables by the exporters is illustrated in Figure 3.1, where the main point lies in the fragmented nature of the marketing chain, which makes it difficult to transmit the market signals from the demand to the supply.

Figure 3.1 Organisation of the Syria marketing of fruit and vegetables



Exporters either purchase fruits and vegetables directly from farmers or, alternatively, from wholesale markets. Farmers' production may be sold through local commission agents (collectors that usually own a lorry) or directly to the packing houses, to the exporters (who may subcontract the packing facilities) or to the wholesale market. There are a few dozens of packers who export directly, operating outside the wholesale markets. However, most exports are traded by non-specialized operators, who very often make their purchases at the Souq el Hal (see below). In a way, for them the export market acts as an extension of the domestic marketing and very often the traders selling to inside Syria are the same who export.

Wholesale markets for fruit and vegetables are the Souq el Hal, which exist in several governorates. In Damascus Souq el Hal, around 400 traders operate, of which about 50% are commissioners and 50% wholesalers or semi-wholesalers. Normally, at the wholesale market the commissioner makes a partial sorting of products. Only for export, there is a need to sort more strictly, but the final sorting has normally to be made by the exporter. There is a Commission in the Souq which provides the needed permission for traders willing to sell for exporting, but quality and price control are very limited. A system of monitoring the access of products on the market does not exist (neither quality control nor traders' declarations). There are no a publicly available information on prices (although they are monitored by the Ministry of Supply). Market lacks transparency and the marketing system can be seen as inefficient. Lack of proper quality assurance and grading increases the rate of rejects in destination markets.

Markets lack of price transparency. No price information is publicly disseminated to the traders across the marketing chain. There is also lack of information about production costs and available data is only approximate. In addition, information about the number of exporters is not clear, although an estimative figure could be a few hundred. The system does not allow for an efficient export chain. Exporters are not in full control of the quality of the products and direct contacts with producers are not the rule. Even when exporters buy directly from farmers, products may not be graded effectively at the farm, and this frequently involves the need for double handling or rejections of non-exportable qualities.

The situation could be improved by building a supply chain that shortens the relation between the farmers and the exporters. It is clear that the present atomization of farm and trade structures in Syria does not favour this. In a sense, the paradox would be that a concentration of actors may be needed to improve the efficiency of the marketing chain, that is to say, to strengthen the links and the information flows between the different agents. Experience in Syria with large trading companies has not been satisfactory. The already partially deactivated state-owned General Company for Fruits and Vegetables (GCFV) left a bad memory in the sector. The GCFV was created in the late 70's with the intent of rationalizing the procurement and distribution of fruits and vegetables at the national scale, with large scale facilities which were infrequently used. The quality of products sold in its shops was generally low.

The experience of this GCFV as well as the relative identification of co-operatives with a lack of business management remain as psychological barriers that hinder the formation of large companies, with participation of the growers. At present, atomization of the trading sector is patent in Syria, although there are some positive moves to the

creation of bigger organizations (see box 3.1). This is a “must” of the Syrian exporting of fruit and vegetable as it will be clear in Chapter 5.

Box 3.1. The Faihaa Al Sham Company for Agricultural Products Marketing

The Faihaa Al Sham company was set up two years ago under Investment law n° 10, with the intention of starting a business oriented export activity, specialized in fresh fruit and vegetables. The Company aimed at concentrating supply and creating a supply chain for products specifically addressed to export markets, with a long term marketing strategy. The nominal capital of this company amounts to 400 million S.P, of which has been collected through agreements with a number of partners (the Federation of Chambers Agriculture, the Union of Peasants and other shareholders, including private operators, producers and exporters). The company hasn't started its actions yet; it is still in foundation phase, but it is foreseen to begin in the earliest next year.

The company's strategy will be based on the offer of:

- Variety: peculiar types of fruits and vegetables that foreign markets demand, but are not supplied in the requested quantity by the company's competitors (niche products).
- Timing: ordinary fruits and vegetables that foreign markets demand but are not available locally (mass products).

The company's range of products is to consider the regular utilization of the factory's production capacity throughout the 12 months of the year. This is based on the previous identification of specific demand regarding peculiar varieties of vegetables and fruit, to enhance the production of such crops among Syrian farmers and to export them to the targeted foreign markets. Offices and production premises will be located in Damascus. New branches in Syria cities other than in Damascus will be opened according to logistic and marketplace opportunities and sized accordingly. Three major company's challenges are: first, the insertion of the company in the marketing chain, including promotion and direct links with target markets and customers, away of the low-priced end of the market (see Chapter 5); second, the procurement policy, which relates to stable arrangements with producers and with packing facilities located in the major producing areas (apart from the main facility to be built in the Damascus area); this will minimise the amount of low-quality fruits through good agricultural practices under company's control, and direct moving from the packing houses to the target market, avoiding double handling. Third, the way growers will respond to the specifications of the company, considering the bad experience left by the GCFV, which could slow the trust on a new big company. This problem can be overcome if the new company is conducted as a business oriented organisation.

3.3 Logistic considerations

Present studies in Syria suggest that transport costs of fruit and vegetables represent a heavy constraint, mainly on exports to EU destinations. The costs of delivery from a packing house in Syria to the international markets (including trading commissions, transport and other marketing costs) may account for very high percentages of the price at the market of destination (between 40 to 70 percent). Marketing margins of intra-EU supplies seem to be lower, due to the good transportation facilities in Europe (e.g.

deliveries can be made by truck in less than one day from Southern European producing areas to Northern European markets) and to the operation of the European Single Market.

There are many Syrian trucks (about 1500) for shipping fruit and vegetables to Europe. This fleet is reported by exporters to be just adequate in capacity for the current total level of fruit and vegetable exports. All exports must transit Turkey, which levies transit fees. Exports normally take about 7 to 10 days to Central Europe, but the prices are high (4000-5000 \$ for 20-22 ton trucks) included all fees through the borders, and with difficulties for drivers to obtain EU visas. Syria has disadvantage with respect to Turkey, due to the longer distance to Europe and the Turkish refrigerate trucks are relatively more modern.

Syria signed the Transport Internationaux Routiers (TIR) agreement in 1999. However, the agreement has yet to become fully operational due to the need for Syria to finalise domestic administrative arrangements for enforcement. Implementation of the TIR agreement will reduce transport costs to Europe and Russia, since Syrian trucks will not be subject to separate transit fees through each country. However, many trucks are owned by individuals, and cumbersome administrative procedures restrict the freedom of exporters to select the most adequate individual carrier⁷. Moreover, many trucks are relatively old, and this leads to damage of shipments. At present, it is possible to import trucks up to an age of five years, which will allow for importing more modern trucks that comply with TIR specifications.

Shipments to Northern Europe should be made by sea in refrigerated containers or by air transportation. Shipping prices from Latakia to European ports range from 410 \$ (20 ton containers to Pyreus) to over 900 \$ (40 ton containers to Hamburg, Barcelona and other European ports). Prices are higher from Tartous, where the Syrian European Line Company executes one voyage per two weeks with prices just about 1200 \$ (20 ton container) to 2240 \$ (40 ton container). It seems clear that the possibility for reducing costs will depend on the availability of containers, which in turn will depend on Syrian total trade of refrigerated products. As for air transportation, this can be carried out through the Syrian Arab Airline Company, although trips only pay off for high-value shipments. For instance, charter flights for carrying fruits and vegetables charge up to 0.5 US\$ per Kg.

3.4 Chapter summary and conclusion

Present chapter's analysis suggested that exporting fruit and vegetables in Syria has not been considered an activity essentially different from domestic marketing. There are, of course, a series of conditions which contribute to make exports possible (availability and variety of products and producing regions, extended harvesting seasons and farm price advantages). The appearance of domestic surplus in Syria, which may often be seen as a sign of overproduction, normally finds its exit through the foreign marketing to neighbouring countries in the Arab region. While the natural resource base could

⁷ Individual transporters are included in a selection list, which means that the first eligible carrier might not fit the trader wish.

represent an interesting framework for building export oriented businesses in Syria, current marketing organisation appears fragmented and with evident inefficiencies. The wholesale markets play a role in bridging the marketing gaps, but instead of facilitating the backward information flows along the marketing chain from consumers to growers, they are hardly efficient for cost control and quality monitoring. While the total number of traders in the country is significant, the number of export-oriented traders is relatively small and when they exist, they do not offer regular volumes in the large amounts required by the modern distribution. In addition, they frequently fail to be in full control of the product quality from the field. Furthermore, problems linked to logistics and transport costs amplify market disorganisation. Market transparency could improve by creating mechanisms for price information, promotion of quality standards and better co-ordination between actors. Government action could take these as priority areas, though perhaps what it is needed is a shift in actors' mentality, which can be achieved through adequate training along all the levels of the marketing chain.

Chapter 4. The “windows” opened by the EU trade policy

A necessary condition for Syria to develop an export strategy towards the EU horticultural markets rests on enjoying market access. At the time of drafting the present report, negotiations to sign an Association Agreement with the EU were still ongoing (after nine rounds of negotiations). However, looking at the experience of other Mediterranean countries, which already have finalised their negotiations and signed agreements with the EU, may be of use to understand the kind of outcomes to be expected for Syria out of its negotiation with the EU.

A previous technical author’s report on the Syrian-European Association Agreement (see Garcia-Alvarez-Coque, 2001) made extensive reference to the kind of trade measures applied by the EU on the fruits and vegetables importing market. While a final settlement has yet to be reached between Syria and the EU, it seems clear that the EU will not open its market completely for Syrian agricultural exports. Nevertheless, we wonder whether or not there could be possible “windows” for Syrian products to take significant market shares at the EU. To answer this question we will first consider the EU commercial policies applied on fruit and vegetable imports; then we will move to the tariff preferences granted by the EU to several Mediterranean countries. This will allow us to check what would be realistic claims for Syria towards the EU. Finally we wonder if tariff preferences pay-off considering the administrative complexity in the management of tariff concession.

One possible conclusion of the analysis that follows is that tariff preferences may have only a partial impact on the potential Syrian trade to the EU. This is due to (i) the fact that preferences are usually limited to given quantities and calendars; (ii) the prevalence of the entry price system for some of the most important products for Syria; and (iii) the administrative burden, which affects the fruit and vegetable trade to the EU, in connection with the management of the tariff-quotas, the entry price system and other non-tariff measures. The potential for Syria for overcoming such remaining limitations will depend on the definitive shape of the new Agricultural Protocol that will be attached to the AA, but also on the technical ability of Syrian traders to face the considerable administrative burden involved in the EU trade regulations.

4.1 How the EU protects horticultural markets

Non-preferential countries willing to supply horticultural products to the EU are normally affected by import duties, basically calculated on *ad valorem* basis, and usually higher during the periods of peak domestic production. These have been significantly reduced under the Uruguay Round provisions. If the tariffs applied by the EU were only the *ad valorem* duties, cheaper supplies from non-EU exporters would easily access the EU market by gaining price competitiveness. Nevertheless, for a number of fruit and vegetables, the EU applies a system called “entry price” system, which penalises supplies that undercut a minimum import price (the “entry price”).

A detailed description of the entry price system can be found in Garcia-Alvarez-Coque (2001)⁸. When imports are valued above the entry price, only the *ad valorem* duty is charged. When import values are below the entry prices, but not more by 8 per cent below, an additional duty is charged which equals the difference between the entry price and the import price. If, however, the import price is lower than 8 per cent below the entry price, an additional tariff (called Maximum Tariff Equivalent, MTE) will be charged in addition to the *ad valorem* tariff. The entry price system is not only complex to apply from the administrative point of view. It just acts as a “minimum price”. When import prices are below 92 per cent of the entry price the size of the full tariff (MTE plus the *ad valorem* duty) can be considerable. Table 4.1 shows for how much a non-preferential import can be charged by significant percentages if the entry prices are not respected. In practice, the entry price system prevents imports from being sold on the EU markets below the entry price.

Table 4.1 EU Entry Prices and Tariffs for Selected Fruit and Vegetables

(a) Product	(b) Entry price (EUR/t)	(c) Ad valorem tariff	(d) MTE (EUR/t)	(e) $(b \cdot 0.92c + d) / b$ (in % of b)
Oranges (01.12.-31.03.)	354,2	16%	71	20,2
Lemons (01.11.-31.03.)	462	6%	256	55,5
Tomatoes (01.10.-31.10.)	625,6	14%	298	47,8
Cucumbers (01.06.-30.09.)	481,4	16%	378	78,7
Artichokes (01.06.-30.06.)	653,8	10%	229	35,1
Courgettes (01.06.-31.07.)	413,3	13%	152	36,9

Of course, the effect of the entry price system depends on the level of the entry prices, which varies along the year and it is higher during the seasons when there is significant European produce on the market. In the absence of preferential concessions, exporting countries to the EU may find two strategies to face the entry price system⁹:

- The first is coordination: Syrian administration might promote co-ordinated actions to avoid that Syrian exports are penalised for the additional charges that

⁸ See also Swinbank and Ritson, 1995 and Grethe and Tangermann, 1998.

⁹ We refer, of course, to “legal ways”. The entry price system seems to provide some opportunities for circumvention by the importer, either legal or illegal (see de Gorter and Martin, 1998).

would result from low-price supplies: quality improvement and then higher unit values could be a way of overcoming the penalty.

- The second way would base on exploiting seasonality, when products can be harvested at off-season periods. Syrian producing seasons are displayed in Annex 6, which shows the percentage of the production harvested in each month. Table 4.2 includes the entry prices by period of the EU tariff schedule and compares them with the percentage of the Syrian production harvested in the corresponding months. In addition, we include a column with the special (reduced) entry prices, agreed between the EU and Morocco.

Table 4.2 Entry Prices, periods of application and percentage of Syrian harvest

Product and period	Entry price	Entry price Morocco	% Syrian harvest in each period
Tomatoes from 1 to 30 April	1126		6
Tomatoes from 1 to 31 May	726		2
Tomatoes from 1 June to 30 September	526		50
Tomatoes from 1 October to 20 December	626	461	22
Tomatoes from 21 December to 31 December	676	461	2
Tomatoes from 1 January to 31 March	846	461	18
Cucumbers from 11 to end February	675	449	2
Cucumbers from 1 March to 30 April	1105		12
Cucumbers from 1 May to 30 September	481		75
Cucumbers from 1 October to 31 October	683		
Cucumbers from 1 November to 10 November	683		
Cucumbers from 11 November to 31 December	605	449	5
Cucumbers from 1 January to 10 February	675	449	6
Courgettes from 1 April to 20 April	692	424	7
Courgettes from 21 April to 31 May	692		18
Courgettes from 1 June to 31 July	413		40
Courgettes from 1 August to 30 September	488	424	15
Courgettes from 1 October to 31 January	488	424	15
Courgettes from 1 February to 31 of March	413		5
Oranges from 1 June to 30 November	354		18
Oranges from 1 December 31 May	354	264	82
Clementines from 1 November to 28 February	649	484	100
Mandarins from 1 November to 28 February	286		70
Lemons from 1 June to 31 October	559		10
Lemons from 1 November to 31 May	462		90
Table Grapes from 1 to 20 November	476		10
Table Grapes from 21 July to 31 October	546		71
Apples from 1 July to 31 December	457		55

Apples from 1 January to 30 June	568	45
Apricots from 1 June to 31 July	771-1071	95
Cherries from 21 May to 15 July	1254-1494	65
Cherries from 16 July to 10 August	916-1254	20
Peaches. from 11 June to 30 September	600-883	97

As it can be observed in the Table, most of the Syrian production of the considered goods overlaps with periods of the year when the entry price is in application. Note that tariff concessions normally in the Agricultural Protocols apply only on the *ad valorem* duties but not to the entry prices. For certain seasons, entry prices are lower, but they normally coincide with the peak seasons in the EU. Thus, for instance, entry prices of tomatoes are lower from 1 June to 30 September and this apparently benefits Syria, which concentrates 50% of total harvest in this season. However, competition from EU sources is also strong during this season (e.g. 41% of the Dutch exports and 50% of Italian exports to EU sources take place in the same season). Off-season exports to the EU would be of interest for Syria, but then in most products, entry prices tend to be also higher.

Some Mediterranean countries have reached agreements for reducing entry prices for certain periods of the year. Reduction of entry prices enables the countries concerned to supply products to EU markets at a price significantly below that of shipments originating from other countries. This is, for example, the case for Morocco showed in Table 4.2. Morocco is able to benefit from significant reductions that enables it to export to the EU at lower entry prices at seasons when there is a relatively lack of EU domestic production. For Syria would be relevant to get entry price reductions for some of its exported goods. Nevertheless, the arrangement with Morocco was partly adopted as a compensation for the loss of market derived from the EU tariffication process at the end of the Uruguay Round, which led to the introduction of entry prices for tomatoes, cucumbers and courgettes for periods of the year where the old reference price system was formerly not applied. Entry prices are also the result of the internal policy making process within the EU. Thus, Spanish tomato growers usually complain about the fact that entry prices are higher in April, when the Dutch production is entering the market, while they are lower in late autumn, when Spanish producers aim at taking advantage of the early season.

4.2 The windows opened to other Mediterranean countries

If we consider the AAs signed until now¹⁰, all of them contain an Agricultural Protocol with certain tariff concessions, which reach 100 per cent of the custom duties for a number of products. Syria will sign an Agricultural Protocol, which basically has the

¹⁰ The first country to sign an AA with the EU was Tunisia (1996), and its entry in force was in 1998. Entry in force for Morocco and Israel was in 2000 and with Jordan in 2002, while agreements with Egypt, Lebanon and Algeria have been signed but await ratification. Meanwhile, negotiations with Syria are still underway. The key issues of the agricultural dossier at the Euro-Mediterranean process are reviewed in Garcia-Alvarez-Coque (2002).

same formal structure to the Protocols attached to other Mediterranean partners' AAs, with specification of products covered, tariff reductions, and quantitative limits.

According to the Agricultural Protocols, EU import liberalisation will not be full, at least in the short-term. This is consistent with the Barcelona declaration (1995), which calls for a "progressive liberalisation of agricultural flows" between the EU and the Mediterranean Partner countries.

Normally, products affected by entry prices (see above) only benefit from a reduction of the *ad valorem* custom duty (eg. 16% for oranges, see Table 4.1). It is true that the Syrian-European AA will open a more optimistic scenario for Syrian traders than the current bilateral provisions, framed by the 1977 Co-operation Protocol. Annex 7 includes a comparative study of the quantitative restrictions applied on fresh fruits and vegetables in the AAs signed with Morocco, Tunisia, Jordan, Egypt and Lebanon. A summary of this comparison is presented in Table 4.3. As observed in the Table, many tariff concessions are granted under quantitative limits in the form of tariff quota or reference quantities (these are only indicative and they only become tariff-quota in rare cases). In some cases exports in excess of tariff quota (or eventual tariff quota resulting from the conversion of reference quantities) are not eligible for any tariff reductions. In other cases lower tariff reductions apply to exports exceeding the tariff quotas. Some of the TRQ and reference quantities have been increased by four equal steps of 3 per cent annually during the first four years after the AA was concluded.

The Commission approach is to base tariff concessions on traditional flows. The political logic for this is to soften the impact of liberalisation of agricultural imports on EU domestic markets. Once we depart from a full liberalisation scenario, the question for Syria is whether or not quantitative limits would be very strict for the Syrian exporting potential. It is clear that, for the Syrian case, limits should not be based on traditional flows, which have been close to zero and there would be little room for facilitating export growth to the EU. A door should be open to a more flexible interpretation of the "traditional flows" approach and, therefore, to the implementation of non-binding limits to Syrian exports.

The calendars and tariff-quota presented in Table 4.3 can also be seen as possible "windows" for Mediterranean partners. The opportunities for Syria of the AA will depend on (i) the final shape of the Agricultural Protocol, still under negotiation; and (ii) the availability of Syrian product, in quantity and quality for exploiting such windows. One example of windows open by the Agricultural Protocols attached to the AA is given in Table 4.4 for the case of fresh tomato. Syria would be interested in being granted by the EU a relatively wide calendar (e.g. from October to April) when almost 50% of the Syrian tomato production is harvested (mainly under greenhouses). However, it is worth stressing the fact that a tariff-quota will not provide by itself a guarantee for exports. As indicated in Chapter 3, competition is strong in Europe. As for tomatoes, for instance, 50% of Dutch exports and 75% of Spanish exports take place during the aforementioned calendar.

Table 4.3. Calendars and quantitative restrictions (TRQs and RQs, in tons) in Euro- Mediterranean Protocols

CN. Code	Description	Tunisia	Morocco	Jordan	Egypt	Lebanon
0603 10	cut flowers and flower buds, fresh	1000	15 October to 14 May, 5000	100	3000 of which 1000 of flowers falling within CN codes 0603 10 29 and 06031069	
ex 0701 90 50	New potatoes, fresh or chiled,	January to 31 March 16800	December to 30 April 120000	January to 31 March, 1000	from 1 January to 31 March, Year 1: 130 000 Year 2: 190 000 Year 3: and the following years: 250 000	1jan to 31 May, 10 000, annual increase 1000
0701 90 50- ex 0701 90 90						1june to 31 july, 20 000 - annual increase 2 000
ex 0701 90 51						1Octo to 31Dec, 20 000- annual increase 2 000 tons
0702 00 15	Tomatoes, fresh or chilled	15 November to 30 April	1Jan to 31Dec,168757 October,5000 1 Nov to 31March,145676	1Dec to31 Mar	100% reduction of MFN	5 000 - annual increase 1000
ex 0703 10 ex0703 10 11 ex0703 10 19	Onions and shallots, fresh or chiled	15 Feb to 15 May	15 Feb to 15 May 7840	15 Feb to 30 Apr	1 February to 15 June,15 000	
ex 0703 20 00	Garlic	1 Nov to 31 Mar		16 Febto 31May,	1 Feb to 15 June, 3000	5 000 tons - reduction of the customs duty in addition to the tariff quota 60% for 3 000 tons
ex 0705 11	Cabbage lettuce (head lettuce)			1Nov to 31March, 200	1 November to 31 March,500	
ex 0707 0707 00	Cucumbers, and gherkins, fresh or chilled	10 November to 11 February	1 Jan to 31 Dec, 5600	10 Nov to 28/29 Feb	1 January to end of February, 500	unlimited

ex 0709 90	Courgettes, fresh or chilled	1 December to 15 March	1 October to 20 April, 5000	1/12 to 15 March, 100% reduction of MFN		unlimited
			1 November to 31 May, 5600			
ex 0805 10	Orange, fresh	35123	1 Jan to 31 Nov, 380800, duty free	unlimited	Year 3: and the following years: 60 000	Unlimited 60% reduction of the customs duty
			December - 31 May 300000, entry price reduction			
ex 0805 20	Mandarins, fresh: clementines, fresh		1 Jan to 31 Dec, 168000	1000	Unlimited	Unlimited
0805 20 10	Fresh clementines		1 nov to 28/29 feb 110000			
ex 0805 30	Lemons, fresh			1000	Unlimited	Unlimited
ex 0806 10 29	Table grapes, fresh	15 November to 30 April	1 November to 31 July	15 Feb to 11 July	From 1 Feb to 14 July	1 Oct to 30 Apr and 1 Jun to 11 July, 6000
0808 10	Apples, fresh					10 000
0809 10	Apricots	2240	1 Jan to 31 Dec, 560			5000
0809 20	Cherries, fresh					
0809 30	Peach (including nectarine) fresh				500 tons from 1 March to 31 May	2 000, annual increase 500
ex 0810 10 05	Strawberries			1 Jan to 31 March 100	1 Oct to 31 March Year 3: and the following years, 1 500 tons	
2002 90 31	Tomato concentrate	2500	2500 tons	4000		1000

Source: Agricultural Protocols attached to the Association Agreements.

Table 4.4 Calendars and Tariff-Quota affecting EU tomato imports from selected Mediterranean Partners

Country	Calendar	Tariff Quota (MT)
Jordan	1 December to 31 March	Unlimited
Morocco	1 October to 31 March	150,676 5,000 in October
Tunisia	15 November to 30 April	Unlimited
Egypt	1 November to 31 March	Unlimited
Lebanon		5,000

Source: AA' Agricultural Protocols.

These remarks are not aiming at drawing a pessimistic view of the future AA. The new framework involves an important step in a right direction, which points to the liberalisation of agricultural trade (see Garcia-Alvarez-Coque, 2002). As argued before, the Agricultural Protocol can be taken as one step forward in the bilateral liberalisation path, especially if Syria could be granted (i) the early implementation of the agricultural provisions, e.g. an interim protocol with agricultural concessions¹¹; (ii) the possible review of the agricultural provisions, three years after the Agricultural Protocol is signed. This has been the approach adopted for other MCs, such as Tunisia and Morocco. This country is currently negotiating with the EU the improvement of the tariff preferences, though Southern European stance framing the EU negotiating position has shown to be tough against granting further preferences.

4.3 Do preferences pay off?

One argument frequently used by the European lobbies is that too generous limits for tariff-quotas may not be exploited by the exporting country. On the other hand, not filling tariff-quotas completely is frequently argued by the European Commission against further concessions. The Commission may state that it is better to grant small quotas for a large number of products, than large quotas for a small number of products, which will not be fully used. This idea theoretically supports a goal of promoting export diversification in the preference recipient country. However, there are several caveats in this argumentation, as practically illustrated by the Moroccan experience (see Box 4.1). The main issues for a developing exporter concerning tariff preferences are:

¹¹ In 2002 an interim Agreement was signed with Lebanon, with a set of tariff concessions for Lebanese agricultural products.

- (i) Tariff preferences might be generous for those products for which Syria does not apparently enjoy comparative advantage. Let us take lemon as an example. As seen in Table 4.3, Egyptian and Lebanese lemon exports enjoy duty free access to the EU (only covering the *ad valorem* duty). Syria could be granted a similar treatment, but lemon does not seem the most abundant and cheap fruit in Syrian agriculture. Syria would not probably be very much interested in receiving generous tariff preferences in lemon in exchange of less preference in other products, such as potatoes, table grapes, oranges, and olive oil where Syria has more competitive advantages.
- (ii) There may be reasons that prevent exporting countries from filling the tariff-quotas completely. When TRQs are established, one problem is related to the administration of the system. In the case of fruit and vegetables, the normal case is when preferential TRQs are administered on a first come first serve basis, i. e. no licenses are issued and the full tariff is charged when trade flows exceed the TRQ. Although tariff-quota were seen at the end of the Uruguay Round as a way of guaranteeing market access, they are increasingly considered as trade barriers. Quota underfill is attributed in part to the administrative methods employed to implement TRQs. These methods determine what level of imports occurs under the lower in-quota tariff, and who gets access to the rights to import under that lower tariff. Complicated administrative methods act as NTBs, or increase transactions costs associated with imports under the TRQs. Administration of TRQs is a key issue under debate in the new WTO negotiations on agriculture currently underway (Abbot, 2002). Lack of transparency of the more common methods (eg. licenses) is also likely a matter of debate.
- (iii) Advantages derived from tariff preferences may be only temporary for beneficiary countries. The current multilateral trade negotiations at the WTO point to the reduction of MFN tariffs over time. Lower over-quota tariffs mean benefits to all potential exporters, with market forces, not quota administration, determining marginal suppliers. This move would be a possible outcome of the current WTO negotiations and could only benefit Syrian fruit and vegetable exports if they become competitive enough to face a larger number of actors in the EU market.
- (iv) The tariff-quota system may also tend to transfer an economic rent to the increasingly concentrated importing companies, which are normally the quota rights recipients, as they could offer prices on the worst-case assumption that the full MFN tariff has to be paid, at least when there is a risk of exceeding the TRQ. It is not clear the extent to which the economic rent is transferred to the exporters.
- (v) Syria has little experience, compared to other MCs, with reference quantities and TRQs in its relation to the EU. Under the Cooperation Protocol, the EU established a reference quantity of 840 tonnes for dried onions (CN code 0712.20.00). The export peak in the last four years has been 751 tonnes in 1997, and only a significant boost of exports could imply the risk for a loss of the tariff concession. Looking at the trade performance of the preferential Syrian products, it is striking that Syrian export value to the EU of these products is very small or insignificant. A plausible hypothesis is that the Syrian exporters

have not made full use of trade preferences because some of the EU requirements (in particular in connection with the formal requirements of the certificates of origin) are not properly understood by many Syrian traders.

Some EU Mediterranean partners have managed to avoid the use of licenses for quota administration. For some products, such as courgettes and tomatoes, the EU and Morocco reached an agreement in the form of an Exchange of Letters, which established that Morocco would undertake not to export more than the agreed tariff quotas. The European Commission reserved the right to establish the issuing of import licenses if the export flows exceed the agreed quota. The system reassembles a Voluntary Export Restrain (VER), which remains a grey area of the multilateral agricultural rules. Syria might be interested in agreeing a similar system with the EU, avoiding one part of the administrative burden and catching the economic rent accrued by the tariff-quota. This is the way Morocco manages the entry price reductions indicated in Table 4.2. Obviously, within quantitative limits, there is a clear price advantage for Morocco against other suppliers. However, if this mechanism were applied to some Syrian exports, the Government should introduce a system of export control for assuring that the agreed limit is not exceeded.

Box 4.1. Moroccan tomato exports. Why an issue?

The inability of the EU Commission to significantly expand export opportunities has been an important stumbling block for Morocco in negotiating larger market access for Moroccan tomato exports to the EU. Morocco enjoys significant market shares of the EU import market, for specific seasons, controlling most of the extra-EU. However, the Moroccan market share has been marked by the quantitative limits open by the EU. These limits represent a “window”, which practically closes when European tomato production comes to the market. Two types of measures have been designed to restrict extra-EU supplies. One is the entry price system, which has a similar effect to a minimum import price. Entry prices were derived from the pre-Uruguay Round reference prices. The reference prices applied during the base period (1986-1988) were used for tariffication under the WTO Agreement on Agriculture.

For tomato, like for other vegetables (cucumbers and courgettes) the period of application of the entry price system was extended to cover all the year, whereas under the former system no reference price applied from 21 December to 31 March. Before the Uruguay Round, the Moroccan production season was in fact complementary to the Northern European production season. However, the extension of the entry-price period was intended to protect Spanish production, whose season overlaps with that of Moroccan tomato. Although the effective entry price applied on Moroccan tomato exports is significantly below the one applied on non-preferential imports, Moroccan preferences are restricted by Tariff Rate Quotas (TRQ). These represent the second restrictive measure. When TRQs are established, one problem is related to the administration of the system, because non preferential tariffs and entry prices are applied when trade flows exceed the TRQ.

During the lengthy and heated negotiations leading to the Association Agreement, Morocco obtained improved access to EU markets for tomatoes, but only an additional

15,000 ton tariff-quota was given for tomatoes, of which 5,000 may be shipped in October, and 10,000 during November-March, with strict monthly limits. The total TRQ was established at 150676 tons. Preferential treatment ceases in April, when EU produce comes to market. For easing the control of the TRQs in this perishable product, the EU and Morocco reached an agreement in the form of an Exchange of Letters, which established that Morocco would undertake not to export more than the agreed tariff quotas. The European Commission reserved the right to establish the issuing of import licenses if the export flows exceed the agreed quota. The system had a test on October 1999 when the tomato exports from Morocco to the EU exceeded by 190 per cent the amount agreed for such month. Import licenses were then issued by the Commission (EC Regulation N° 2767/1999 of December 23, 1999). Import certificates were only thought to control whether or not the MFN tariff has to be applied, but they acted as a non-trade barrier. During January the Moroccan tomato exports dropped dramatically and one month later the voluntary export control system was established again. However, the European Commission proved to have effective means to limit imports when market perturbations are felt in the EU wholesale markets.

The issue of increasing the size of the quantitative limit is nowadays at stake when Morocco and the EU are reviewing the agricultural provisions of the EMA, with the fierce opposition of Spanish farmers. What this case shows is how market access for Moroccan tomato strongly depends on European political decisions. On the other hand, as recent studies suggest (Akesbi, 2002), Morocco has possibilities to take significant advantage of European concessions. Water availability would not be a constraint. In fact, doubling tomato exports to the EU would only require 19.3 million m³, which hardly represents 0.33% of the water consumption by Moroccan agriculture (about 6 billion m³).

The administrative problems involved in the management of tariff quota may significantly restrict Syria exports of fruits and vegetables. Guidelines for the Syrian Government to face tariff-quota administration are two fold:

- (i) to negotiate less restrictive administrative procedures for tariff-quotas. When Syria becomes a WTO Member, will surely find allies around the world and claims might well be directed to the progressive phasing out of the tariff-quota systems (an even of the entry price system).
- (ii) to improve the technical capacities of the exporting sector for facing the administrative procedures.

Nevertheless, besides tariff preferences, there are more variables that affect export performance. Preference may be necessary but not sufficient for guaranteeing future Syrian export growth.

4.4 Chapter summary and conclusion

At the time of drafting the final shape of the Agricultural Protocol that will be attached to the Syrian-European Association Agreement was not clear yet. However, it seems plausible to advance some possible outcomes of the ongoing negotiation. One of them, perhaps the most disappointing, is that the EU will only grant full market access to a limited number of fresh fruit and vegetables. For most products for which Syria has export interest, tariff concessions will be restricted by tariff-quota and calendars, and for some of them the entry price system will keep untouched. However, it is expected that the limited tariff concessions at least will provide Syria with sufficient market access to encourage the fruit and vegetable exporting business. Experience with other MCs suggests that the Agricultural Protocols have opened a number of windows that might well be used by exporters in the Syrian case. For this to become a reality, steps have to be taken by Government to guarantee that the EU concessions are fully used. First of all, exploiting windows will require an effort of adaptation of Syrian production technologies to the EU seasonal import patterns. This requires the Government to pay attention on agronomical research (development of off-season varieties) but also on marketing training. Secondly, co-ordination is required in the exporting sector in order to minimise the likelihood of undercutting entry prices. Third, the exporting sector has to be trained to deal with the administrative burden and the quality specifications required by EU regulations. Fourth, improvement in quality should ideally lead to high-value products that are less sensitive to tariffs and entry prices. Because it will take time until Syria gets the needed experience to achieve significant shares in the EU fruit and vegetable market, a learning-by-doing approach for the Syrian export strategy to the EU is advisable. The market access in the EU will not be free in the short-term, but Syria can take advantage of the first period after the AA conclusion to attempt a step by step policy, based on strict quality monitoring of exported goods.

Chapter 5. Marketing opportunities and constrains in the EU

5.1 A vicious circle

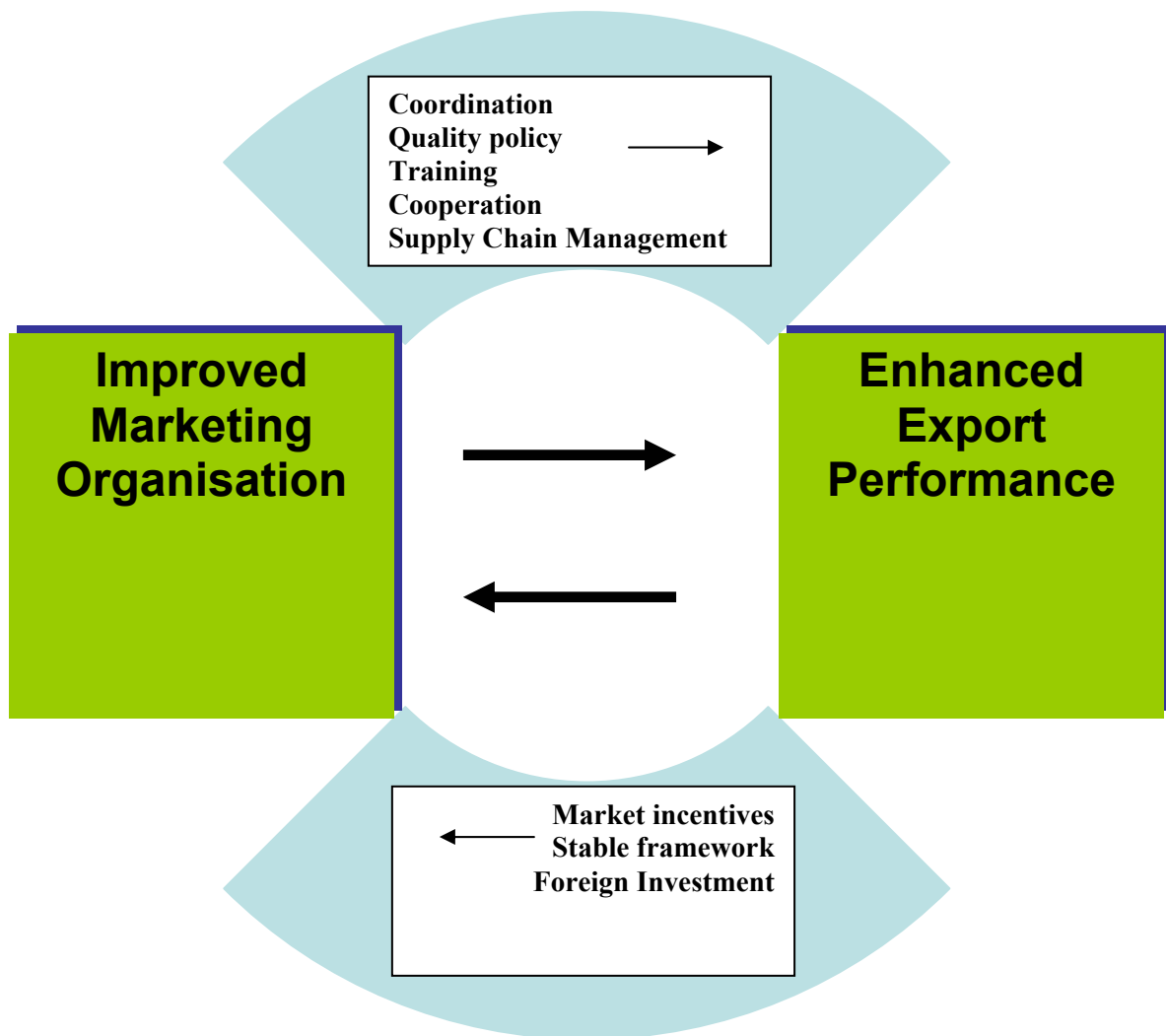
The previous chapter has shown that Syria still faces significant border measures applied by the EU on its horticultural imports. It is likely that the scenario for the future Euro-Mediterranean Agreement will bring a significant improvement in the market access, though still limited by quantitative and administrative restrictions.

The real issue is whether or not Syria would be in a position to take full advantage of the increased market access to the EU horticultural markets, even in a hypothetical situation where market access is not constrained by quantitative limits. Market access is a necessary condition for export success, but this can only come through a proper understanding of the current trends in the modern distribution that prevails in most EU countries. An immediate conclusion may be that the current status of the Syrian horticultural exporting activities is not adapted to Western Europe markets. In Chapter 3, we referred to the existing weaknesses concerning the marketing and logistic organisations in Syria. However, this does not mean too much. One could argue that Syria is not better adapted to the EU market simply because this market has been closed until now. The Syrian exporting activities of fruit and vegetables can be seen as an extension of the domestic market, taking advantage of the market access to Arab countries, under the AFTA framework. If Syrian horticultural trade relies on traditional marketing practices and wholesale, this could be observed as the outcome of the existing foreign trade environment and not necessarily as an explanatory factor of the Syrian exporting success or failure. Market access to the EU could create incentives that would encourage Syrian actors to adapt to the specifications of the modern distribution in Western and Central Europe.

The current Syrian situation can be illustrated through figures 5.1 and 5.2. The first figure reflects the “vicious circle” which certainly restricts the potential for Syria to developing a successful fruit and vegetable exporting activity. Thus, improved marketing organisation is a precondition for enhancing export performance, but the opposite also holds: favourable market signals and export results would be needed to create the right incentives for improving the efficiency of the marketing organisation in Syria. Actions to be taken would go in two ways. Improving the marketing organisation would include a number of actions consisting of actors’ coordination, quality promotion, training activities and other measures, that will be discussed more extensively in the next Chapter. Nevertheless, for Syria to feel encourage to undertake these actions, it needs right incentives that can mainly be a result of the entry in force of the new AA. Thus, the AA will entail three main advantages for the Syrian exporting business. Firstly, a more open market access for Syrian exports to the EU, though still limited in the short term; secondly, a push for the ongoing economic reform process, which will set an adequate economic environment for attracting foreign capital; and thirdly, a more stable framework for bilateral trade relations with the EU.

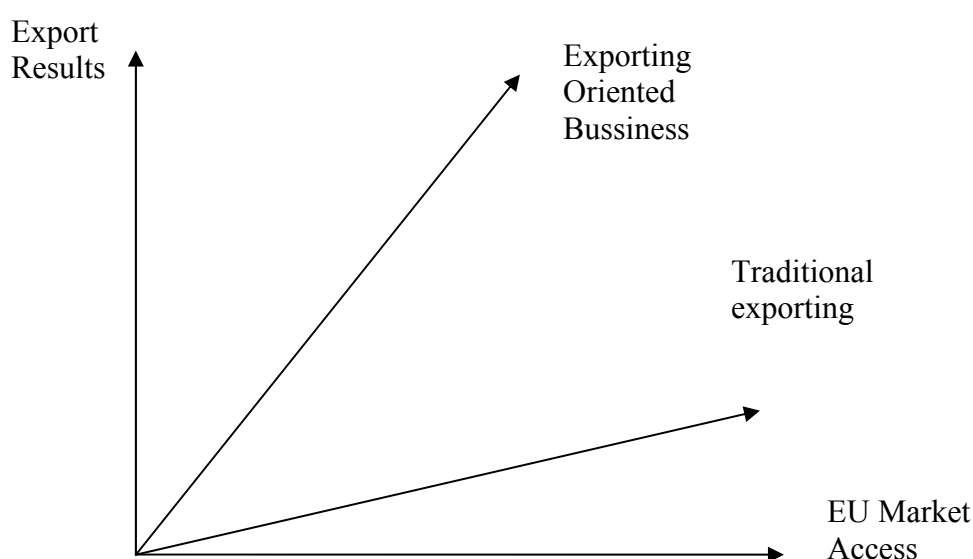
The last point is quite important, given the fact that the AA will establish certain rules that will minimise the use of unjustified barriers to trade by both parties. Independently of the WTO rules for dispute settlement (which Syria will eventually be able to use them in the future), any important bilateral trade dispute with the EU can be managed through the Association Council established under the AA’s framework. The AA may make markets more secure by lessening or eliminating the possibilities for the imposition of anti-dumping measures. An important dimension of market access is that of predictability of trade. Ideally, the AA will reduce the leeway for discretionary policies constraining trade. For Syria, that would mean anchoring its own trade reforms but also minimising that risk unilateral policies by the EU that threaten the preferential market access. Anchoring trade policies, with the implementation of the AA, will help to stabilise the scope for bilateral commercial relations.

Figure 5.1 A “vicious circle”. The need for a comprehensive approach to enhance export activities.



Syria also needs export oriented businesses to break the vicious circle. Figure 5.2 illustrates that as market access (resulting from the AA) improves, export results will do as well. However, the export growth path will be slower if Syria insists in keeping the traditional marketing practices (see Chapter 3) and fails to adapt to the new consumer and distribution trends in the target markets.

Figure 5.2. The export growth path with export oriented and traditional marketing approaches.



It is clear that we need to understand the new trends of European consumption and their impact on the fruit and vegetable sector, what we will study in the following section. Later we will focus on the structural changes of the big European distribution and future developments, including the supplying policies of the superstores and the main factors underlying competitiveness of the fruit and vegetable companies. In Chapter 6 we will refer to a few implications for Syrian exporters to adapt to the new demands.

5.2 Consumption trends in the EU market.

Quick changes in present society affect the behaviour of customers when they are going to buy products or contracting services. It is clear that exporting fruits and vegetables to the EU needs for a marketing approach that is very aware of consumer trends:

Convenience. Some of the factors fostering demand of convenience products involve quick socio-economic changes in the developed countries such as the growing number of working women and “one person” homes, or the decrease in time for food preparation. Sales of take-away and fast food tend to grow. Families do not eat together and, when they do, it frequently happens in front of TV. Even at home, consumers tend to eat fast food; as a result, the prepared food market has grown exponentially. The demand for convenience products goes beyond the hamburger or the frozen lasagne. Nowadays, the trend is to "Meal Solutions" or "Home Meal Replacement", that is to say, prepared, balanced and nutritious meals for an immediate or almost immediate consumption at home or outside.

Snacking. Lifestyle in Europe is more and more individualistic, which has given rise to a growing demand for snack products. Free time activities have created the new trend for "*eating on the move*" and for consuming food outside home. The food expenditure inside home in the last 20 years has gone from the 20% to the 11%, and in 2010 it is expected to be around 5%.

Health, Diet and Environment. Consumers are developing an "environmentally friendly" attitude with respect to food consumption, which has given rise to a demand for natural, additive-free and fresh products. This trend has arisen, partly as a response to the last food health problems which have affected different countries in the EU (ex. mad cows, salmonella, dioxins, e-colie). The result has been a quick development of organic products in the European market, especially in the countries of the Northern Europe where the demand of these products is quite higher than the supply.

In the future, consumers will demand products which satisfy all their goals, most of them contradictory. According to Garcia-Martinez (2002), consumers in Western and Central Europe will increasingly demand products, which at the same time are:

- Quick to prepare and "funny" but also healthy
- Traditional and authentic, but also of convenience
- Cheap and local, but available the whole year
- Unusual and imported, but with affordable price
- Adapted to their own necessities, but largely available
- Homogeneous in appearance, but ecological

People from very different social status in Europe can have access to most of the products, especially if referred to fruit and vegetables and we should also consider that the decision of buying has an emotional rather than rational base. Exported products to the EU have to adapt to a variety of lifestyles. Exported fruit and vegetables will tend to be classified not as botanic varieties but as “categories” according to consumers’ goals (convenience, snacking, health, etc.). Consequently, the knowledge of the trends of the sector is absolutely necessary to help Syrian horticultural sector to get into the EU markets. In general, fresh fruit and vegetable products may well benefit from the new consumption trends. But product prices vary according to the product adaptation to the kind of service that the consumers demand.

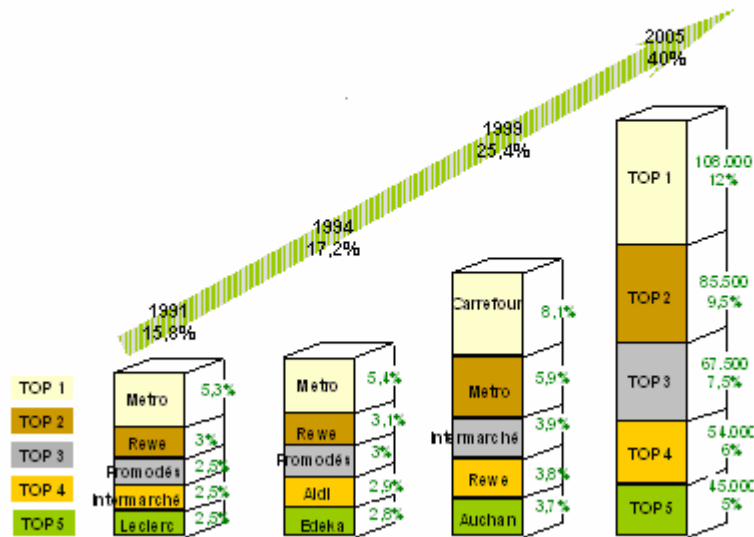
5.3 Distribution trends

The distribution of fruit and vegetables in Europe has undergone important changes in recent times. The large distribution firms are playing a leading role in these trends. The traditional channel, with a significant presence of wholesalers, has been replaced by shorter parallel channels, coupled by the concentration of demand, mainly in countries of the north of Europe where about 90% of the food and vegetable products are distributed through department stores (Montigaud and Berger, 1997). In some Southern European countries small-specialised shops ("fruit shops"), supermarkets and street markets remain as the favourite places for retail sales of these products. By contrast, in Northern Europe, consumers prefer one-stop shopping in the large superstores. There, fruit and vegetable products are considered as one of the key factors in the selection of store, since quality and variety of the fresh products transfer their reputation to the whole store. Another visible factor is the importance of this sector in sales of the big distribution.

Any Syrian strategy towards the EU fruit and vegetable market must take the next trends into account:

- **Declining of the Small Shops.** A major change in the food retail market has been the progressive disappearance of the retailers as the food sales concentrate on the superstores. In the countries where the modern distribution system is still in the course of developing there is a bigger number of small shops as in Turkey or the most of countries of Eastern Europe. However, in the countries of the EU and Scandinavia the situation is completely different. There the retailer outlets have been disappearing as competition in the sector becomes stronger.
- **Concentration of Distribution.** The European distribution holdings are engaged in a globalisation process with the goal of increasing their profitability. The merging processes and business alliances have become stronger in the last years as a response to (i) maturity of domestic markets; (ii) emerging opportunities in Central and Eastern Europe; and (iii) appearance of emerging markets in developing countries. The larger holdings with available capital have been the first in taking advantage of these opportunities, especially through acquisitions (ex. Carrefour, Ahold, Aldi and Lidl). The 10 top distribution firms in Europe accounted for a market share of 28% of total retail sales in 1992, 31% in 1995, and 41% in 1999. Everything points to a continuation of the concentration process in the next few years (see Figure 5.3). According to a study published by the consultant A.C. Nielsen in 1998, which collected the opinions of the leaders of the main European big distribution chains, the number of distributors will be reduced to half in 2005. Wal-Mart has entered into Germany and the United Kingdom; Carrefour and Promodes have merged; Tengelmann and Edeka have formed an alliance; Tesco has started to operate in Central Europe and in the Southeast of Asia; and everyday there are rumours in the British press about who is going to acquire Sainsbury's.

Figure 5.3. Market share of the top 5 retailing groups in Europe.



Source: Eurodata 2000

Table 5.1 shows the ten first groups of the world food distribution, with their business turnover in 1998. These figures reveal the concentration on the large distribution sales, led in Europe by French and German companies. The fashion word in the retail sector in Europe is the "Wal-Mart phenomena". Clearly, the ambition of the American Wal-Mart group is to become a company of global distribution, with important consequences for the European distribution sector. The presence of Wal-Mart in Europe is still reduced. With the acquisitions in Germany it reached a turnover in Europe of around 2 billion Euros, though it has recently bought Asda, the third food retailer in UK. However, its global presence gives an idea of the threat that this group means for the rest of European groups.

Table 5.1. Ten First World Groups in the Food Distribution (1998)

<i>Trader Name</i>	<i>Nationality</i>	<i>European Total Sales (euro billion)</i>
Wal-Mart	USA	123.1
Metro	Switzerland/ Germany	46.9
Rewe	Germany	31.3
Edeka	Germany	30.4
Tengelmann	Germany	26.8
Promodes	France	26.2
Ahold	Holland	26.5
Carrefour	France	25.8
Auchan	France	22.1
Leclerc	France	22.1

Source: IGD Research

The internationalisation of the main European food retailers is also reflected in Table 5.2. Ahold and Delhaize generate most of their sales outside Europe. Most sales of Ahold come from its operations in North America; mainly on the East Coast. Likewise it has interests in Latin America and Asia. Carrefour-Promodés is the second in the world ranking, and is looking at Asia and Eastern Europe by basing on its strong presence in Western Europe, although it has not reached the United States. Metro, Sainsbury's and Tesco have a more limited international presence.

Table 5.2. Geographical distribution of the big distribution (% of sales), 1999

	W. Europe	Central Europe	N. America	Latin America	Asia	Total
Ahold	33.5	1.5	54.3	8.4	2.3	100
Carrefour	73.2	-	-	18.5	8.3	100
Casino	83.0	3.0	12.0	2.0	-	100
Delhaize	28.0	-	72.0	-	-	100
Metro	100.0	-	-	-	-	100
Sainsbury	89.0	-	11.0	-	-	100
Tesco	97.0	3.0	-	-	-	100
Wal-Mart	12.1	-	81.1	6.7	0.1	100

Source: Datamonitor analysis

The strategies adopted by the distribution groups to increase its market share in fruits and vegetables have given rise to a radical change in the supplying policies with the appearance of the purchase head offices and distribution platforms both nationally and internationally ("Euro head offices"). This means that any exporter will face a small number of potential buyers. The following table shows some of the major buying groups in the EU:

Formal Alliance/Buying Group	Members and Origin Country
European Marketing Distribution (EMD)	Leclerc (F), Markant Handels (D), Euromadis (I), Euromadis Iberica (E), Uniarme (P), ZEV (A), Supervid (DK), Nisa Today's (UK), Unil (N), Musgrave (IRL), Dagab (S), Syntrate (CH)
Associated Marketing Services	Ahold (NL), Safeways (IK), Casino (F), Edeka (D), ICA (S), K-Group (SF), Mercadona (E), Hakon (N), Superquinn (IRL), JMR (P)
Eurogroup	Rewe (D), Vendex (NL), Coop Suisse (CH)
NAF International	SOK (SF), Tradeka (SF), CWS (UK), Coop Italia (I), NKL (N), KF (S), FDB (DK), Coop Schleswig-Holstein (D)
Spar International (including BIGS)	Spar Osterreich (A), Spar Handels (D), Dagrofa (DK), Tuko (SF), Hellaspar (GB), Bernag Ovag (CH), Despar Italia (I), Unigro (NL), Unidis (B), Spar (UK), BWF Food/Spar (IRL)
SED	Sainsbury's (UK), Esselunga (I), Delhaize le Lion (B)
Intergroup	Tradeka (SF), CWS (UK), Coop Hungary (H), Coop Italia (I), NKL (N), KF (S), FDB (DK), Grupo Eroski (E)

Source: IGD European Fact File

5.4. Challenges for fruit and vegetable exporters

Knowledge on the retail distribution trends is absolutely necessary to help Syrian horticultural sector to get into the EU markets. As we have seen, the trend in Europe is to a reduced number of large distribution companies. In turn, these changes involve several challenges for those companies willing to penetrate the EU markets for fruit and vegetable:

- Reduced number of suppliers with greater volumes. In the past, distribution used to deal with several companies of supplies (up to 10 in the case of citrus). Now, the number of suppliers has been reduced to 3-4 for the leading categories of products and 2 for the smaller ones, with a main supplier known as "*Category Captain*". Taking the example of Asda (third food retailer in the UK), it has only one supplier of carrots (Fenmarc), which has a team with office in the Asda headquarters, with direct access to Asda's information about sales and stocks. For exporters, losing a customer might involve a significant loss of market share. Exporters' products have to be present in superstores with a sufficient

market share in the retail sales of the targeted country. Great specialist exporters with a varied customer portfolio will tend to show better exporting results. In these companies, a major volume is the feature which leads to the creation of value and innovation, and their technical knowledge (and market share) makes them “essential” for the great distribution. For Syria, the creation and development of large exporting companies becomes essential. As presented in Chapter 3, there are some movements in the country in that direction, although there is some way to go before they materialise in big exporting companies (see Box 3.1 in Chapter 3).

- Long-term agreements between suppliers and distribution companies. The main companies adopt new techniques such as *Category Management* (CM) and *Efficient Consumer Response* (ECR), which allow for assess the efficiency of their suppliers. As a result, the great distribution requires a sufficient degree of commitment of the suppliers towards the rationalisation of the marketing chain. Long-term agreements are based on a number of suppliers’ characteristics valued by the distribution: Active relations (moving from the traditional buyer/vendor system towards multifunctional exchanges); electronic integration; exchange of information; innovation (development of new products, marketing, management); willingness to collaborate in the development of product categories; willingness to undertake exclusive products, services and specific investments for each customer; financial stability; and promotion. Distribution companies assess the resources that suppliers have. They wish to deal with important suppliers (in terms of market share, volume of sales, line of products). Trust and reputation are required in the fruit and vegetable markets where products cannot be considered as simple commodities. Fruit and vegetable traders with good relations with the great distribution have organised their business around working teams per customers. This provides the supplier with the opportunity of dealing with exclusivity and makes easier the communication and joint work between customer and supplier, what is essential for the development of business relationships. With the increase in demand for convenience products, it is easy to understand why the great distribution looks for innovative suppliers, able to invest in technology and in programs to develop new products.

5.4 What quality means in the EU.

It is clear that will all these trends, European consumers will give rising importance to food safety, environment, quality, convenience and service. The guiding principle behind this development is quality. Quality is a key word for any export strategy, but it is worth clarifying what we mean with quality, especially when dealing with business in the most developed markets like the EU.

The European Commission has had extensive legislative activity in the area of quality (see http://www.europa.eu.int/comm/agriculture/foodqual/quali_en.htm), although it has been directed at very different levels depending on the type and urgency of the problems. Legislation in the food safety field started in the 1960s and grew more intense in the 1990s with the advent of the European single market. The 1992 and 1999 CAP

reforms emphasised agri-environmental measures, and also in 1992 there was the introduction of European quality labels. But what does 'quality' mean for the EU? There are several dimensions for quality, considered in the EU policies:

- Compliance with food safety and plant health as prime conditions for products in the market. The EU has built up a significant body of laws on food safety and plant health which are binding in all countries of the Union and which partially apply to non-EU countries exporting to the EU.¹² In a White Paper on Food Safety of 12 January 2000 the Commission set out the plans for a proactive new food policy: modernising legislation into a coherent and transparent set of rules, reinforcing controls from the farm to the table and increasing the capability of the scientific advice system, so as to guarantee a high level of human health and consumer protection. In November 2000, the European Commission proposed the creation of a European Food Safety Authority (EFSA) whose core task will be to provide independent scientific advice and support and to set up a network for close co-operation with similar bodies in Member States. It will assess risks related to the food chain and give the general public information about food risks. The Regulation which provides the legal basis for the establishment of the EFSA was formally adopted on 28th January, 2002.
- Compliance with legally established standards for the environment. At the core of the Community's agri-environmental strategy within the CAP are targeted measures which reward farmers for environmental services in rural areas, over and above good agricultural practices and environmental legislation. The inclusion of such measures into all rural development programmes implemented by Member States is compulsory. Under the common rules of the CAP, Member States must lay down environmental requirements they consider to be appropriate and may make support to farmers dependant on compliance with those requirements ("cross compliance"). In addition, the policy on rural development includes special environmental measures, known as agri-environment measures. These provide for payments for commitments going beyond good agricultural practices. They constitute an important environmental tool based on a conscious, voluntary commitment by farmers to greener agriculture.
- Other aspects depend on consumer preferences. This is the case for food's nutritional value (being linked to eating habits). Other aspects of quality are optional such as, for instance, flavour, smell and appearance. Some products also have an added value because (i) they are produced in a particular region or by a traditional method or because (ii) their production methods pay special attention to agricultural good practices (e.g. organic farming). Let us shortly refer to both situations:
 - (i) **Some products acquire a reputation** extending beyond national borders and it could face competition with products which pass themselves off as the genuine article and take the same name. This unfair competition not only discourages producers but also misleads consumers. That is why, in 1992, the European Union created systems known as PDO (Protected Designation of Origin), PGI (Protected Geographical Indication) and TSG (Traditional Speciality

¹² See http://www.europa.eu.int/comm/food/fs/ph_ps/index_en.htm.

Guaranteed) to promote and protect food products. These kinds of protection are aiming at: (i) encouraging diverse agricultural production; (ii) protecting product names from misuse and imitation; and (iii) helping consumers by giving them information concerning the specific character of the products. The European Commission defends at the WTO a higher degree of protection for patents and geographical indications that currently enjoy, under the TRIPS agreement, a modest level of protection in relation to trademarks. If the TRIPS agreement were adjusted along such basis, Syrian accession to the WTO would enhance the possibilities for Syria to adopt similar certification categories. However, the regulation of intellectual property keeps being one of the hot issues to be discussed within the AA framework. On the other hand, the AAs ask for compliance with the “highest international standards”, including effective means of enforcing such rights (see Box 5.1).

Box 5.1. Intellectual property in the Association Agreement

Concerning intellectual property rights, the AAs basically state that each party to the agreement will adopt rules and regulations to ensure the protection of intellectual property rights, in accordance with prevailing international standards. The rate of adoption of these standards in some AAs is specified in annexes to the main agreements. Most Mediterranean partners, including Syria, have been engaged in reforms for protecting intellectual rights during the last decade. For Mediterranean countries that are WTO Members, the texts of corresponding laws are, generally speaking, consistent to the TRIPS. Implementation seems quite satisfactory in some countries, including the pharmaceutical industry. In Jordan, the pharmaceutical industry has prospered thanks to the use of unlicensed formulae, but the authorities have put end to this practice. Other countries such as Egypt, Lebanon and Turkey have been placed in the last years in the priority list n° 301, prepared by US to monitor countries failing to protect intellectual rights. Although Egypt has introduced protection for pharmaceuticals, it has taken advantage of its rights under Article 65(4) of TRIPs and has deferred full protection until 1 January 2005 (e.g. until that date, applications for pharmaceuticals go into a "mail-box" and remain unexamined). The AAs ask for compliance with the “highest international standards”, including effective means of enforcing such rights. This means that not only the TRIPS agreement is observed but also other international agreements (most of them internationally recognised). These agreements are normally mentioned in an Annex to each AA. We cannot call this kind of provision a “TRIP-plus clause”, namely an agreement to go beyond what is already agreed to in TRIPs and other international agreements. However, it is true that this kind of “annexes” act as a tool for making Mediterranean partners to comply with a series of international standards. The AAs also state that *“the implementation.....shall be regularly reviewed by the Parties. If problems in the area of intellectual property affecting trading conditions were to occur, urgent consultations shall be undertaken, at the request of either Party, with a view to reaching mutually satisfactory solutions.”* So there is monitoring on implementation.

- (ii) **Other quality categories include good farming practices.** For instance, **organic farming** is a different type of quality assurance. It responds to the increased consumer awareness of food safety issues and environmental concerns. Organic farming has in fact developed into one of the most dynamic agricultural sectors in the European

Union. The organic farm sector grew by about 25% a year between 1993 and 1998 and, since 1998, is estimated to have grown by around 30% a year. Organic farming has to be understood as part of a sustainable farming system and a viable alternative to the more traditional approaches to agriculture. The first regulation on organic farming [Regulation EEC N° 2092/91] was drawn up in 1991 and, since its implementation in 1992, many farms across the EU have converted to organic production methods¹³. Where farmers wish to claim official recognition of their organic status, the conversion period is a minimum of two years before sowing annual crops and three years in the case of perennials. The regulations also include imports of organic agricultural products from third countries whose organic production criteria and control systems have been recognised by the EU as equivalent. Organic products become an interesting outlet for Syria's exported products, given the fact that the use of chemical inputs is not widespread in Syrian agricultural production systems (see Box 5.2).

Apart from organic production, producers willing to sell their products in the EU can access to different forms of quality assurance, on a voluntary basis. Some **quality certification** systems are internationally spread. A lot of the participants in such systems are global players in the retail industry and cannot afford to operate double standards for produce sourced from different parts of the world. Consequently, they perceive the need for a common internationally recognised standard. In particular, the certification scheme EUREPGAP started in 1997 as an initiative of retailers belonging to the Euro-Retailer Produce Working Group (EUREP). The aim was to agree on standards and procedures for development of good agricultural practice (GAP). Representatives from around the globe and all stages of the food chain have been involved in the development of these standards, included in a protocol which focuses the producer on the key issues that need to be addressed during the pre-farm gate stage. EUREPGAP members include retailers (around 22), suppliers/growers and associate members from the input and service side of agriculture. Decisions are made by the EUREPGAP Steering Committee which is chaired by an independent Chairperson and the standard documents and certification system is approved by a Technical and Standards Committee. Both committees have 50% retailer and 50% grower representation. EUREPGAP is based on HACCP principles, and although its scope is limited to pre-farm gate, codes of practice which deal with the interface areas of packaging on the farm and transport from the farm to the processor ensure that we can provide a whole of chain assurance. Environment protection and worker welfare are also considered in the EUREPGAP protocol¹⁴.

¹³ See EU provisions on organic farming in http://www.europa.eu.int/comm/agriculture/qual/organic/index_en.htm

¹⁴ The EUREPGAP protocol and operation is transparent with information listed on the website: www.eurep.org.

The prospect for growth of EUREPGAP by providing international verification frameworks across a wide range of agricultural production sectors is by any estimation quite outstanding. Some retailers are saying that all their suppliers must be EUREPGAP accredited by 2004. Others do not have a deadline, but will in time question why preferred suppliers are not EUREPGAP certified and perhaps review their decision to do business with them. EUREPGAP is focused on business-to-business rather than consumer orientated. All product offered to the consumer should at least comply with certain requirements that are implicit and taken for granted by the consumer. Many retailers base their specifications for their own retailer brands on EUREPGAP and communicate parts of the content with their brand to consumers.

Box 5.2 Syrian Organic Agriculture

Organic farming became one of the fastest growing “niches” the world agri-food market during the last three decades. The current situation of Syrian agriculture is well adapted to this environmentally friendly production system. According to the MAAR, the share of production represented by crops which use an insignificant or almost null amount of chemicals is significant. These are some examples:

- Wheat: 30% of cultivated area (producing 800 thousand tons)
- Barley, 40% (700 thousand tons).
- Lentils, 60% (100 thousand tons).
- Chickpeas, 70% (50 thousand tons).
- Figs, 100% (11 thousand hectares and 40 thousand tons).
- Apples, 20% (11 thousand hectares and 50 thousand tons) free of chemicals cultivated in Arab mountain and the Coastal area.
- Citrus, about 95% (25 thousand hectares and 800 thousand tons),
Olives, about 80% of total area without use of chemical fertilizers and pesticides.
- Medical Herbs. These are natural crops without any human interventions.

Syria doesn't have any national certification agencies to certify these products yet. However, the Ministry of Agriculture and Agrarian Reform (MAAR) has started to establish a national group with representatives of producers, processors, exporters, and related governmental agencies to propose all rules and legislations which regulate this system and promote organic farming. In addition, some European companies have started to work in Syria to implement controlled systems of organic farming according to the EU Regulation 2092/91 on products of organic origin. This regulation contains rules for inspection of agricultural operations and for inspection and certification of processing and packing units.

Source: MAAR, General Commission for Agricultural Scientific Research

5.5 Chapter summary and conclusion

Exporting fresh fruit and vegetables to the EU cannot be a speculative activity based on traditional marketing strategies. The possibilities for Syria to penetrate in the EU markets are conditioned to the full insertion of Syrian exporting companies in the modern supply chains, which involve direct relations with large importers and distribution's buying offices. This chapter has illustrated the consumer and distribution trends, which are increasingly manifest not only in the former EU countries but also in the new Member States. These trends refer to changing consumer behaviour towards convenience products, snacking, eating outside home, health, environment and other considerations, all of them far away from the traditional consumption of fruits and vegetables. These preferences are channelled through few large distribution companies, which are taking over most of the fruit and vegetable sales in the industrial economies. Government and private actors in Syria must be fully aware of these trends. The real constrains of European markets on Syrian exports are being imposed by these trends, and the market access provisions of the AA will have little positive impact if Syria lacks of large companies that are able to face the specifications of the modern distribution. Market information, training, and moreover, co-ordination, are major key points of the future Syrian strategy in this sector. Co-ordination means not only the development of a Syrian quality policy but also enhancing the human capacities that allow growers to understand market signals and to join the marketing chains, probably through long-term arrangements with packers and exporters. Some public actions to be taken will be suggested in the next chapter. Nevertheless, no dramatic results can be expected in the short term. Syria needs a long term export strategy for fresh products, and the AA provides a useful framework for that. The AA must finally bring improved market access into the EU and enhanced incentives for foreign investment which allow for technology transfer, especially that related to quality.

Chapter 6. Policy recommendations

Generally speaking, the economic reform process in Syria, supported by the Association strategy will enhance market efficiency in the country. It is clear that the production and marketing of fruit and vegetables will benefit from such process. This study has stressed the fact that there is a penalty for trading actors not complying with EU standards and requirements by the modern distribution. However, there is a reward for compliance and this should (i) encourage domestic actors to improve their performance; (ii) give signals to private investment that doing business in foreign agricultural markets could become a profitable activity; (iii) provide arguments in favour of carrying out training activities by the Syrian government, in cooperation with the international community; (iv) identify priorities for the operation of horizontal and vertical associations; and (v) suggest possible hints for negotiating preferential concessions from the EU.

In addition, next we mention ten guidelines that might frame a strategy for exporting fruit and vegetables to the EU. Our guidelines develop in many aspects some of the orientations for the Agricultural Development Strategy recently prepared by the MAAR. Present study guidelines are:

1. Adopting a “learning by doing” approach.
2. Understanding the leading role of the private sector in export activities.
3. Building a quality policy to comply with the required specifications in foreign markets.
4. Favouring co-ordination in the fruit and vegetable sector along the commodity chain.
5. Encouraging the concentration of supply.
6. Promoting human resources.
7. Strengthening international co-operation.
8. Exploiting the advantages of the AA.
9. Improving market information and transparency.
10. Facilitating FDI.

6.1 Adopting a “learning-by-doing” approach.

This means to avoid a short-term approach for the planning of export activities to the EU. Improvisation could lead to bad reputation. It is better starting with small volumes and creating a good reputation in the target markets, what put the basis for further sustained growth. The EU commercial provisions and quality specifications have to be properly understood. The learning-by-doing approach would assume to keep working on the markets where Syria already enjoys experience (Arab countries). This means to mark as a first objective the upgrading of Syrian exports to Saudi Arabia and Gulf markets. Experience in these markets is extremely helpful to get the know-how that naturally will lead to successful contacts and exports to the EU.

This orientation is not only valid for companies. It is also worth for Government action. The learning-by-doing approach means that

- (i) Syria needs an export strategy for fruit and vegetables, implemented by private companies but supported by the Government;
- (ii) Syrian Government can define such export strategy on a step by step basis, where, for example, implementation of standards for exported fruits and vegetables can have several phases;

The pace of international trade negotiations may be consistent to this approach. Thus, the coming years will be marked by a substantial opening of AFTA markets and only limited market access for the EU. This picture is compatible with the idea that the AFTA markets become only a short-term objective for Syrian exports, but also a preliminary step to acquire experience that will be exploited when Syria gets higher access to the EU, within the AA framework.

6.2 Understanding the leading role of the private sector in the exporting activity of fruit and vegetables.

This means that the Government's role has to be defined but it must not be absent. The competitive advantages of the Syrian export products will need "support services" based on dissemination of information, training, research, promotion and quality policy. Most of these services do not need direct public intervention on market prices or foreign trade. Providing support services is not a matter of Government's intervention, but of assuming that the provision of certain public goods will hardly be supplied by the market itself. Moreover, the Syrian fruit and vegetable market would probably improve its efficiency with a more open Syrian trade policy setting (including the progressive phasing out of those measures concerning imports of fruits and vegetables by Syria). There is however one area of intervention where the Government could affect the market mechanism, which is the improvement of the regulatory framework concerning product standards for both domestic and exporting market. Basic standards on a number of areas such as food safety and consumer labelling (e.g., on the product origin) play the role of reducing the costs of information, protecting the consumers, thus improving market efficiency. The introduction of sets of Syrian grades and standards for fruits and vegetables could do much to improve further the reputation of Syrian products in export markets.

6.3 Building a quality policy.

In accordance with the previous point, Syrian exports will have to comply with EU standards, some of which refer to Quality Protocols requested by the retail groups in Europe, some by the own European Union regulations. After market access for Syrian exports have been improved by the AA the question arises on the constraints derived from the quality standards imposed by the distribution. It seems necessary to explore the usefulness of alternative kinds of quality assurance and how Syrian exports could adapt to them. Moving actors' mentality towards quality becomes an important challenge for the Syrian fruit and vegetable sector and for Government action. This objective will require specialised attention and perseverance. A possible Government's step would be to encourage the creation of a Fruit and Vegetable Quality Body (which could take the form of a Foundation), with the participation of

relevant actors of the fruit and vegetable sector, such as the Agricultural Chambers, the Chambers of Commerce, the SEBC, the Souks' Commissions, and the public offices related to food quality and trade. This body should count on highly qualified technical staff and the assistance of external co-operation, including the SEBC and international agencies. Possible missions of the body could be:

- a. Identification of areas where efforts are needed to improve quality in the different steps of the marketing chain.
- b. Advising on the minimum specifications on quality and product information (e.g. the origin of the product) that could be undertaken for domestic trade (including the Souk el Hal) and exporting.
- c. Carrying out recommendations about the most appropriate ways of monitoring quality at different points of the marketing chain.
- d. Comprehensive monitoring of the environmental and safety standards set by the EU and other countries.
- e. Monitoring of labels and quality accreditation policies of the retail companies in the EU and Arab destinations.
- f. Analysis of actions to be taken to enforce the European standards, with an assessment of the implementation costs for the producers. Aspects to be taken into account will include:
 - i. Adoption of tracking and tracing systems to enable growers and traders to assure the quality and safety of the products. This would include the labelling through bar code symbols or data carriers like those used in the EAN.UCC System.
 - ii. Encouraging through extension and training the implementation of quality assurance systems in Syria, such as ISO 9000, Total Quality Management, Hazard Analysis at Critical Control Points (HACCP), control of organic production, and other quality systems, including geographical indications¹⁵ and EurepGap.

6.4 Favouring co-ordination in the fruit and vegetable sector.

A market oriented activity needs the multiplication of relations among the different actors of the marketing chain. This calls for a networking approach that should be encouraged by the Government. Syria needs associations of actors, aimed at sharing information and exchange of experiences and view-points on further steps to be taken in specialized areas. Thus, any fruit and vegetable major producing country has associations of fruit and vegetable exporters, organic producers, and interprofessional organisations (producers and traders) to mention some of examples. The kind of co-ordination reached by these associations in different countries has two characteristics: (i) it is flexible, that is to say, in very few occasions these associations are source of compulsory standards for the industry, but usually the affiliation and use of services are voluntary; (ii) it follows a bottom-up approach, far from a hierarchical decision-taking process.

¹⁵ Higher protection for geographical indications for products different from wine will require a reform of the TRIPS agreements, currently defended by the EU.

This kind of co-ordinated efforts should not end up as a public or parastatal activity. However, the articulation of actors should be properly understood by the Government, which should open adequate interfaces (communication links) with the private associations. Existing organisations, such as the Federation of Chambers of Agriculture, the Federation of Chambers of Commerce and the SEBC might be the promoters of these forms of co-ordination, although they might well be formed as independent associations. The creation of specialized associations in different fields of agricultural production to provide production and marketing services has already been proposed by the Agricultural Development Strategy (ADS) elaborated by the MAAR.

6.5 Encouraging the concentration of supply.

In the global market, small and medium companies that supply traditional commerce will tend to decrease, especially concerning foreign trade. The future points to great specialist producers with a varied customers' portfolio. In these companies, large volumes are key point for creating value. Their technical knowledge (and market share) makes them "essential" for the great distribution.

It is not easy to suggest simple ways for the Government to help restructuring the fruit and vegetable trade in Syria. One way, in the medium-term, lies in the economic reform in Syria that will probably facilitate the attraction of Foreign Direct Investment (FDI) to the country. As observed in other producing countries, the large distribution groups are setting up branch companies in the producing countries, with the intention of controlling the quantity and quality of the produce, just from the origin. Nevertheless, in the short term, it seems unlikely that major FDI moves will take place in the fruit and vegetable sector, though this situation might well change once the AA enters in force and the business environment becomes more attractive. Moreover, the complexities of the fruit and vegetables production and trade in Syria, and the fact that most of relations between actors are based on trust, suggest that the concentration process has to be led by Syrian actors. Consequently, the creation of new marketing companies (such as Faihaa El Sham Company) has to be welcome. These efforts might be supported by partnership agreements with foreign companies. Whatever the form that exporting fruit and vegetable companies take, some "rules of thumb" should be respected, as preconditions for success:

- a. Exporting companies have to work closely with their customers in the market of destination, based on a consumer driven (market oriented) approach.
- b. Technical human resources have to be highly professional and this qualification has to be reflected in the style of management, which must clearly be business oriented.
- c. Companies have to be endowed with sufficient economical resources and access to credit in order to make the necessary investments in human resources, productive capability, product promotion and information technologies.
- d. Promotion represents an essential part of the business activity. Most Syrian fresh products are not known in the EU markets and consumers will hardly

buy what they don't know. Promotion activities also need financial efforts by the involved companies, but also public support for certain activities such as the participation in trade fairs. The assistance of the SEBC and the creation of public export agencies (see ADS) also appear to be crucial.

- e. A supply chain management approach has to be adopted, which induces to a full control of the quality of the product, from the grower to the market. This calls for adopting ways of "producer affiliation" that imply a long-term relationship between growers and other members of the chain (cold storages, packing houses) based on process integration and stability in supply.

The Government could take actions in favour of supply concentration by supporting companies that undertake high overheads, such as those related to training, promotion, upgrading quality and standard compliance. Government support could take several forms, from technical assistance (with the contribution of international co-operation) to the granting of specific lines of credit. However, in order to guarantee that the Government does not simply favour large holdings, assistance should be subjected to several conditions related to job creation (eg. as already established in Investment Law n° 10) and to the affiliation of a minimum number of growers to the companies' exporting programs.

6.6 Promoting human resources.

A critical success factor for the fruit and vegetable export competitiveness is the knowledge infrastructure. Foreign marketing of fruit and vegetables requires a very high specialisation on a number of matters. Mastering the foreign trade of Syrian fruit and vegetables will need trained managers and brokers. Tailor-made training and education modules on marketing and quality can be developed at the different stages of the marketing chain. Training has to be encouraged by Government at all the possible levels, involving not only trading actors but also farmers. Programs should also aim at promoting the use of environmentally friendly production methods¹⁶. These activities may well need international technical assistance and consider private partners, such as seed companies (for training in the field of good agricultural practices and integrated pest management), and retailers or their associations (for training in certification programs). This kind of co-operation with international companies would help to communicate product specifications directly to Syrian actors. The SEBC could take a significant part in the training activities directed to the marketing of fruit and vegetables, with support by EU funding. The Government role would be, apart from encouraging SEBC training activities, to focus more on the training activities addressed to farmers (eg. in connection to good agricultural practices).

6.7 Strengthening international co-operation.

¹⁶ The MAAR has undertaken in the recent years several programmes on biological control on citrus and apples, with the intention of minimising the use of chemical inputs.